

Marks and Spencer plc

STRATEGIC REPORT

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

The financial statements are made up to the nearest Saturday to 31 March each year. The current financial year is the 53 weeks ended 3 April 2021 (the 'year'). The prior financial year was the 52 weeks ended 28 March 2020. Profit metrics are provided on a 53-week basis in the Financial Statements. To provide a meaningful comparison with last year's 52-week period, all performance commentary in this section is stated on an unaudited 52-week basis, and all cash and net debt commentary is on a 53-week basis, unless otherwise noted.

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 2021, which does not form part of this report:

Strategic report on pages 2 – 57

Chairman's letter on pages 2 – 3

Chief Executive's statement on pages 4 – 6

People & culture on pages 26 – 29

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 c.70,000 people and has around 1,500 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.

Our 2020/21 report demonstrates the impact of the pandemic, spanning the beginning of the first UK-wide lockdown through to near to the end of the third lockdown in the UK. It also reflects an acceleration of transformation which has enabled the business to deliver a resilient performance thanks to the enormous efforts of our colleagues. Within the report we outline how we have used this period to accelerate our transformation under our Never the Same Again programme to ensure a reshaped business emerges from the crisis.

The Group has delivered a loss before tax and adjusting items this year of £36.8m¹ (2019/20: profit before tax and adjusting items £399.9m) alongside a statutory loss of £259.9m (2019/20: statutory profit £24.1m). Disciplined cost management helped us to deliver a stronger balance sheet than we originally anticipated when the pandemic began. In addition, reduced discretionary costs, managed stock flow and a focus on working capital resulted in net debt, excluding lease liabilities, down £268.1 to £1.11bn with strong liquidity. We're grateful for government support which totalled £306.1m offsetting the effect of lost trade.

M&S Food delivered strong underlying life-for-like (LFL) growth of 6.9%, adjusting for the closure of hospitality and the adverse impact of the pandemic on franchise sales. Operating profit before adjusting items of £213.6m (2019/20: £236.4m) reflected the change in product mix and the impact of Covid-related costs on convenience and hospitality businesses.

The overall Clothing & Home result for the year was heavily impacted by lockdowns, ongoing social distancing, steep decline in formal and occasion wear, the consequence of many of our stores being located in towns and shopping centres, plus the priority to clear stock. In November 2020, the Group performed a critical review of the UK Clothing & Home operations leading to the launch of the new MS2 division within UK Clothing & Home to build on our investment in data and digital and step change online growth. As we implemented MS2 and took multiple steps to improve online operating performance, we were able to capitalise on the change in customer shopping patterns and saw a progressive increase in online sales through the year. This resulted from strong traffic, active customer growth, improving frequency and lower returns. Conversely, stores in high streets, shopping centres and city centres created an extra drag on sales performance, with these channels representing c.70% of prior year store sales. As a result, total revenue declined 31.5%. Clothing & Home recorded an operating loss before adjusting items of £129.4m (2019/20: profit £223.6m) as lower sales were only partly offset by reduced operating costs.

International sales reflected the pandemic impact across markets, offset by the strong switch to online, which saw sales growth of 114.3% at constant currency. Operating profit before adjusting items of £45.1m (2019/20: £110.7m) reflects in large part the lower Clothing & Home sales. The International business incurred Brexit-related costs of £6.2m in the year.

We relaunched the Sparks loyalty scheme in July, shifting from a points-based plan which was delivered through a physical card to a more customer friendly digital experience. Since relaunch total membership has grown to over 10m customers. Alongside Sparks we are repositioning M&S Bank, closing down branches and moving away from traditional bank accounts, focusing instead on credit, currency services and payments.

Over the past three years, the objective of the transformation has been to restore M&S to sustainable growth through "facing the facts" that the business had failed to address. From early on in the pandemic, we recognised how it would accelerate market trends, providing an opportunity to bring forward the transformation to emerge as a reshaped business under our Never the Same Again programme:

- Broadening M&S Food appeal: The Food business is broadening its appeal through more relevant family-focused innovation and improved value perception led by the expansion of "Remarksable Value" lines. Growth is supported by significant cost reduction, including synergies from growth on Ocado, systems upgrades to reduce waste and the Vanguard supply chain programme, which is delivering better availability.

¹ This year we are reporting statutory results on the 53 weeks to 3rd April 2021. To provide a meaningful comparison with last year's 52 week period, financial information above has been presented on a 52 week basis.

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- Transition to M&S product on Ocado Retail completed: Penetration of M&S lines on Ocado is consistently over 25% of Ocado Retail sales, outperforming Waitrose. The next stage is to grow capacity by c.50% in the next 18 months and to realise the further potential of the joint venture that the Ultimate Parent Group has.
- Omni-channel Clothing & Home business emerging: Substantial reshaping has created a product engine providing a more contemporary, focused M&S range. In addition, we are beginning to partner with a curated range of guest brands. This helps us build strength in hero categories and relevance where we are weaker. We are already trading with over 21 partners and the customer response has been positive. The creation of MS2 has brought together the data and online teams to prioritise online trading and growth while leveraging our store estate more effectively. MS2 draws on the data engine and the relaunched Sparks loyalty scheme, which has grown to over 10m members enabling a more personalised relationship with customers.
- Accelerating rotation of the store estate: The drag on performance of the legacy estate has been exacerbated by Covid-19, bringing forward the decline of some locations but also creating opportunities for rotation. We are increasing the speed of change to create a group of well-invested full line stores in c.180 prime and core markets. The costs of the rotation programme will be largely funded by the release of cash from the development of freehold and long leasehold sites.
- An International business focused on major partnerships and online: Online sales doubled in 2020/21 and we are now investing in increasingly localised fulfilment, expanding our presence on marketplaces such as Zalando and the launch of websites including in a further 46 markets announced in March. Digital trading improvements, partner store modernisation and supply chain development are positioning the business for rapid recovery as lockdowns end. Following Brexit, the business is reconfiguring trading with its EU businesses to reflect the challenges of exporting to the EU.

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 25), 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 to both 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 anticipate separately meeting immediately following Ultimate Parent Group Board meetings, to ensure that they review and consider all Ultimate Parent Group matters and decisions with respect to the specific interests of the Company and its stakeholders. However, 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, and therefore no separate meetings were required.

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 34 to 36 and 68 to 69 of the Group's Annual Report 2021 (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 22.

Marks and Spencer plc

STRATEGIC REPORT

Results

	53 weeks ended 3 April 2021	52 weeks ended 27 March 2021	52 weeks ended 28 March 2020	
	Total £m	Total £m	Total £m	Change % (52 weeks)
Group revenue before adjusting items	9,166.9	8,972.7	10,181.9	-11.9%
UK Food	6,138.5	5,994.8	6,028.2	-0.6
UK Clothing & Home	2,239.0	2,198.6	3,209.1	-31.5
International	789.4	779.3	944.6	-17.5
Group operating (loss)/profit before adjusting items	143.8	131.3	587.5	-77.7
UK Food	228.6	213.6	236.4	-9.6
UK Clothing & Home	(130.8)	(129.4)	223.6	-157.9
International	44.1	45.1	110.7	-59.3
All other segments	1.9	2.0	16.8	-88.1
Finance income	57.4	57.4	44.0	30.5
Finance costs	(229.3)	(225.5)	(231.6)	2.6
Profit before tax and adjusting items	(28.1)	(36.8)	399.9	-109.2
Adjusting items	(238.7)	(221.8)	(339.7)	34.7
(Loss)/profit before tax	(266.8)	(258.6)	60.2	-529.6
Income tax credit/(expense)	6.9	5.5	(36.1)	-
(Loss)/profit for the year	(259.9)	(253.1)	24.1	-
Attributable to:				
Owners of the parent	(256.7)	(249.9)	20.4	-
Non-controlling interests	(3.2)	(3.2)	3.7	-
	(259.9)	(253.1)	24.1	-

Group revenue before adjusting items was £9,166.9m on a 53-week basis. On a 52-week basis, it decreased 11.9%, with UK revenue down 11.3% driven by Clothing & Home revenue declining 31.5%, and International revenue down 17.5%. The Group incurred an adjusted loss before tax of £(28.1)m and a statutory loss before tax of £(266.8)m on a 53-week basis (or £(36.8)m and £(258.6)m respectively on a 52-week basis).

Statutory loss before tax includes total charges for adjusting items of £238.7m on a 53-week basis, including charges of £133.7m related to organisational change, £95.3m in relation to store closures identified as part of transformation plans, £79.9m for intangible asset impairments, offset by a £90.8m gain largely relating to the release of a portion of the Covid inventory provision made in the prior year.

KEY PERFORMANCE INDICATORS

Financial

Group revenue

52

2019/20	£10.2bn
20/21	£9.0bn

Group revenue before adjusting items on a 52-week basis decreased 11.9%, with UK revenue down 11.3% driven by Clothing & Home revenue declining 31.5%, and International revenue down 17.5%.

Group (loss)/profit before tax & adjusting items

52

£(36.8)m

20/21 £(36.8)m

2019/20 £399.9m

The Group delivered a loss before tax and adjusting items of £36.8m in a year characterised by unprecedented lockdowns, resilient performance and disciplined management of costs.

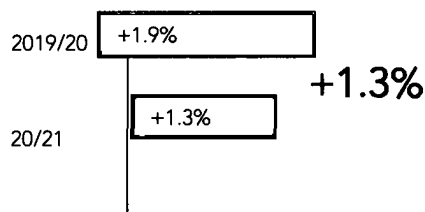
Strategic KPIs

FOOD

Like-for-like sales (see page 96 for definition)

52

Like-for-like sales performance improved in the face of Covid-19 headwinds.



Availability

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

95.5% (2019/20: 93.3%)

Value for money perception

The proportion of customers who rated us highly on value for money. Our relaunched Remarkable range of trusted value, high-quality products now accounts for 10% of sales.

67% (2019/20: 63%)

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.

88% (2019/20: 86%)

52

These figures are reported on a 52-week basis.

KEY PERFORMANCE INDICATORS

Strategic KPIs

CLOTHING & HOME

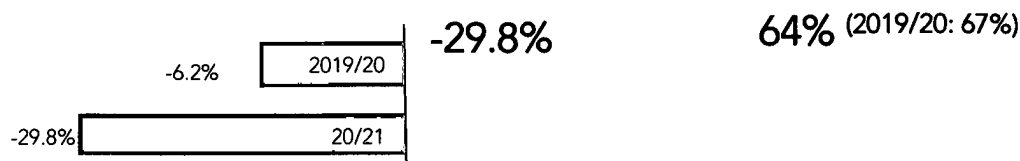
52

Like-for-like sales (see page 96 for definition)

Value for money perception

Like-for-like sales reflect the impact on store sales of lockdowns and restrictions throughout the year. However, performance improved through the year as the online business built momentum.

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



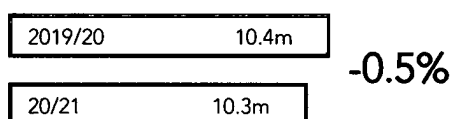
64% (2019/20: 67%)

Clothing & home space

Quality perception

We are focused on accelerating the reshape of our store estate for customers.

The proportion of customers who rated us highly on quality. Our reshaped Clothing & Home product engine is providing a more contemporary focused M&S range.



-0.5%

80% (2019/20: 79%)

STORES

Footfall (average per week)

Transactions (average per week)

Net promoter score*

-46%

-41%

9.7m (2019/20: 18.0m)

7m (2019/20: 11.9m)

81 (2019/20: 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*

+40%

50.5% (2019/20: 22.5%)

13.5m (2019/20: 9.5m)

51 (2019/20: 57)

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

KEY PERFORMANCE INDICATORS

Strategic KPIs

INTERNATIONAL

International websites

103 (2019/20: 44)

Net promoter score*

85 (2019/20: 85)

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

PEOPLE

Engagement

82% (2019/20: 81%)

The progressive engagement score from our monthly 'Colleague Voice' survey. Our engagement score through the year was strong at 82%, with 91% of colleagues feeling proud to work for M&S. Nearly 50,000 of our colleagues chose to participate and voice their feedback and ideas, helping to give us an informed picture of how colleagues feel about the business.

PLAN A

Recyclable packaging

+10%
87% (2019/20: 77%)

Percentage of packaging classified as being easily recyclable

M&S greenhouse gas emissions (CO₂e)

-13%
298,000

The gross carbon dioxide emissions from M&S operated stores, offices, warehouses and delivery fleets worldwide. In addition, we purchase renewable energy and carbon offsets to match these emissions, making our global operations carbon neutral

Volunteering hours

n/a
Paused due to Covid-19

Number of paid volunteering hours provided by M&S colleagues

FINANCIAL REVIEW

FINANCIAL SUMMARY

	53 weeks ended	52 weeks ended		
	3 April 21 £m	27 March 21 £m	28 March 20 £m	Change % (52 week)
Group revenue before adjusting items	9,166.9	8,972.7	10,181.9	-11.9
UK Food	6,138.5	5,994.8	6,028.2	-0.6
UK Clothing & Home	2,239.0	2,198.6	3,209.1	-31.5
International	789.4	779.3	944.6	-17.5
 Group operating profit before adjusting items	 143.8	 131.3	 587.5	 -77.7
 UK Food	 228.6	 213.6	 236.4	 -9.6
UK Clothing & Home	(130.8)	(129.4)	223.6	-157.9
International	44.1	45.1	110.7	-59.3
M&S Bank and Services	1.9	2.0	16.8	-88.1
 Interest payable on lease liabilities	 (124.9)	 (122.5)	 (133.4)	 8.2
Net financial interest	(47.0)	(45.6)	(54.2)	15.9
(Loss)/profit before tax & adjusting items	(28.1)	(36.8)	399.9	-109.2
Adjusting items	(238.7)	(221.8)	(339.7)	34.7
(Loss)/profit before tax	(266.8)	(258.6)	60.2	-529.6
(Loss)/profit after tax	(259.9)	(253.1)	24.1	-

Notes:

This year, we are reporting on the 53 weeks to 3 April 2021. Profit metrics are provided on a 53-week basis in the Financial Statements. To provide a meaningful comparison with last year's 52-week period, all performance commentary in this section is stated on an unaudited 52-week basis, and all cash and net debt commentary is on a 53-week basis, unless otherwise noted.

There are a number of non-GAAP measures and alternative profit measures ("APMs"), discussed within this Strategic Report and a glossary and reconciliation to statutory measures is provided on page 96. Adjusted results are consistent with how business performance is measured internally and presented to aid comparability of performance. Refer to adjusting items table below for further details.

GROUP RESULTS

Group revenue before adjusting items was £9,166.9m on a 53-week basis. On a 52-week basis, it decreased 11.9%, with UK revenue down 11.3% driven by Clothing & Home revenue declining 31.5% and International revenue down 17.5%. The Group incurred an adjusted loss before tax of £(28.1)m and a statutory loss before tax of £(266.8)m on a 53-week basis (or £(36.8)m and £(258.6)m respectively on a 52-week basis).

Statutory loss before tax includes total charges for adjusting items of £238.7m on a 53-week basis, including charges of £133.7m related to organisational change, £95.3m in relation to store closures identified as part of transformation plans, £79.9m for intangible asset impairments, offset by a £90.8m gain largely relating to the release of a portion of the Covid inventory provision made in the prior year. For full details on adjusting items and the Group's related policy see notes 1 and 5 to the financial statements.

UK: FOOD

UK Food revenue decreased 0.6%. Like-for-like (LFL) revenue grew in the first three quarters but declined in the fourth quarter as the UK-wide lockdown forced the hospitality business and parts of our franchise business to close again. M&S Food reported sales do not benefit from a direct online grocery presence, with these sales instead reported through Ocado Retail, an investment of the Ultimate Parent Group.

Excluding franchise and hospitality, core M&S Food categories performed strongly, particularly over key events, with LFL revenue growth of 6.9% for the year.

% change to LY	Q1	Q2	Q3	Q4	FY
Food	-2.1	1.6	2.2	-4.4	-0.6
Food LFL	2.0	3.4	2.6	-2.7	1.3
Food LFL ex franchise and hospitality	7.7	8.6	8.4	2.8	6.9

Operating profit before adjusting items decreased 9.6%, largely due to an adverse mix impact on gross margin, which was only partially offset by reduced costs which benefitted from government support.

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52 weeks ended	27 March 21 £m	28 Mar 20 £m	Change %
Revenue	5,994.8	6,028.2	-0.6
Operating profit before adjusting items	213.6	236.4	-9.6
Operating margin	3.6%	3.9%	-35bps

The table below sets out the drivers of the movement in operating profit before adjusting items. To improve understanding we provide additional information on Covid-related impacts with adjusted profit. Some direct Covid costs and government support are visible within the right-hand table as they were incremental to 20019/20, whereas other costs, for example the ongoing costs of furloughed colleagues (£41.9m), were also incurred in 2019/20 and so are not visible. The full costs and government support for furlough income and business rates are detailed in a separate section.

Operating profit before adjusting items	£m	Operating profit before adjusting items	£m
2019/20	236.4	2019/20	236.4
Gross profit	(60.7)	Lost gross profit from hospitality/franchise	(154.0)
Store staffing	30.8	Gross profit growth from core categories	93.3
Other store costs	56.3	Direct Covid costs	(69.0)
Distribution and warehousing	(46.8)	Government support	101.0
Central costs	(2.4)	Other cost savings	5.9
2020/21	213.6	2020/21	213.6

- Gross profit decreased £60.7m or c.84bps primarily as a result of hospitality closures and lower convenience sales, partly offset by strong growth in core categories and cost saving programmes, including initial synergies of £21.4m from Ocado supply.
- Store staffing costs declined £30.8m, primarily driven by £45.5m of efficiencies enabled by technology improvements in store. We incurred Direct Covid costs within store staffing relating to incentives for retail colleagues of £20.8m and door host costs of £33.7m. Store staffing costs include government furlough support of £28.8m.
- The movement in other store costs largely relates to government business rates relief of £70.8m, partly offset by additional Covid-related cleaning and hygiene costs.
- Distribution and warehousing reflects the increased costs as a result of online orders, as well as Brexit-related costs of £9.0m and Covid-related hygiene and social distancing measures. The Food business incurred total costs relating to Brexit of £9.9m in the year; a detailed breakdown is given in the Brexit section below.

UK: CLOTHING & HOME

Clothing & Home revenue decreased 31.5% as a result of the impact on store sales of lockdowns and restrictions throughout the year. Performance improved following store reopening in quarter two and either side of the national lockdown in quarter three, and the online business built momentum through the year.

% change	Q1	Q2	Q3	Q4	FY
Clothing & Home	-61.5	-21.3	-25.1	-18.7	-31.5
Clothing & Home stores	-83.8	-39.5	-46.5	-60.6	-56.2
Clothing & Home online	21.5	46.4	47.5	105.8	53.9
Clothing & Home LFL	-59.3	-21.2	-24.1	-15.5	-29.8

To enable greater insight into these movements, we are providing further detail on the performance of each channel.

Online	27 Mar 21	28 Mar 20	% change
52 weeks ended			
Traffic (m)	417.5	308.8	35.2
Active customers (m)	9.0	5.9	52.5
Conversion (%)	7.2	6.3	0.9 pts
Average order value (£)	49.7	51.5	-3.5
Returns rate (%)	18.8	28.0	-9.2 pts
Revenue £m	1,109.7	721.3	53.9

UK Clothing & Home online revenue increased 53.9%. Following initial disruption in April, online sales remained strong and built momentum, with quarter four revenue up 105.8%. Online customer traffic increased 35.2% driven by both direct and paid search helping to drive 52.5% growth in active customers to 9.0m. Growth was led by mobile, with over 3.5m downloads of the M&S app driven by the relaunch of Sparks. This led to increased app usage, with 2.3m monthly active users (2019/20: 1.2m), which also helped to drive better conversion. In addition, there was a benefit from a c.9.2 percentage point reduction in returns rates compared with last year due to changes in customer behaviour and product mix during lockdown. This offset headwinds from lower in-store orders, which are attributed to the online channel, as well as a small decline in average order value as customers' purchases focused on core product.

Stores	27 Mar 21	28 Mar 20	% change
52 weeks ended			
Footfall, m (average/week)	1.9	5.9	-67.8
Transactions, m (average/week)	1.0	2.1	-52.4
Basket value (£)	30.6	32.3	-5.3
Revenue £m	1,088.9m	2,487.8m	-56.2

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UK Clothing & Home store revenue decreased 56.2%: the impact of national lockdowns, local restrictions and the shape of the store estate adversely impacted the business with footfall down 67.8% and overall transactions down 52.4%. Basket value fell 5.3% in stores in line with online as customers' purchases focused on core product.

Total Clothing & Home

The Clothing & Home business in total generated an underlying operating loss before adjusting items for the year of £129.4m compared with a profit of £223.6m in the prior year. While online growth resulted in a substantial improvement in online operating profit, this was more than offset by the decline in stores, with lower costs insufficient to offset reduced overall sales.

52 weeks ended	27 Mar 21 £m	28 Mar 20 £m	Change %
Revenue	2,198.6	3,209.1	-31.5
Operating (loss)/profit before adjusting items	(129.4)	223.6	-157.9
Operating margin	-5.9%	7.0%	-12.9pts

The table below sets out the drivers of the movement in Clothing & Home operating (loss)/profit before adjusting items. To improve understanding, we provide additional information on Covid-19-related impacts within adjusted profit. Some direct Covid costs and government support are visible within the right-hand table as they were incremental to 2019/20, whereas other costs, for example the ongoing costs of furloughed colleagues (£129.1m), were also incurred in 2019/20 and so are not visible. The full costs and details of government support for furlough income and business rates are detailed in a separate section.

Operating profit/(loss) before adjusting items	Total C&H £m	Operating profit/(loss) before adjusting items	Total C&H £m
2019/20	223.6	2019/20	223.6
Gross profit	(611.7)	Lost gross profit from stores	(841.2)
Store staffing	147.6	Gross profit growth from online	229.5
Other store costs	109.3	Direct Covid costs	(18.7)
Distribution and warehousing	(43.2)	Government support	196.4
Central costs	45.0	Other cost savings	81.0
2020/21	(129.4)	2020/21	(129.4)

- Gross profit decreased £611.7m or (218)bps. Adverse currency movements and under-recovery of fixed logistics costs within margin impacted by (78)bps. Discounting increased (140)bps driven by an increased mix of clearance sales made at a higher depth of cut than last year.
- Store staffing costs declined £147.6m, mostly as a result of £42.6m of efficiencies enabled by technology improvements in store. Store staffing costs include government furlough support of £88.6m.
- The movement in other store costs largely relates to business rates relief of £101.4m.
- Distribution and warehousing reflects the higher costs to serve online demand, both from the Castle Donington warehouse and shipments from store partially offset by volume savings from reduced deliveries to store. The overall increase in distribution and warehousing costs was offset by delivery income within revenue.
- The decline in central costs was largely driven by lower marketing activity, lower headcount and a reduction in depreciation of technology assets as we move to cloud-based solutions and assets reach the end of their useful lives.

Clothing & Home online generated an operating profit margin of c.14%, with higher volumes leading to increased leverage of the online fixed cost base. Profitability also benefitted from a reduced returns rate, although this was partially offset by the adverse impact of lower in-store orders. Conversely, the operating loss in stores represented a margin on sales of c.(26)%.

INTERNATIONAL

International revenue decreased 17.3% at constant currency ("CC") as stores were adversely impacted by rolling Covid lockdowns and restrictions. Online sales remained strong throughout, particularly in markets in which the Group has a store presence and through partner websites, with sales growth of 114.3% to £165.7m.

% change to 2019/20	Q1 CC	Q2 CC	Q3 CC	Q4 CC	FY CC	FY Reported
Total revenue	-40.7	-9.2	-10.4	-10.2	-17.3	-17.5

52 weeks ended Revenue	27 Mar 21 £m	28 Mar 20 £m	Change %	Change CC %
Clothing & Home	483.2	620.7	-22.1	-21.6
Food	296.1	323.9	-8.6	-9.4
Total	779.3	944.6	-17.5	-17.3
Memo: Online revenue	165.7	77.2	114.6	114.3

The decline in Clothing & Home sales was driven by lower store sales in the Republic of Ireland and India, and lower franchise shipments, particularly to Asia, partly offset by online growth. Food sales were more resilient, particularly in the Middle East and Asia, as Covid disruption shifted habits to favour eating in. This helped offset the steep decline in travel franchise sales in Europe and Brexit related disruption in quarter four.

Operating profit before adjusting items was down 59.3% driven by the lower Clothing & Home sales and incremental costs relating to Brexit. A detailed breakdown of this is given in the Brexit section below.

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Operating profit before adjusting items	£m	Operating profit before adjusting items	£m
2019/20	110.7	2019/20	110.7
Gross profit	(87.9)	Lost gross profit from stores	(131.3)
Store staffing	14.0	Gross profit growth from online	43.4
Other store costs	16.4	Online growth costs	(23.6)
Distribution and warehousing	(11.7)	Government support	13.1
Central costs	3.6	Other cost savings	32.8
2020/21	45.1	2020/21	45.1

Gross profit decreased £87.9m as lower store sales were only partially mitigated by strong online growth. Store staffing and other store costs declined. The costs of £10.8m relating to salary costs of colleagues on furlough were partially offset by government furlough support of £6.3m and reduced overtime hours, while the group benefited from a further £6.8m of government support for rent and rates across owned markets, and £7.1m of rent relief. The increase in distribution costs largely relates to the growth of online sales and costs incurred as a result of Brexit of £6.2m which was only partly offset by lower distribution costs on shipments to stores. Central cost reductions were enabled by the shift to digital events from buying fairs and reduced travel.

M&S BANK & SERVICES

M&S Bank & Services income before adjusting items was down £14.8m to £2.0m. This was the result of a significant decrease in income from credit card and travel money sales. M&S Bank and services income after adjusting items relating to PPI decreased £4.6m to £(0.4)m.

COVID COSTS

In the following table we set out identifiable costs with adjusted profit related to Covid. We incurred a number of direct Covid costs such as door hosts and hygiene of £63.2m, incentives for working through the pandemic for non-furloughed colleagues of £28.5m and there was a slight reduction in colleague holiday hours of £3.9m.

In addition, business rates relief of £174.6m partly compensated for the substantial loss of trade from closed space in Clothing & Home and hospitality areas and franchise stores in Food.

Finally, identifiable costs include government grants for furlough income of £131.5m, which were more than offset by the salary costs incurred for furloughed colleagues of £181.8m.

Costs relating to Covid within adjusted loss before tax in 2020/21	Group £m	C&H £m	Food £m	International £m
Operational costs related to Covid	(63.2)	(13.8)	(49.4)	–
Incentive for non-furloughed colleagues	(28.5)	(6.4)	(22.0)	(0.1)
Estimated lower colleague holiday hours	3.9	1.5	2.4	–
Direct Covid costs	(87.8)	(18.7)	(69.0)	(0.1)
Government business rates relief for lost trade	174.6	101.4	70.8	2.4
Government grants – furlough income	131.5	95.0	30.2	6.3
Government support	306.1	196.4	101.0	8.7
Year-on-year Covid impacts within segmental profit bridges	218.3	177.7	32.0	8.6
Salary costs for furloughed colleagues	(181.8)	(129.1)	(41.9)	(10.8)
Total cost impact in adjusted profit	36.5	48.6	(9.9)	(2.2)

BREXIT

The following estimated cost impacts were incurred by the Group in 2020/21 as a result of Brexit.

2020/21	UK Food	International	Total
Administrative operating costs	9.9	4.1	14.0
Tariffs	–	2.1	2.1
Net costs	9.9	6.2	16.1

Administrative costs include additional supply chain costs at the Motherwell and Faversham depots as well as costs of a digital track and trace platform, additional variable cost per tray, veterinary certification costs and the one-off costs of change. Tariffs relate to duty on exports of Clothing & Home and elements of the Food catalogue into the EU.

In addition, the Group saw adverse trade impacts including the restriction of trade on certain products, port delays and increased operational complexity reducing availability.

NET FINANCE COST

	52 weeks ended		
	27 Mar 21 £m	28 Mar 20 £m	Change £m
Interest payable	(89.9)	(80.5)	(9.4)
Interest income	4.7	14.5	(9.8)
Net interest payable	(85.2)	(66.0)	(19.2)
Pension net finance income	47.2	23.6	23.6
Unwind of discount on Scottish Limited Partnership liability	(4.9)	(6.9)	2.0
Unwind of discount on provisions	(2.7)	(4.9)	2.2
Net financial interest	(45.6)	(54.2)	8.6
Net interest payable on lease liabilities	(122.5)	(133.4)	10.9
Net finance costs	(168.1)	(187.6)	19.5

Net finance costs decreased £19.5m to £168.1m. This was primarily due to higher pension income due to the increased IAS19 pension surplus at last year end. In addition, there was a decrease in the interest payable on lease liabilities offset by lower interest received on deposits and higher interest payable on debt due to a credit rating downgrade and the premium paid as part of the buyback of bonds.

GROUP PROFIT BEFORE TAX & ADJUSTING ITEMS

Group loss before tax and adjusting items was £28.1m on a 53-week basis, down £428.0m on last year. The profit decrease was driven by the decline in Clothing & Home and International operating profits.

GROUP LOSS BEFORE TAX

Group loss before tax was £(266.8)m on a 53-week basis, down £327.0m on last year. This includes adjusting items of £238.7m on a 53 week basis (last year £339.7m).

ADJUSTING ITEMS

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

	53 weeks ended 27 Mar 21 £m	52 weeks ended 28 Mar 20 £m	Change £m
Strategic programmes – Organisation	(133.7)	(13.8)	(119.9)
Strategic programmes – UK store estate	(95.3)	(29.3)	(66.0)
Strategic programmes – Other	(5.8)	(27.3)	21.5
Directly attributable to Covid	90.8	(163.6)	254.4
Intangible asset impairments	(79.9)	(13.4)	(66.5)
Sparks loyalty programme transition	(16.6)	–	(16.6)
Establishing the investment in Ocado Retail Limited by the Ultimate Parent Group	(1.7)	(1.2)	(0.5)
Store impairments and other property charges	6.9	(78.5)	85.4
M&S Bank charges incurred in relation to insurance mis-selling and Covid forward economic guidance provision	(2.4)	(12.6)	10.2
Other	(1.0)	–	(1.0)
Adjusting items	(238.7)	(339.7)	101.0

On a 53-week basis, adjusting items charges were £238.7m, with £16.9m incurred in week 53, largely related to restructuring costs.

A charge of £133.7m has been incurred in relation to organisational change. This included the integration of more flexible management structures into store operations, as well as the streamlining of store and management levels as part of the Never the Same Again programme. This resulted in a reduction of c.8,200 roles across support centres, regional management, and UK stores, with associated redundancy costs of £99.7m. We expect this restructuring to generate annualised cost savings of at least £115m.

A charge of £95.3m has been recognised in relation to store closures identified as part of transformation plans reflecting an updated view of latest closure costs as a result of an increase in the number of stores in the programme. Further material charges relating to the closure and reconfiguration of the UK store estate are anticipated as the programme progresses with total future charges of up to c.£268m estimated over the next 10 years, bringing anticipated total programme costs since 2016 to be up to c.£926m.

A charge of £5.8m has been recognised in relation to updating our latest view of the estimate final international store closure costs for certain markets and those costs which can only be recognised as incurred (£3.6m), and the transition to a single-tier UK distribution network (£2.2m).

A gain of £90.8m has been recognised as being directly attributable to the Covid pandemic relating to the release of a portion of the inventory provision made in the prior year compared to initial estimates offset by further costs relating to cancellations and storage. The sell-through of Clothing & Home stock has been much stronger than anticipated.

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A charge of £79.9m has been recognised in relation to impairment of intangible assets, comprising £39.6m for the impairment of Per Una goodwill, and the balance for replaced, retired or decommissioned computer software assets.

Charges of £16.6m have been incurred in relation to the one-off transition costs associated with the closure of the old Sparks loyalty scheme following the launch of the new programme in July 2020.

A gain of £6.9m was recognised relating to the reversal of previously recognised store impairments offset by newly impaired stores. The Group has revised future projections for UK stores (excluding those stores which have been captured as part of the UK store estate programme) for the current view of pressures impacting the retail industry, which is less negative overall than previously projected.

Charges of £2.4m have been incurred relating to M&S Bank, primarily due to the insurance mis-selling provision. The Group's share of the total insurance mis-selling and forward economic guidance (FEG) provisions of £338.3m exceeds the total offset against profit share of £225.1m to date and this deficit will be deducted from the Group's share of future profits from M&S Bank.

TAXATION

The effective tax rate on loss before adjusting items was 63.9% (90.0% on a 53 week basis; 2019/20: profit before adjusting items 20.9%). The effective tax rate on statutory loss before tax was a credit of 2.1% (credit of 2.6% on a 53 week basis; 2019/20: charge of 60.0%) due to the Group statutory loss offset by the impact of disallowable adjusting items. Given the lower level of profits, the effect of the recapture of previous tax relief under the Marks and Spencer Scottish Limited Partnership ("SLP") structure has increased compared with previous years. Next year, we anticipate an effective tax rate on profit before adjusting items of c.26% partly due to the continuation of the recapture of previous tax relief.

CAPITAL EXPENDITURE

	53 weeks ended 3 Apr 21 £m	52 weeks ended 28 Mar 20 £m	Change £m
UK store remodelling	27.0	60.3	(33.3)
New UK stores	14.9	33.3	(18.4)
International	6.7	15.7	(9.0)
Supply chain	25.2	39.2	(14.0)
IT & M&S.com	47.6	81.1	(33.5)
Property asset replacement	19.2	102.4	(83.2)
Acquisition of Jaeger brand	6.3	–	6.3
Capital expenditure before property acquisitions and disposals	146.9	332.0	(185.1)
Property acquisitions and disposals	(0.3)	(2.7)	2.4
Capital expenditure	146.6	329.3	(182.7)

Group capital expenditure before disposals decreased £182.7m to £146.6m as a result of careful management of discretionary spending as a result of the pandemic.

UK store remodelling costs related to Food renewal stores and the repurposing of space from Clothing & Home and cafes to Food. Spend on New UK stores related to seven Simply Foods and three full-line store openings in the year.

Supply chain expenditure reflects investment in Food equipment and fleet to support anticipated volume growth, investment in a second Food ambient national distribution centre in Milton Keynes and spend on improvements to Castle Donington capabilities and our Bradford warehouse to support online expansion.

IT & M&S.com spend includes costs related to the licence for the Food ordering and allocation system and investment in digital capability for example, to support integration of more flexible management structures into store operations.

Property asset replacement decreased £83.2m due to the prior year asset replacement programme in stores, although this will normalise towards pre-pandemic levels going forwards.

CASH FLOW

	53 weeks ended 3 Apr 21 £m	52 weeks ended 28 Mar 20 restated ¹ £m	Change £m
Adjusted operating profit	143.8	587.5	(443.7)
Depreciation and amortisation before adjusting items	603.1	632.5	(29.4)
Cash lease payments	(316.6)	(335.7)	19.1
Working capital	268.1	(48.5)	316.6
Defined benefit scheme pension funding	(37.1)	(37.9)	0.8
Capex and disposals	(203.8)	(325.9)	122.1
Financial interest and taxation	(81.8)	(171.1)	89.3
Investment in joint venture	(2.5)	(2.5)	–
Employee related share transactions	18.5	9.6	8.9
Cash received from settlement of derivatives	14.0	7.7	6.3
Adjusting items outflow	(120.5)	(87.4)	(33.1)
Free cash flow ²	285.2	228.3	56.9
Dividends paid	–	(193.8)	193.8
Free cash flow after shareholder returns	285.2	34.5	250.7
Opening net (debt)/cash excluding lease liabilities	(1,378.1)	(1,404.7)	21.5
Free cash flow after shareholder returns	285.2	34.5	250.7
Exchange and other non-cash movements excluding leases	(17.1)	(7.9)	(9.2)
Closing net (debt)/cash excluding lease liabilities	(1,110.0)	(1,378.1)	268.1
Opening net (debt)/cash	(3,940.1)	(3,981.5)	41.4
Free cash flow after shareholder returns	285.2	34.5	250.7
Decrease in lease obligations	184.3	201.4	(17.1)
New lease commitments and remeasurements	(48.3)	(204.1)	155.8
Exchange and other non-cash movements	3.0	9.6	(6.6)
Closing net (debt)/cash	(3,515.9)	(3,940.1)	424.2

¹2019/20 net (debt)/cash and free cash flow figures have been restated. Due to a change in the Group's accounting policy to recognise BACS payments at the settlement date, rather than when they are initiated, to more appropriately reflect the nature of these transaction and a reclassification of amounts owed by the parent company, the comparative amounts have been restated.

²Free cash flow is an APM, refer to the Glossary on page 96 for the definition.

The business generated free cash flow of £285.2m, largely driven by working capital inflow, reduced capital expenditure and lower tax payments, which more than offset the lower adjusted operating profit.

The working capital inflow since year end 2019/20 was driven by higher payables in Clothing & Home and Food (c.£125m) largely due to the extension of payment terms for C&H suppliers and the timing of payments. Lower stock was a result of strong Easter trading and the higher stock at prior year end resulting from lockdown. Franchise receivables reduced due to travel store closures.

Lower capital expenditure largely reflects the reduction of discretionary spending as a result of the pandemic. Cash capital expenditure includes £77.2m relating to prior year capital accruals.

The decrease in financial interest and tax payments to £81.8m is due to the reduction in UK corporation tax paid reflecting the full year taxable loss position.

Defined benefit scheme pension funding of £37.1m reflects the second limited partnership interest distribution to the pension scheme.

Adjusting items cash outflow was £120.5m. This included £92.1m relating to the costs of organisational change, £10.9m in relation to the store closure programme, £6.2m paid for deep storage and fabric during the Covid pandemic, £5.6m in relation to the transition to the new Sparks loyalty programme, £2.4m for M&S Bank, and £1.7m relating to costs associated with the launch of M&S product on the Ocado Retail platform.

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NET DEBT

Net debt excluding lease liabilities decreased £268.1m from the start of the year to £1.11bn.

There was a further reduction in the value of discounted lease obligations outstanding. New lease commitments and remeasurements in the period largely relating to 11 properties were £48.3m of which 10 opened in the year. This was more than offset by £184.3m of lease repayments.

The composition of Group net debt is as follows:

	53 weeks ended 3 Apr 21 £m	52 weeks ended 28 Mar 20 restated £m	Change £m
Cash and cash equivalents	674.4	254.2	420.2
Medium Term Notes	(1,682.1)	(1,536.2)	(145.9)
Current financial assets and other	83.2	106.6	(23.4)
Partnership liability	(185.5)	(202.7)	17.2
Net (debt)/cash excluding lease liabilities	(1,110.0)	(1,378.1)	268.1
Lease liabilities	(2,405.9)	(2,562.0)	156.1
– Full-line stores	(982.6)	(1,054.8)	72.2
– Simply Food stores	(727.0)	(747.7)	20.7
– Offices, warehouses and other	(494.5)	(523.7)	29.2
– International	(201.8)	(235.8)	34.0
Group net (debt)/cash	(3,515.9)	(3,940.1)	424.2

2019/20 net (debt)/cash and free cash flow figures have been restated. Due to a change in the Group's accounting policy to recognise BACS payments at the settlement date, rather than when they are initiated, to more appropriately reflect the nature of these transactions and a reclassification of amounts owed by the parent company, the comparative amounts have been restated.

Of the outstanding discounted lease commitment at period end, approximately 40% related to full-line stores and 30% to Simply Food stores, with 8% relating to International leases and the balance largely relating to warehousing and offices.

LIQUIDITY

At year end, the Group held cash and cash equivalents balances of £674.4m (2019/20: £254.2m), with undrawn facilities of £1.1bn expiring April 2023. This strong liquidity position is as a result of free cash flow performance and a £300m bond issuance in November, which was used to partly refinance the bond maturity due in December 2021.

The refinancing of the Group's December 2021 maturity, along with the successful negotiations in March 2021 to extend the relaxation of covenant measures on the revolving credit facility up to and including March 2022 mean that the Group has liquidity headroom of over £1.5bn.

DIVIDEND

We did not pay a final dividend for 2019/20 and the Board has decided not to pay a dividend for the 2020/21 financial year.

PENSION

At 3 April 2021, the IAS 19 net retirement benefit surplus was £631.4m (2019/20: £1,902.6m). The surplus at last year end had increased significantly due to unusually high credit spreads as a result of Covid. During the year, credit spreads have reverted to more normalised levels giving rise to the decrease in the surplus.

The Trustee of the UK Defined Benefit Scheme has commenced a triennial actuarial valuation of the Scheme at 31 March 2021 as required by statute. The assumptions to be used are agreed between the Trustee and the Company. The Scheme surplus on a statutory basis was £652m at the last actuarial valuation in 2018.

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

STATEMENT OF FINANCIAL POSITION

Net assets were £4,217.5m at the year end, a decrease of 26% since the start of the year largely due to the decrease in the net retirement benefit surplus and the Group loss for the year.

PRINCIPAL RISKS AND UNCERTAINTIES

The business has continued to follow our risk management disciplines and managed risks in line with good practice. Our established processes have operated to allow consideration of the principal risks and uncertainties to be undertaken. The impact of the pandemic during the year triggered the need to consider the specific consequences of the virus on the risks we manage, both at Group and at business and functional level. This activity has continued throughout the year.

Our disclosure therefore provides an overview of the key actions we have implemented and maintained as a result of the pandemic, including those that we will retain as a permanent feature of business activity. The longer-term consequences of the pandemic on our principal risks and the mitigations that feature alongside have been included within the narrative on pages 15 to 20. This should be read in conjunction with the narrative included in the business updates of the strategic report to provide an understanding of the risks and, in some instances, opportunities, facing M&S.

Risk movement



No change





Increased net risk exposure








New risk







Reduced net risk exposure


RISK	DESCRIPTION & CONTEXT	MITIGATING ACTIVITIES & KEY DEVELOPMENTS
1	TRADING PERFORMANCE RECOVERY  <p>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 recovery from the pandemic, would adversely impact customer experience, operational efficiency and business performance.</p> <p>Context</p> <ul style="list-style-type: none"> M&S competes with a diverse range of retailers in an increasingly-challenged sector faced with continued cost and pricing pressures, shifts in consumer behaviours and a broad range of macroeconomic uncertainties, all of which have been exacerbated by Covid-19. Responding with commercial agility as we emerge from the pandemic to deliver the right product ranges and style credentials from source to shelf, with clear pricing architecture and availability, has become more imperative. Our ability to predict and meet-changing customer expectations and demand as conditions 'normalise' will impact our success in doing this. Underpinning our recovery is our programme of transformational improvements, delays to which could stem our recovery and negatively impact our performance. 	MITIGATING ACTIVITIES <ul style="list-style-type: none"> Strong senior leadership team capabilities in both Food and Clothing & Home through continued targeted recruitment. An established operating model consisting of a family of accountable businesses who share M&S brand values, support functions, technology and customer data. Managing Directors for each of these businesses with full accountability for their performance. Operating Reviews to enable executive oversight and effective governance of each business. Continued delivery and discipline around cost, range, value, prices and availability to broaden customer appeal. Expanded initiatives to make products available conveniently to customers through contactless home delivery and Scan & Shop. <p>Key developments</p> <ul style="list-style-type: none"> Our Never the Same Again programme clearly aligned with the strategy and objectives for each area of the business. Established an integrated online division, MS2, to turbocharge online growth for Clothing & Home, and introduced new brands. Relaunched "Remarksable" in Food to promote trusted value, and established our "Food Innovation Hub". Proactive management of excess stock resulting from the lockdowns. Expanded our International online business, with launch of new websites providing access to more markets. Evolved our Sparks programme to reach 10m users, with access to more customer data linked to driving commercial decisions and personalised relationships.
2	Business transformation  <p>A failure to execute our transformation and cultural change initiatives with pace, consistency and cross- business buy-in will impede our ability to improve operational efficiency, competitiveness, and to restore the business to sustainable-profitable growth.</p> <p>Context</p> <p>Critical projects underpinning our transformation include:</p> <ul style="list-style-type: none"> Continuing to evaluate our transformation programme in response to longer-term changes in customer behaviour, including those directed by the pandemic and Brexit. Reshaping, modernising and delivering a UK store estate that is fit for the future, with the right stores in the right spaces, improved integration between online and store experience as well as 	MITIGATING ACTIVITIES <ul style="list-style-type: none"> Continued focus on our Never the Same Again approach to prioritise transformation delivery, balanced with robust cash management disciplines. Applying programme governance principles for all core projects with clear accountabilities and milestones in place. Maintained momentum to deliver supply chain capabilities and efficiencies across the Food and Clothing & Home businesses. <p>Key developments</p> <ul style="list-style-type: none"> Set up of our Strategy and Transformation Office to drive Group-level focus, consistency and challenge. Key online growth initiatives executed and planned through Ocado Retail and MS2.

RISK	DESCRIPTION & CONTEXT	MITIGATING ACTIVITIES & KEY DEVELOPMENTS
	<p>creating shopping facilities that drive omni-channel growth and meet the expectations of our target customers.</p> <ul style="list-style-type: none"> - Modernising our supply chain and logistics activities to improve speed, operational effectiveness and availability and to reduce costs. Supported by investment in legacy systems. - Functionally led transformations relating to people, technology, and digital and data are key to supporting overall business change. 	<p>Reshaping the store estate strategy to direct accelerated transformation, including prioritised site redevelopments, delivery of more new format stores and planned closures.</p> <p>Continued development of the Vangarde Supply Chain Programme in Food, which is delivering improved availability.</p>
3	<p>Brexit</p> <p> Failing to mitigate the continuing costs and friction arising from the complexities surrounding the border and further developments in the Trade and Cooperation Agreement ("TCA") may have a significant and long-term impact on our trading performance.</p> <p>Context As a result of the implications of the UK's exit from the European Union (EU), our EU businesses need to be reconfigured to manage new challenges. In addition, a number of uncertainties still remain following Brexit that are largely outside of our control and require continued monitoring and flexibility in our response. Key implications of these include:</p> <ul style="list-style-type: none"> - Permanent increases in cost base and time relating to the movement of goods across borders and compliance with the TCA (including the evolving requirements of the Northern Ireland Protocol and eventual end of the EU-GB grace period). - Increased complexity and cost in effective markets, particularly the Republic of Ireland, Northern Ireland and France. - Access to and availability of labour for our business and within the supply chain. - Costs passed on from our suppliers as they set their post-Brexit policies. - Viability of most-impacted suppliers and impact on product availability. 	<p>MITIGATING ACTIVITIES</p> <ul style="list-style-type: none"> - A cross-business working party remains in place to coordinate post-Brexit activity, including scenario planning with financial and operational impact assessments as long-term implications are understood. - Risk assessments undertaken by each of our businesses to enable them to plan and execute the operational changes needed to manage Brexit. - Regular updates to the Board and Audit Committee outlining risks and actions being undertaken. - Continued engagement with key government and industry bodies to represent M&S's views, including the UK Border Development Group, with access to the Department for Environment, Food & Rural Affairs, HM Revenue & Customs and the Food Standards Agency. <p>Key developments</p> <ul style="list-style-type: none"> - Worked quickly to expand our understanding of the TCA and address immediate operational issues of product flow to our European markets. - Continued to actively work with government and industry bodies to drive a simpler customs and exports process. - Investigated tariff mitigation for the re-export of product, including working with HMRC to reduce the burden of tariffs, for example, Returned Goods Relief. - Implemented a UK customs warehouse environment. - Improved and automated activities linked to the customs process to reduce administration costs.
4	<p>Ocado Retail</p> <p> A failure to effectively manage the strategic and operational relationship with Ocado Retail would significantly impact the achievement of our multi-channel food strategy and our ability to deliver shareholder value.</p> <p>Context The investment in Ocado Retail by the Ultimate Parent Group is part of our strategy for improving our online reach and capability. Since the launch in September 2020, we have seen growth in the online grocery market with an upward trajectory for the future that offers us the opportunity to strengthen our investment.</p> <ul style="list-style-type: none"> - There are two core aspects of our relationship with Ocado Retail that we are actively focusing on: <ul style="list-style-type: none"> - Developing our working relationship with Ocado Retail and evolving our ways of working to ensure alignment of our strategies in a way that supports innovation and growth. - Maintaining a seamless supply process to support customer fulfilment – existing and in line with future growth – and seeking opportunities to expand and refine product ranges. 	<p>MITIGATING ACTIVITIES</p> <ul style="list-style-type: none"> - M&S nominated directors are part of the Ocado Retail Board, with collective sign-off of business plans directing the growth of Ocado Retail. - Established data and technology interfaces with Ocado Retail. - Continued communication under lockdown with the Board, senior management and among the M&S-Ocado Retail operational teams. - Continued operation of a dedicated M&S Ocado delivery team, supported by senior leadership, to coordinate sourcing, product development, product ranging, customer data and marketing. <p>Key developments</p> <ul style="list-style-type: none"> - Completed transition of M&S products (Food and Clothing & Home) to the Ocado platform. - Invested to expand capacity with the launch of a new customer fulfilment centre in March, and plans for two more this calendar year.

RISK	DESCRIPTION & CONTEXT	MITIGATING ACTIVITIES & KEY DEVELOPMENTS
5	Talent, culture and capability	MITIGATING ACTIVITIES
	<p>Our inability to evolve the culture of our business as well as develop and retain the right talent and capabilities will influence our means to expand the business with agility and appropriate-commercial acumen. This will also impede the execution of our transformation programme and impact our broader strategic objectives and performance.</p> <p>Context</p> <ul style="list-style-type: none"> - M&S is fortunate to employ a vast number of talented individuals and it is essential that we have the right processes in place to identify, develop and retain this talent for the future. - Understanding the changing retail landscape is core to the strategic decisions we make on the skills and capabilities needed for our business. From driving a digitally focused mindset to managing change, our strategic choices and investment are focused on the knowledge and skills needed for the future. - The challenge of effectively managing talent, performance and succession using systems that have become outdated could result in increased resource management and development costs. - The need to effectively engage, motivate and connect with our colleagues across a multi-generational, diverse workforce is key to delivering productivity and supporting the transformation of our business while driving customer loyalty through a differentiated service proposition. - The broader implications of Brexit on the availability of labour and key skills continue to be monitored. 	<ul style="list-style-type: none"> - Continued investment in external hires to strengthen capability, improve quality and diversity of talent at all levels. - Investment in internal talent to strengthen the leadership pipeline and develop our future leaders. - Embedded quality new starter experience across all areas to allow effective onboarding, engagement and retention. - Continued the project to update our HR systems. - Business Involvement Group which is actively involved in colleague engagement and representation throughout the business, including Board meetings. - Capitalising on the popularity of our M&S Alumni to engage, energise and re-attract great talent. <p>Key developments</p> <ul style="list-style-type: none"> - Direct Executive Committee member ownership of HR matters. - Progressed our plans for enhancing skills and capabilities through targeted talent, recruitment and development programmes. - Launch of an updated performance management process. - Total reward review completed with benchmarking of all pay and benefit components and transparency on fair pay, including gender, ethnicity, disability and age. Commenced implementing initiatives that reflect colleague expectations. - Launch of a digital-specific apprenticeship programme driving digital literacy and capability building.
6	Food safety and integrity	MITIGATING ACTIVITIES
	<p>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.</p> <p>Context</p> <ul style="list-style-type: none"> - 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 inflationary costs, labour quality and availability, increased regulatory scrutiny and animal disease are heightened to a degree by the pandemic and our exit from the European Union. These are also largely outside our control but are nevertheless monitored and mitigated where possible. 	<ul style="list-style-type: none"> - Food Safety Policy and Standards, with clear accountability set at all levels. - Defined Terms of Trade, manufacturing standards, specifications for "from farm to fork" and operating procedures. - Risk-based store, supplier and warehouse audit programmes by an independent third party, including franchise operations. - Qualified Food Technology team, with continuing professional development. - Risk assessment process in place for new food initiatives. - Quarterly internal review of our control framework. - Established processes for the development and legal sign-off for product packaging. - Food Industry Intelligence Network membership at Board and Executive Committee level. - Live and tested crisis management plan for food incidents. <p>Key developments</p> <ul style="list-style-type: none"> - Updated operating procedures in response to lockdown restrictions and for the new initiatives launched, e.g. home delivery channels in the UK and internationally. - Remote audit and assurance programme launched for new and existing suppliers. - Covid-19 tests for technologists to enable urgent site visits. - Enhanced monitoring of quality and customer complaints. - Additional reporting to the leadership team of Covid-19 implications on our supplier assurance programme
7	Liquidity and funding	MITIGATING ACTIVITIES
	<p>An inability to maintain short- and long-term funding to meet business needs or to effectively manage associated risks may influence our ability to transform at pace, as well as have an adverse impact on business viability.</p>	<ul style="list-style-type: none"> - A £1.1bn undrawn, revolving credit facility in place until April 2023 and £674.4m of cash and cash equivalents. - Measures implemented to manage cash and liquidity at the start of the pandemic continue to be maintained, including:

RISK	DESCRIPTION & CONTEXT	MITIGATING ACTIVITIES & KEY DEVELOPMENTS
	<p>Context</p> <ul style="list-style-type: none"> - While we have continued to actively manage our cash, liquidity and debt position during the pandemic, resulting in a more positive out-turn than anticipated, our focus on this remains strong. - Availability of, and access to, appropriate sources and levels of funding is important for the continued operation of business activity, as well as successful and timely delivery of our transformation. Our ability to repay debt and fund working capital, capital expenditures and other expenses depends on our operating performance, ability to generate cash and to refinance existing debt. - Recoverability of our trading performance will influence our cash position as we emerge more fully from the pandemic. - We also have pension fund commitments that require active management and monitoring. 	<ul style="list-style-type: none"> - Increased scrutiny and challenge over expenditure such as discretionary and capital spend. - Dividend deferral. - Use of government support measures like the temporary furlough of colleagues, business rates holiday and deferral of tax payments. - Agreement to relax/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. - Maintained counterparty credit risk and limits in line with our risk appetite and treasury policy. - Continued dialogue with the market and rating agencies. - Pension fund assets fully offset pension scheme liabilities. <p>Key developments</p> <ul style="list-style-type: none"> - Implemented a robust three-year plan underpinned by financial processes linked to strategic priorities. - Active debt management with the issue of a £300m bond and partial tender of the December 2021 bond maturity. - Focus on working capital management to continue to improve cash flow and reduce reliance on bank facilities. - Agreement received from the syndicate of lending banks to extend the relaxation of covenant measures on the revolving credit facility up to March 2022.
8	<p>Social, ethical and environmental responsibility</p> <p> Increasingly our customers, colleagues and investors demand reassurance that we are managing ethical and environmental issues across our business, including supply chains. Our inability to uphold adequate oversight of, and respond to, our responsibility commitments may result in failing to meet their expectations.</p> <p>Context</p> <ul style="list-style-type: none"> - We continue to operate increasingly complex supply chains where changes in the external environment and challenging economic conditions, including the impact of Covid-19 across the globe, make ethical and social issues open to mismanagement and exploitation. We recognise that these could occur anywhere in our supply chain networks as well as our own operations. - Setting and adhering to appropriate environmental, human rights, animal welfare and ethical standards and commitments is important in maintaining our reputation as a responsible company. 	<p>MITIGATING ACTIVITIES</p> <ul style="list-style-type: none"> - Established ethical audit programme, aligned with Sedex, including annual factory audits for manufacturers globally. - Risk-based ethical assessment programme in Food across all suppliers maintained. - Code of Conduct and Global Sourcing Principals in place, shared with third parties and included in legal agreements. - Product and raw material standards outlining environmental considerations, such as deforestation. - Clothing Quality Charter and Environmental and Chemical Policy in place for all suppliers. - Modern slavery training rolled out across relevant teams. - Human Rights & Modern Slavery Policy shared with International owned-business and franchise teams. - Mandated use of the Sustainable Apparel Coalition's Higg Facility Environmental Module, that measures social and environmental impacts of factories. - Live and tested capabilities and protocols to respond immediately to an incident. <p>Key developments</p> <ul style="list-style-type: none"> - Group Plan A programme reset with clear accountabilities set for each area in our family of businesses to address environmental and ethical standards in products, packaging, greenhouse gas emissions and waste. - ESG Committee established. - Continued strengthening of our due diligence approaches with the roll out of a Worker Voice programme in the Food business and piloting of transparency initiatives within Clothing and Home. - Modern Slavery Intelligence Network launched to alert M&S to issues in the Food supply chain. - Minimum standards for responsibility set for Clothing and Home third-party brands.
9	<p>Technology and digital capability</p> <p> A failure to simplify and improve our core technology, enhance our digital capabilities and reduce our dependency on legacy</p>	<p>MITIGATING ACTIVITIES</p>

RISK	DESCRIPTION & CONTEXT	MITIGATING ACTIVITIES & KEY DEVELOPMENTS
	<p>systems could limit our ability to keep pace with market-competition and customer expectations, preventing successful transformation.</p> <p>Context</p> <ul style="list-style-type: none"> - The digital world continues to evolve at an unrelenting pace, influencing consumer expectations and behaviours, as well as placing increasing demands on our technology and ways of working. - Data underpins everything we do and we remain focused on equipping colleagues with the right tools and capabilities to drive effective decision-making. - A simplified operating model, applications and architecture will support us in continuing to deliver capability, flexibility and cost-efficiency improvements. - Increasing the use of tools such as AI and machine learning is fundamental to providing insights and a differentiated service to our customers. 	<p>An omni-channel technology strategy, supported by prioritised investment and aligned with Group and individual business strategies.</p> <ul style="list-style-type: none"> - Quarterly benefits tracking of key programmes in line with spend targets and value outcomes. - Further investment in technology and digital innovation and capabilities to enhance both customer and colleague experience in store, like supporting the '10x' store plan. - Improved IT infrastructure, including increased bandwidth. - Continued the shift to cloud-based technology. - Ongoing collaboration with our technology partners to drive our Digital First ambition, e.g. TCS and Microsoft. - Ongoing focus on technology risk, assurance maturity and roll-out of a structured IT control methodology. <p>Key developments</p> <ul style="list-style-type: none"> - New technology strategy and three-year investment plan that is aligned with business strategies and objectives. - Increased adoption of our mobile app by existing and new customers providing access to valuable data. - Successful launch of our BEAM Data Academy with digital learning programmes for all colleagues. - Increased personalisation of our end-to-end digital customer experiences using in-house capability. - Transforming our M&S Bank product and service offerings to create a digitally enabled shopping and payment experience for customers.
10	<p>Business continuity and resilience</p> <p> Failures or resilience issues at key business locations, such as at Castle Donington, our primary online Clothing & Home distribution centre, could result in significant business interruption. More broadly, an inability to effectively respond to global events, such as the pandemic or a supply chain disruption, would also significantly impact business performance.</p> <p>Context</p> <ul style="list-style-type: none"> - As our online business grows, the scale of risk to our sales and growth ambitions increases from a sustained period offline and an inability to fulfil online orders due to a major incident at our Castle Donington fulfilment centre. - The loss of other locations, such as the dedicated warehouses that store beers, wines & spirits and frozen goods in the UK, or support facilities (like for IT), could also impact us. - Our dependency on major suppliers, service providers and business partners means that significant incidents, long-term resilience issues and recoverability for these third parties would impact our own business. - The risk stemming from the complexity and fragility of global supply chains continues to be emphasised by the pandemic – notably, the initial impact from China and in turn from key sourcing locations like Bangladesh and India where we have a high supply dependency. 	<p>MITIGATING ACTIVITIES</p> <ul style="list-style-type: none"> - A dedicated and experienced Business Continuity (BC) team with an established Group Crisis Management process that continued to operate throughout the pandemic. - Maintained updated BC plans for key activities across our operations, including offices, warehouses and IT sites in response to changing government guidance. - Group Incident Management procedures in place, including for critical third parties. - Risk-based BC assessments for stores, sourcing offices and warehouses and validation of key supplier arrangements. - Insurance to cover remediation and business interruption. - Enhanced capabilities at Castle Donington to manage technology failure. - Active engagement with the Retail BC Association and government-led forums. - National Counter Terrorism Information exchange member. <p>Key developments</p> <ul style="list-style-type: none"> - Expanded fulfilment capabilities through "buy online ship from store" (BOSS) and the use of other warehouses in our network to meet online growth. - Continued supporting suppliers through disruptions caused by the pandemic and Brexit. - Colleagues globally continued to work from home without the loss of any business-critical systems. - BC dashboard launched to shift our governance programme to a live digital platform.
11	<p>Information security</p> <p> Failure to adequately prevent or respond to a data breach or cyber-attack could adversely impact our reputation, resulting in significant fines, business disruption, loss of information for our customers, employees or business and/or loss of stakeholder and customer confidence.</p>	<p>MITIGATING ACTIVITIES</p> <ul style="list-style-type: none"> - Dedicated Information Security function, with multi-disciplinary specialists, supported by a 24-hour Security Operation Centre and mature Incident Management. - Information Security Improvement programme delivery, aligned with our digital and data protection strategy.

RISK	DESCRIPTION & CONTEXT	MITGATING ACTIVITIES & KEY DEVELOPMENTS
	<p>Context</p> <ul style="list-style-type: none"> - The increasing sophistication and frequency of cyber-attacks in the retail industry and within supply chains highlight an escalating information security threat. - Our reliance on several third parties hosting critical services and holding M&S and customer data also means weaknesses in their cyber and data controls may impact us, and requires continued assessment and oversight. - The profile of information technology will change as we develop our data and digital capabilities, expand online services, adopt cloud more widely, deliver 'intelligent' stores, and increase our reliance on insightful data. - Longer-term changes stemming from the pandemic such as the increase in customers using e-commerce, the growing number of digital and mobile shopping channels and changes in the pattern of office/home working, all impact the overall risk. 	<ul style="list-style-type: none"> - Information security obligations included in appropriate third party contracts and a risk-based assurance programme to monitor our exposure. - Information security and data protection policies in place, with a mandatory training programme for colleagues. - Active detection of our threat environment, with continued improvement in controls, policies and procedures. - Embedded security throughout digital product lifecycle and operations model. - Focused security assurance, security architecture and security hygiene around significant change activities. - Network of Data Protection and Security Compliance Managers in priority business areas. <p>Key developments</p> <ul style="list-style-type: none"> - Prioritised investment to improve our ability to detect and respond to the increase in breaches during the pandemic. - Completion of two independent cyber security reviews. - Formal review of security controls in international offices. - Targeted information security and Cyber Resilience review of key suppliers.
12	<p>Corporate compliance and responsibility</p> <p> Failure to deliver against our legal and regulatory obligations, as well as responsibility 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.</p> <p>Context</p> <ul style="list-style-type: none"> - The increasingly broad and stringent legal and regulatory framework for retailers creates pressure on business performance and market sentiment requiring continual improvements in how we operate to maintain compliance. - New and evolving regulatory requirements needing focus and appropriate capabilities to comply with including mandatory Task Force on Climate-related Financial Disclosures ("TCFD") recommendations, plastics recycling targets, new restrictions on the promotion of foods high in fat, sugar and salt and the proposed EU Directive on Corporate Due Diligence and Accountability that envisages mandating due diligence of key issues within end-to-end business supply chains. - 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 impacting our reputation. 	<p>MITIGATING ACTIVITIES</p> <ul style="list-style-type: none"> - Code of Conduct in place and underpinned by policies and procedures in core areas of regulation and responsibility, including human rights, modern slavery, anti-bribery and corruption, health and safety, food safety, national minimum wage, equal pay, cyber, data security and privacy, and financial services and consumer credit regulations. - Business-wide mandatory training programme for higher-risk regulatory areas, like health and safety, anti-bribery and corruption, data privacy, and information security. - Established in-house regulatory legal team in place, including specialist solicitors, which conducts horizon scanning on key regulatory and legislative changes. - Issue leaders embedded in the business to drive compliance in key risk areas, e.g. GSCOP (Groceries Supply Code of Practice) and ethical sourcing. - Continued proactive engagement with regulators, legislators, trade bodies and policy makers. - Maintained monitoring and regulatory reporting commitments on environmental and social issues. - Continued operating auditing and monitoring systems. - Customer feedback and public sentiment on regulatory compliance is monitored, including social media trends. <p>Key developments</p> <ul style="list-style-type: none"> - First cycle of reporting Code of Conduct compliance to the Audit Committee. - Continued to manage compliance with evolving government guidelines in relation to Covid-19. - Established remote audit programmes for owned and third-party operations during the lockdowns globally.

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GOING CONCERN

In adopting the going concern basis for preparing the financial statements, the directors have considered the business activities as set out on pages 1 to 14 as well as the Group's principal risks and uncertainties as set out on pages 15 to 20, including the downside sensitivities outlined 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 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 Board considers it appropriate for the Group to adopt the going concern basis in preparing its financial statements.

The Strategic Report was approved by the Board on 1 September 2021 and signed on its behalf by



Nick Folland
Director

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DIRECTORS' REPORT

PROFIT AND DIVIDENDS

The (loss)/profit for the financial year, after taxation, amounts to £(259.9)m (last year £20.4m). The directors have not declared any dividends:

Ordinary shares	£m
No proposed interim dividend (last year 2.7p per share)	–
No proposed final dividend (last year no proposed final dividend)	–
No dividend proposed for 2020/21 (last year 2.7p per share)	–

SHARE CAPITAL

The Company's issued ordinary share capital as at 3 April 2021 comprised a single class of ordinary share. Each share carries the right to one vote at general meetings of the Company.

Details of movements in the Company's issued share capital can be found in note C18 to the financial statements.

SIGNIFICANT AGREEMENTS – CHANGE OF CONTROL

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.

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

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 3 April 2021 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. Qualifying pension scheme indemnity provisions (as defined by Section 235 of the Companies Act 2006) were in force during the course of the financial year ended 3 April 2021 for the benefit of the Trustees of the Marks & Spencer UK Pension Scheme, both in the UK and the Republic of Ireland.

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

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the Directors on page 25), 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 central to our success; we cannot operate and achieve our strategic goals (set by the Ultimate Group Board and adopted by the directors of the Company) without an engaged colleague base that feels valued and appropriately rewarded. We want our colleagues to feel that they have an inclusive and diverse place to work with a respectful corporate culture; where they can share their views and have their colleague voice heard in decision-making. To achieve this, the chair of our Business Involvement Group (BIG) represents the collective colleague voice by attending the Ultimate Parent Group's Board and Remuneration Committee meetings throughout the year, while the Ultimate Parent Group's Executive Committee (ExCo) members attend National BIG meetings to understand the issues that are important to colleagues. In addition, the ExCo this year updated the Company's Inclusion & Diversity (I&D) strategy, publishing seven new I&D training modules and a suite of new policies and line manager guides, aimed at supporting and highlighting to colleagues the importance of delivering an inclusive culture within a diverse environment.
 - **Key Decisions:** A comprehensive Reward and Wellbeing Survey was commissioned across the business, aimed at ensuring colleague pay and benefits packages are fundamentally fair, reward the right behaviours and performance, and are competitively placed for us to retain talent. The Ultimate Parent Group's Board also took the difficult decision to make colleague redundancies in order to ensure that the business is fit for purpose to operate in a more digitally enabled world. Being mindful of the potential impact of this, the Ultimate Parent Group's Board agreed that colleague choice should be a factor as far as possible and that BIG should play a pivotal role in supporting colleagues through any job losses; therefore when it was decided to make 7,000 roles redundant, it was stipulated that these were to be made first by a voluntary redundancy programme ahead of any compulsory redundancies. All 7,000 redundancies were made voluntarily by colleagues as a result.
- **Customers:** Our customers are at the heart of our business. Maintaining and increasing their enthusiasm and loyalty for the M&S brand ensures the enduring success of the Group's business. This year the Ultimate Parent Group Board (and consequently the Company's directors) focused on customers through various surveys, interviews and focus groups. Customer mood during lockdown was monitored, with 1,000 customers surveyed a week to understand what they wanted from retailers and how they felt about M&S during this period. To improve our Dotcom experience, 50 in-depth customer interviews across the whole end-to-end online journey were conducted, covering 135 interaction evaluations, and with similar exercises undertaken for a range of competitors to assess user experiences.
 - **Key Decisions:** To adapt to the Covid-19 lockdowns, the Ultimate Parent Group Board approved various organisational and operational changes, ensuring that customers could shop confidently and safely in stores, and that there was continuity of supply to meet customer demand online. Similarly, the Ultimate Parent Group's Board maintained oversight of the programme for launching M&S products on the Ocado platform, ensuring workstreams were proceeding to schedule, with the ultimate aim of providing new and existing customers access to M&S Food products online for delivery.
- **Suppliers:** Our trusted suppliers enable us to provide our customers with the high-quality, ethically sourced and produced goods they expect. To engage with suppliers, the Ultimate Parent Group's Chairman hosts a rolling programme of listening groups, while supplier satisfaction is measured using the independent Advantage Report Mirror to survey a proportion of our supplier base. This year, as a result of site visit limitations during Covid-19, both in the UK in Foods and globally in C&H, our worker voice programme was also expanded, allowing us to hear directly from factory workers in our supply chain on their experiences.
 - **Key Decisions:** The Ultimate Parent Group's Audit Committee reviewed compliance with the Groceries Supply Code of Practice, ensuring suppliers are treated respectfully and fairly, and any concerns raised are considered and addressed. The Ultimate Parent Group's Board has also striven to support suppliers and balance their often-conflicting interests throughout lockdown, while also acting to secure the Company's liquidity for the likely duration of the Covid-19 crisis. It resolved to ask our larger suppliers to accept less favourable payment terms, to help offset the cost of providing improved financial terms to our smaller suppliers who rely on prompt payment to remain economically viable.
- **Partners:** Our partners provide avenues to expand our reach and access to new customers - in the UK and internationally. We also have partners critically assessing and supporting our operations, to ensure we constantly evolve and improve. We worked extensively with our franchise partners in the UK and internationally during the year, ensuring that their operations were supported during lockdown, and that they were equipped to handle the increase in tariffs and administrative burden caused by Brexit. This year, we invited Oxfam, as a critical friend, to carry out a gap analysis across our supply chains in India and the UK and provide us with honest insights about the experiences of those who work for, or with, us. We shared the report and our response in full on our corporate website (Working in Marks and Spencer's Food and Footwear Supply Chains).
 - **Key Decisions:** The Ultimate Parent Group's Board considered and approved Ocado Retail's strategic five year plan, ensuring the enduring success of our partnership. Furthermore, the need to nurture productive and effective relationships with partners was considered when it was ultimately decided to introduce third-party brands to the M&S online offer.

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 34 to 36 and 68 to 69 of the Ultimate Parent Group's Annual Report 2021.

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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 34 and 35 of the Ultimate Parent Group's Annual Report 2021, examples of colleague involvement and engagement, and information on our approach to our workforce and culture, are highlighted on pages 26 to 29 of the Marks and Spencer Group plc Annual Report 2021.

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 at 3 April 2021, 15,738 colleagues were participating in ShareSave, the Company's Save As You Earn Scheme. Full details of all schemes are given on pages 153 to 155 of the Marks and Spencer Group plc Annual Report 2021.

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 inclusion, diversity and 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, gender identity or faith. 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 inclusion and diversity are valued. M&S has a business-wide inclusion and diversity strategy, which is led by the Inclusion Activation Group and chaired by a member of the Executive Committee. Our seven employee-led diversity networks are supported by a central Inclusion and Diversity team, who work to embed a culture of inclusion across the organisation. In 2017, our inclusion and diversity targets were agreed as: aiming to have 50% female representation and 15% ethnic minority representation on the M&S senior management team by 2022.

EMPLOYEES WITH DISABILITIES

The Company is clear in its policy that people with health conditions, both visible and non-visible, should have full and fair consideration for all vacancies. M&S has continued to demonstrate its commitment to interviewing those applicants 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, working closely with The Prince's Trust and Jobcentre Plus, most recently via the Kickstart programme.

RESEARCH & DEVELOPMENT

Research and innovation remain key to our Food offer and the development of improved product and fabric in Clothing & Home. Further information is provided in the Plan A Report, available online.

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 regarding its 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 29 March 2020 to 3 April 2021 to the Audit Committee on 12 May 2021. It was approved on 20 May 2021.

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 four 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 three of them have been resolved or closed. One additional Code reference made by a supplier before 29 March 2020 was also resolved during the reporting period.

A detailed summary of the compliance report is available on our website.

Total Global M&S Greenhouse gas emissions 2020/21

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

	2020/21 000 tonnes	2019/20 000 tonnes*	% change
Direct emissions (scope 1)	157	173	-9%
Of which UK:	156	172	-9%
In-direct emissions from electricity (scope 2)	141	168	-16%
Of which UK:	129	154	-16%
Total gross/location-method scope 1+2 GHG emissions	298	341	-13%

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Of which UK:	285	325	-12%
GHG intensity per 1,000 sq ft of salesfloor	15	17	-12%
Procured renewable energy	120	143	-16%
Total market-method scope 1+2 GHG emissions	177	198	-11%
Of which UK:	164	183	-10%
Procured carbon offsets	177	198	-11%
Total net scope 1+2 GHG emissions	0	0	-

*Performance has been restated to use actual data sourced from international operations, in place of previous year estimates.

GHG emissions are from operationally controlled activities in accordance with WRI/WBCSD GHG Reporting Protocols (Revised edition) and 2015 Scope 2 Guidance using DEFRA/ BEIS 2020 Greenhouse Gas Reporting Conversion Factors, which include a 9% lower carbon intensity rating for UK grid electricity that reduces our emissions by 14,787 tonnes CO₂ e compared with our location-based 2019/20 figures. For full details, please see our 2021 Plan A Report.

Political donations

The Company did not make any political donations or incur any political expenditure during the year ended 3 April 2021. 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.

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 comprise the Executive Committee, as well as supporting senior leadership forums. 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. If necessary, the directors also hold 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. 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, and therefore no separate meetings were required, having been present during the Ultimate Parent Group Board's discussions and consideration of the matters set out in

Marks and Spencer plc

s.172. This 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, and is outlined in the 'Business relationships and colleague engagement' section on page 22.

Further information about the Ultimate Parent Group's corporate governance is provided in the Director's Report set out on pages 58-105 of the Group's Annual Report 2021, and in the Ultimate Parent Group's Corporate Governance Statement 2021 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 1 September 2021 and signed on its behalf by



Nick Folland
Director
London,

1 September 2021

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 3 April 2021 and of the Group's loss for the 53 weeks then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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 the preparation of the Group financial statements is applicable law, international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and international accounting standards in conformity with the requirements 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	<p>The key audit matters that we identified in the current period were:</p> <ul style="list-style-type: none">• accounting for the UK store rationalisation programme;• impairment of UK store assets;• impairment of per una goodwill;• inventory provisions for UK Clothing & Home;• disclosure of adjusting items as part of alternative performance measures; and• the going concern basis of accounting <p>Within this report, key audit matters are identified as follows:</p> <ul style="list-style-type: none">⬆ Increased level of risk↔ Similar level of risk⬇ Decreased level of risk
Materiality	<p>The materiality that we used for the Group financial statements was £16.0 million (2020: £18.0 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:</p> <ul style="list-style-type: none">• earnings before interest, tax, depreciation and amortisation; and• revenue.
Scoping	<p>We have performed a full-scope audit on the UK component of the business, representing 96% (2020: 95%) of the Group's revenue, 94% (2020: 92%) of adjusted profit before tax, 88% (2020: 91%) of profit before tax, 78% (2020: 80%) of total assets and 87% (2020: 87%) of total liabilities. We perform analytical review procedures on the residual balances.</p>
Significant changes in our approach	<p>We have determined that the recognition of lease balances under IFRS 16 Leases is no longer a key audit matter in the current period. This change is discussed further in section 5.</p>

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Group's and Parent Company's ability to continue to adopt the going concern basis of accounting is discussed in section 5.6.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Parent Company's

ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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.

There has been one change in the key audit matters relative to the prior period. We have not identified the recognition of lease balances under IFRS 16 Leases as a key audit matter in the current period. The adoption of IFRS 16 in the prior period was significant for the Group as leased stores form a significant proportion of the estate and the application and judgements made in transitioning to IFRS 16 were significant. This is the second period in which IFRS 16 is applied and the level of complexity and judgement required has reduced, accordingly we have not identified this as a key audit matter.

5.1. Accounting for the UK store rationalisation programme

Key audit matter description	<p>In February 2018, the Board approved a list of stores marked for closure as part of its UK store rationalisation programme. The total charge recognised in connection with this closure programme in the previous three periods was £566.9 million. A further net charge of £95.3 million has been recognised in the current period as a result of:</p> <ul style="list-style-type: none">• accelerating rotation of the store estate, with an increase in the number of stores assessed as probable 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;• depreciation of store assets where 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. <p>Further information is set out in notes 1 and 5 to the financial statements.</p> <p>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.</p>
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How the scope of our audit responded to the key audit matter	<p>In responding to the identified key audit matter we completed the following audit procedures:</p> <ul style="list-style-type: none"> • obtained an understanding of relevant 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 with reference to external data; • 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 the discount rate, expected sublet income, sublet lease incentives, void periods, freehold sales proceeds and store closure costs 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	<p>We are satisfied that the Group's estimate of the impairments and store exit charges and the associated disclosures are appropriate.</p>

5.2. Impairment of UK store assets

Key audit matter description	<p>As at 3 April 2021 the Group held £3,590.5 million (2020: £3,925.5 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 £66.4 million (2020: £69.3 million) and the reversal of previously recognised impairment charges of £64.5 million have been recognised within adjusting items as set out in notes 5 and 14 to the financial statements.</p> <p>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 into 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). The level of risk related to the impairment of UK store assets has</p>
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decreased relative to the prior period as a result of some reduction in the level of uncertainty in forecasting future cash flows.

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 relevant controls relating to the impairment review process;
- evaluated and challenged management's range of impairment indicators with due consideration given 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;
- assessed the appropriateness of the discount rates applied with the involvement of 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 and impairment reversals recorded and disclosures within the financial statements are appropriate.

5.3. Impairment of per una goodwill <>

Key audit matter description

As at 3 April 2021 the Group held £16.5 million (2020: £56.1 million) of goodwill associated with per una. The Group is required to assess the goodwill and intangible assets annually for impairment in accordance with IAS 36. 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 revenue and gross margin growth rates;
- longer term growth forecasts; and
- the discount rate used.

Following the completion of the impairment review, management has recognised an impairment charge of £39.6 million (2020: £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 relevant controls relating to the review and approval of the impairment review;
- 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;
- 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 the discount rates applied with the involvement of our internal valuations specialists and compared the rates applied with our internal benchmarking data;
- 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.

5.4. Inventory provisions for UK Clothing & Home

Key audit matter description	As at 3 April 2021, the Group held UK Clothing & Home inventories of £430.6 million (2020: £355.4 million), inclusive of a provision of £78.2 million (2020: £184.3 million).
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In 2020 the Group recognised an inventory write-down of £157.0 million (of which £145.3 million related to UK Clothing & Home inventory) which was included within the Group's directly attributable gains/(expenses) resulting from the Covid-19 pandemic adjusting item.

In 2021 a net reversal of the inventory impairment of £90.8 million (£101.6 million relating to UK Clothing & Home inventory) has been recorded within the same adjusting item as disclosed in note 5.

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.

Whilst it remains a significant judgement, the level of risk associated with inventory provision has reduced in the period as a result of a reduction in the uncertainty associated with forecasting future sales.

Management has determined the level of provision with reference to forecast future sales and purchases, utilising available data from the past period on the saleability of stock in the current environment. 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	<p>In responding to the identified key audit matter we completed the following audit procedures:</p> <ul style="list-style-type: none">• Obtained an understanding of relevant 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, 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;
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- 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.
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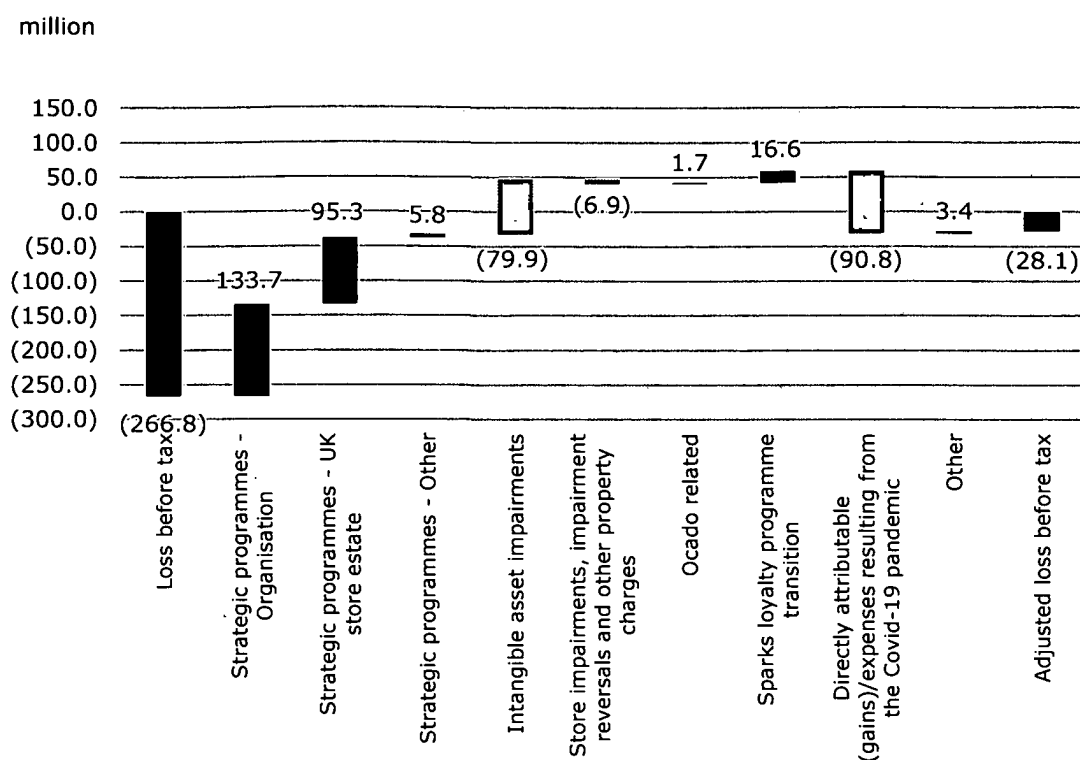
Key observations	We are satisfied with the judgements taken by management and that the resulting inventory provision for UK Clothing & Home is appropriate. We believe the disclosures made around the level of uncertainty appropriately reflect reasonably possible future changes to management's estimates.
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5.5. Disclosure of adjusting items as part of alternative performance measures

Key audit matter description	The Group has presented an alternative performance measure being adjusted loss before tax of £28.1 million (2020: £399.9 million), which is derived from statutory loss before tax of £266.8 million (2020: profit before tax of £60.2 million) adjusted for a number of items (totalling £238.7 million (2020: £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 within the alternative performance measures.
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Guidance has been issued by the FRC and European Securities and Markets Authority ('ESMA') during the period 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.

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



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

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

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

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

- obtained an understanding of relevant controls, relating to the identification and disclosure of adjusting items within alternative performance measures;
- performed enquiries of management to understand the rationale applied in identifying items as adjusting and completed an independent assessment as to the selection and presentation of adjusting items based on their nature;
- assessed the identification and consistency of items reported as adjusting period on period with reference to guidance published by ESMA and the FRC specifically considering the treatment of directly attributable gains/(expenses) resulting from the Covid-19 pandemic;
- 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 display characteristics of being material, significant or one-off in nature;

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- 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 period; and
 - assessed the completeness and accuracy of disclosures within the financial statements in accordance with IFRSs.
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Key observations	We are satisfied that the items included in adjusting items within the alternative performance measures (including the directly attributable gains/(expenses) resulting from the Covid-19 pandemic of £90.8 million) are in line with the Group's policy and that they are appropriately disclosed.
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5.6. The going concern basis of accounting

Key audit matter description	<p>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 relaxation that the Group has obtained in relation to its financing facility, and cost saving actions that the Group have taken in their response 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 and considered the results in forming their conclusion.</p>
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Whilst there continues to be a high level of judgement as a result of the current challenges in the retail property market and the increasing move towards online retail as well as the longer-term wider economic impact of Covid-19, the level of risk associated with the going concern conclusion has reduced as a result of a reduction in the uncertainty associated with forecasting future cash flows.

Taking into account the sensitivity analyses performed by management 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.

Further details of the Directors' assessment, including the sensitivities applied, are included within the Strategic Report on page 22 and in note 1 to the financial statements.

How the scope of our audit responded to the key audit matter	<p>In responding to the identified key audit matter we completed the following audit procedures:</p> <ul style="list-style-type: none"> • obtained an understanding of relevant controls relating to the assessment of 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 sensitivity analyses; • assessed the appropriateness of forecast assumptions by:
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- 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 relaxation obtained by the Group in relation to its financing facility;
 - understanding and challenging the level of further mitigations available to the Group beyond those included within the forecast; and
 - considering the results of the sensitivity analyses performed; and
- evaluated the Group's disclosures on going concern against the requirements of IAS 1.
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Key observations

We are satisfied that the Directors' conclusion that there are no material uncertainties over the Group and 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	£16.0 million (2020: £18.0 million)	£15.2 million (2020: £16.2 million)

Basis for determining materiality	<p>We considered the following metrics in the current and prior period:</p> <ul style="list-style-type: none">• Earnings before interest, tax, depreciation and amortisation ('EBITDA')• Revenue <p>Using professional judgement, we determined materiality to be £16.0m.</p>	<p>We considered the following metrics in the current and prior period:</p> <ul style="list-style-type: none">• Adjusted profit before tax• Earnings before interest, tax, depreciation and amortisation ('EBITDA')• Revenue <p>Using professional judgement, we have capped materiality at 90% of Group materiality.</p>						
Rationale for the benchmark applied	<p>In determining our benchmark for materiality we considered a number of different metrics used by investors and other readers of the financial statements.</p> <p>Group materiality represents:</p> <table><tr><td>Metric</td><td>%</td></tr><tr><td>EBITDA</td><td>2.8</td></tr><tr><td>Revenue</td><td>0.2</td></tr></table>	Metric	%	EBITDA	2.8	Revenue	0.2	<p>In determining our benchmark for materiality we considered a number of different metrics used by investors and other readers of the financial statements.</p>
Metric	%							
EBITDA	2.8							
Revenue	0.2							

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 financial statements	Parent Company financial statements
Performance materiality	60% (2020: 50%) of Group materiality	60% (2020: 50%) of Parent Company materiality
Basis and rationale for determining performance materiality	<p>In determining performance materiality, we considered the following factors:</p> <ul style="list-style-type: none"> our cumulative knowledge of the Group and its environment, including industry wide pressure on retailers; the level of change to the business in the period; 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. <p>We have increased the performance materiality used as a percentage of Group materiality, primarily due to the reduction in risk during this period associated with the impact of Covid-19 on the Group's internal control environment and the financial close process compared with the prior period.</p>	

6.3. Error reporting threshold

We agreed with the directors that we would report to them all audit differences in excess of £0.8 million (2020: £0.9 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.

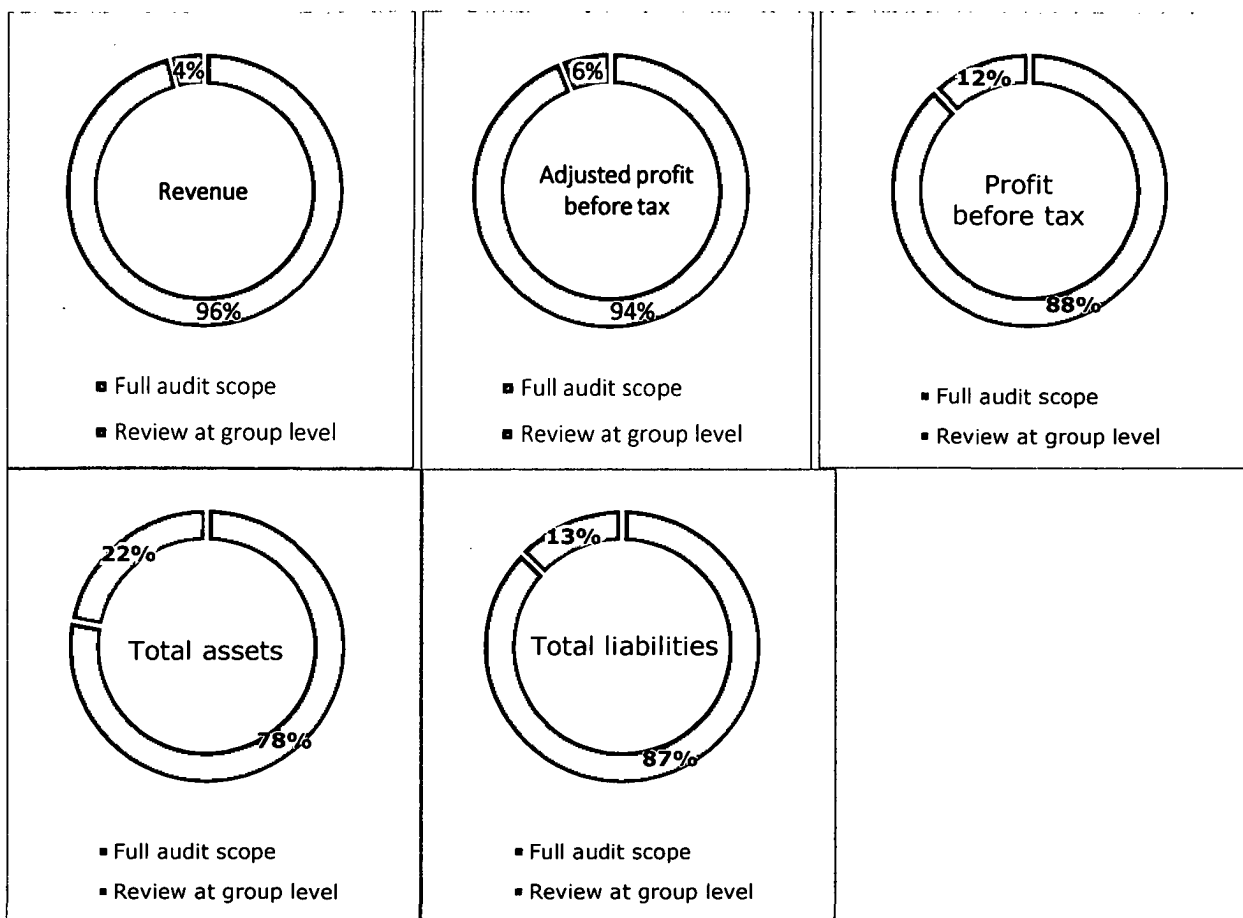
7. An overview of the scope of our audit

7.1. Identification and scoping of components

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 £15.2 million (or 95% of Group materiality) (2020: £16.2 million) as this makes up substantially all of the Group's operations (96% of the Group's revenue, 2020: 95%). All audit work was performed directly by the Group engagement team.

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.



7.2. Our consideration of the control environment

Our audit strategy is to rely on controls over certain processes within a number of business cycles. These included procurement within UK Clothing & Home and Food, inventory, treasury and fixed assets including IFRS 16 Leases. As part of our controls testing, we obtained an understanding of the Group's processes and tested controls through a combination of tests of inquiry, observation, inspection and re-performance.

On certain business cycles, we obtained an understanding of, but did not rely on, controls. These included inventory provisions, food rebates and financial close and reporting.

Given the importance of information technology ("IT") to the recording of financial information and transactions, we have tested General IT controls relating to certain of the Group's IT systems where relevant to our audit work. We have been able to place IT controls reliance across these systems to support the audit over a number of business cycles, such as payables.

8. Other information

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

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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 this regard.

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.

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

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 that was approved by the board;
- results of our enquiries of management, internal audit and the Marks and Spencer Group plc ("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:
 - o identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - o detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
 - o 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 relevant internal specialists, including tax, valuations, pensions, IT and industry 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 judgment, such as 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 including the Listing Rules, 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 the matters 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, 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 the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

- the information given in the strategic report and the directors' report for the financial 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 or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14. Other matters which we are required to address

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 7 periods, covering the periods ending 28 March 2015 to 3 April 2021.

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 Parent Company and the Parent 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

1 September 2021

Marks and Spencer plc

Consolidated income statement

		53 weeks ended 3 April 2021	52 weeks ended 28 March 2020
	Notes	Total £m	Total £m
Revenue	2, 3	9,155.7	10,181.9
Operating (loss)/profit	2, 3, 5	(94.9)	244.9
Finance income	5, 6	57.4	46.9
Finance costs	5, 6	(229.3)	(231.6)
(Loss)/profit before tax	4, 5	(266.8)	60.2
Income tax credit/(expense)	7	6.9	(36.1)
(Loss)/profit for the year		(259.9)	24.1
Attributable to:			
Owners of the parent		(256.7)	20.4
Non-controlling interests		(3.2)	3.7
		(259.9)	24.1

Reconciliation of (loss)/profit before tax & adjusting items:

(Loss)/profit before tax		(266.8)	60.2
Adjusting items	5	238.7	339.7
(Loss)/profit before tax & adjusting items – non-GAAP measure		(28.1)	399.9

Consolidated statement of comprehensive income

	Notes	53 weeks ended 3 April 2021 £m	52 weeks ended 28 March 2020 £m
(Loss)/profit for the year		(259.9)	24.1
Other comprehensive (expense)/income:			
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of retirement benefit schemes	10	(1,352.0)	927.9
Tax credit/(charge) on retirement benefit schemes		256.5	(196.7)
		(1,095.5)	731.2
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation differences			
- movements recognised in other comprehensive income		(27.7)	5.1
- reclassified and reported in profit or loss		3.7	2.9
Cash flow hedges			
- fair value movements recognised in other comprehensive income	20	(215.5)	140.3
- reclassified and reported in profit or loss	20	26.5	(18.4)
Tax credit/(charge) on cash flow hedges		37.0	(27.0)
		(176.0)	102.9
Other comprehensive (expense)/income for the year, net of tax		(1,271.5)	834.1
Total comprehensive (expense)/income for the year		(1,531.4)	858.2
Attributable to:			
Owners of the parent		(1,528.2)	854.5
Non-controlling interests		(3.2)	3.7
		(1,531.4)	858.2

Marks and Spencer plc

Consolidated statement of financial position

	Notes	As at 3 April 2021 £m	As at 28 March 2020 (Restated) ¹ £m	As at 30 March 2019 (Restated) ¹ £m
Assets				
Non-current assets				
Intangible assets	13	232.0	399.1	499.9
Property, plant and equipment	14	5,058.6	5,494.2	5,662.3
Investment property		15.2	15.5	15.5
Investments in joint ventures and associates		6.8	5.6	4.0
Other financial assets	15	2,552.3	2,554.6	2,563.2
Retirement benefit asset	10	639.2	1,915.0	931.5
Trade and other receivables	16	261.4	262.6	273.0
Derivative financial instruments	20	0.3	112.4	19.8
		8,765.8	10,759.0	9,919.2
Current assets				
Inventories	5	624.6	564.1	700.4
Other financial assets	15	18.4	22.2	141.8
Trade and other receivables	16	209.6	286.5	267.2
Derivative financial instruments	20	32.8	73.5	40.3
Current tax assets		34.1	18.8	-
Cash and cash equivalents	17	674.4	254.2	310.4
		1,593.9	1,219.3	1,460.1
Total assets		10,359.7	11,978.3	11,429.3
Liabilities				
Current liabilities				
Trade and other payables	18	1,569.8	1,501.0	1,518.2
Partnership liability to the Marks & Spencer UK	11	124.9	71.9	71.9
Borrowings and other financial liabilities	19	432.8	247.8	625.6
Derivative financial instruments	20	96.0	13.0	7.3
Provisions	21	43.1	21.5	76.6
Current tax liabilities		-	-	26.2
		2,266.6	1,855.2	2,325.8
Non-current liabilities				
Retirement benefit deficit	10	7.8	12.4	17.2
Trade and other payables	18	13.9	20.2	15.6
Partnership liability to the Marks & Spencer UK	11	68.6	135.5	200.5
Borrowings and other financial liabilities	19	3,659.9	3,865.9	3,628.5
Derivative financial instruments	20	10.7	0.7	2.8
Provisions	21	74.2	56.5	72.7
Deferred tax liabilities	22	42.3	332.4	123.8
		3,877.4	4,423.6	4,061.1
Total liabilities		6,144.0	6,278.8	6,386.9
Net assets		4,215.7	5,699.5	5,042.4
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	20	(54.8)	68.6	(14.6)
Cost of hedging reserve	20	4.6	5.7	11.7
Foreign exchange reserve		(59.9)	(35.9)	(43.9)
Retained earnings		3,216.4	4,548.5	3,982.9
Equity attributable to owners of the parent		4,212.9	5,693.5	5,042.7
Non-controlling interests		2.8	6.0	(0.3)
Total equity		4,215.7	5,677.5	5,042.4

¹See note 1 for details of changes in an accounting policy and the classification of receivables and the resulting restatements.

The financial statements were approved by the Board and authorised for issue on 1 September 2021. The financial statements also comprise notes 1 to 29.



Eoin Tonge, Chief Finance Officer

Marks and Spencer plc

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 31 March 2019	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 retirement benefit schemes	-	-	-	-	-	-	(196.7)	(196.7)	-	(196.7)
Cash flow hedges										
- fair value movement in other comprehensive income	-	-	-	147.8	(7.5)	-	-	140.3	-	140.3
- reclassified and reported in profit or loss	-	-	-	(18.4)	-	-	-	(18.4)	-	(18.4)
Tax on cash flow hedges	-	-	-	(28.5)	1.5	-	-	(27.0)	-	(27.0)
Other comprehensive income/(expense)	-	-	-	100.9	(6.0)	8.0	731.2	834.1	-	834.1
Total comprehensive income/(expense)	-	-	-	100.9	(6.0)	8.0	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
As at 29 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
Loss for the year	-	-	-	-	-	-	(256.7)	(256.7)	(3.2)	(259.9)
Other comprehensive (expense)/income:										
Foreign currency translation										
- movements recognised in other comprehensive income	-	-	-	-	-	(27.7)	-	(27.7)	-	(27.7)
- reclassified and reported in profit or loss	-	-	-	-	-	3.7	-	3.7	-	3.7
Remeasurements of retirement benefit schemes	-	-	-	-	-	-	(1,352.0)	(1,352.0)	-	(1,352.0)
Tax credit on retirement benefit schemes	-	-	-	-	-	-	256.5	256.5	-	256.5
Cash flow hedges										
- fair value movement in other comprehensive income	-	-	-	(214.2)	(1.3)	-	-	(215.5)	-	(215.5)
- reclassified and reported in profit or loss	-	-	-	26.5	-	-	-	26.5	-	26.5
Tax on cash flow hedges	-	-	-	36.8	0.2	-	-	37.0	-	37.0
Other comprehensive (expense)/income	-	-	-	(150.9)	(1.1)	(24.0)	(1,095.5)	(1,271.5)	-	(1,271.5)
Total comprehensive (expense)/income	-	-	-	(150.9)	(1.1)	(24.0)	(1,352.2)	(1,528.2)	(3.2)	(1,531.4)
Cash flow hedges recognised in inventories	-	-	-	33.9	-	-	-	33.9	-	33.9
Tax on cash flow hedges recognised in inventories	-	-	-	(6.4)	-	-	-	(6.4)	-	(6.4)
Transactions with owners:										
Purchase of own shares held by employee trusts	-	-	-	-	-	-	(3.2)	(3.2)	-	(3.2)
Credit for share-based payments	-	-	-	-	-	-	19.3	19.3	-	19.3
Deferred tax on share schemes	-	-	-	-	-	-	4.0	4.0	-	4.0
As at 3 April 2021	712.5	386.1	8.0	(54.8)	4.6	(59.9)	3,216.4	4,212.9	2.8	4,215.7

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

Marks and Spencer plc

Consolidated statement of cash flows

		53 weeks ended 3 April 2021	52 weeks ended 28 March 2020 (Restated) ¹
	Notes	£m	£m
Cash flows from operating activities			
Cash generated from operations	25	876.7	1,045.4
Income tax paid		(5.8)	(91.6)
Net cash inflow from operating activities		870.9	953.8
Cash flows from investing activities			
Proceeds on property disposals		2.9	2.7
Purchase of property, plant and equipment		(158.9)	(251.0)
Purchase of intangible assets		(47.8)	(77.6)
(Purchase)/sale of current financial assets		(6.7)	130.1
Purchase of investments in associates and joint ventures		(2.5)	(2.5)
Interest received		9.2	10.4
Net cash used in investing activities		(203.8)	(187.9)
Cash flows from financing activities			
Interest paid ²		(219.3)	(224.2)
Repayment of borrowings		-	-
Issuance of Medium Term Notes		300.0	250.0
Redemption of Medium Term Notes		(136.4)	(400.0)
Repayment of lease liabilities		(184.3)	(201.4)
Payment of liability to the Marks & Spencer UK Pension Scheme		(17.2)	(63.5)
Equity dividends paid	8	-	(193.8)
Purchase of Marks and Spencer Group plc shares by employee trust		(0.8)	(8.9)
Cash received from settlement of derivatives		14.0	7.7
Movement in parent company and fellow subsidiaries of the parent company loans		11.2	(0.6)
Net cash used in financing activities		(232.8)	(834.7)
Net cash inflow/(outflow) from activities		434.3	(68.8)
Effects of exchange rate changes		(3.3)	0.5
Opening net cash		238.7	307.0
Closing net cash	26	669.7	238.7

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

² Includes interest paid on the partnership liability to the Marks & Spencer UK Pension Scheme of £6.4m (last year: £8.4m) and interest paid on lease liabilities of £132.3m (last year: £134.3m).

Marks and Spencer plc

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

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

The financial statements have been prepared on a going concern basis. In adopting the going concern basis, the directors have considered the business activities as set out on pages 1 to 14, the financial position of the Group, its cash flows, liquidity position and borrowing facilities as set out in the Financial Review on pages 7 to 14, the Group's financial risk management objectives and exposures to liquidity and other financial risks as set out in note 20 and the principal risks and uncertainties as set out on pages 15 and 20.

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

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

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

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

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

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

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

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

Furthermore, 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 downside scenario.

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

Marks and Spencer plc

Prior year restatements

Change in accounting policy

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

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

Change in classification of amounts owed by parent company

Amounts owed by parent company have previously been presented within current assets as these amounts are repayable on demand. However, there was no expectation that these amounts would be repaid within 12 months, being the Group's normal operating cycle, and therefore did not meet the criteria to be classified as current assets. The impact on the 28 March 2020 balance sheet is an increase to non-current assets of £2,543.4m (2019: £2,548.5m) and an equal decrease to current assets. There is no impact on the income statement or net assets.

New accounting standards adopted by the Group

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

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

The Group also elected to adopt the following amendment early:

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

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

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

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

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

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

New accounting standards in issue but not yet effective

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

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

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

Alternative performance measures

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

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

The key APMs that the Group uses include: like-for-like revenue growth; operating profit before adjusting items; profit before tax and adjusting items; net debt; net debt excluding lease liabilities; and free cash flow. 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.

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

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

- Net charges associated with the strategic programme in relation to the review of the UK store estate.
- Significant restructuring costs and other associated costs arising from strategy changes that are not considered by the Group to be part of the normal operating costs of the business.
- Impairment charges and provisions that are considered to be significant in nature and/or value to the trading performance of the business.
- Charges and reversals of previous impairments arising from the write-off of assets and other property charges that are considered to be significant in nature and/or value.
- Adjustments to income from M&S Bank due to a provision recognised by M&S Bank for the cost of providing redress to customers in respect of possible mis-selling of M&S Bank financial products.
- Significant non-cash charges relating to the Group's defined benefit scheme arising from equalisation of guaranteed minimum pensions (GMP) and other pension equalisation.
- Significant costs arising from establishing the investment in Ocado Retail Limited by the Ultimate Parent Group.
- Directly attributable gains and expenses resulting from the Covid-19 pandemic.
- Transition costs associated with the Sparks loyalty programme¹.

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

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

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

Accounting convention

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

Basis of consolidation

The Group financial statements incorporate the financial statements of Marks and Spencer 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

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of goods is transferred to the buyer. Online sales are recognised when items are delivered, as this is when the performance obligation is deemed to have been satisfied.

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

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

Supplier income

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

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

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

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

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

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

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

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

B. Trade and other receivables Supplier income that has been earned but not invoiced at the balance sheet date is recognised in trade and other receivables and primarily relates to volume-based rebates that run up to the period end. In order to provide users of the accounts with greater understanding in this area, additional balance sheet disclosure is provided in note 17 to the financial statements.

M&S Bank

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

Dividends

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

Government grants

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

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

Government grant income is disclosed in note 28.

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.

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

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

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

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

For further details on pension schemes and the partnership liability to the Marks & Spencer UK Pension scheme, see notes 10 and 11.

Intangible assets

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

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

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

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

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

Property, plant and equipment

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

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

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

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

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

Leasing

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

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

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

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

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

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

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

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

Cash and cash equivalents

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

Inventories

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

Provisions

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

Share-based payments

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

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

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.

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

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average probability in other circumstances. The position is reviewed on an ongoing basis, to ensure appropriate provision is made for each known tax risk.

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

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

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

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

Financial instruments

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

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

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

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

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

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

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

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

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

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

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

Derivative financial instruments and hedging activities

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

The Group designates certain hedging derivatives as either:

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

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

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

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

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

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

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

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

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

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

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

Reserves

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

- A. Share premium account Proceeds received in excess of the nominal value of shares issued, net of any transaction costs.
- B. Capital redemption reserve Amounts transferred from share capital on redemption or repurchase of issued shares.

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

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

UK defined benefit pension surplus

Where a surplus on a defined benefit scheme arises, the rights of the Trustees to prevent the Group obtaining a refund of that surplus in the future are considered in determining whether it is necessary to restrict the amount of the surplus that is recognised. The UK defined benefit scheme is in surplus at 3 April 2021. The directors have made the judgement that these amounts meet the requirements of recoverability on the basis that paragraph 11(b) of IFRIC 14 applies, enabling a refund of surplus assuming the gradual settlement of the scheme liabilities over time until all members have left the scheme, and a surplus of £639.2m has been recognised.

Determining the lease term

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

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

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

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

Determining whether forecast purchases are highly probable

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

The Group has applied judgement in assessing whether forecast purchases are "highly probable". In making this assessment, the Group has considered the most recent budgets and plans. The Group's policy is a "layered" hedging strategy where only a

small fraction of the forecast purchase requirements are initially hedged, approximately 15 months prior to a season, with incremental hedges layered on over time as the buying period for that season approaches and therefore as certainty increases over the forecast purchases. As a result of this progressive strategy, a reduction in the supply pipeline of inventory does not immediately lead to over-hedging and the disqualification of "highly probable". If the forecast transactions were no longer expected to occur, any accumulated gain or loss on the hedging instruments would be immediately reclassified to profit or loss. Last year, a £2.9m gain was recognised in the income statement as a result of US\$76.6m notional forecast purchases no longer being expected to occur. There was no such occurrence in the current year.

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

Key sources of estimation uncertainty

UK store estate programme

The Group is undertaking a significant strategic programme to review its UK store estate resulting in a net charge of £95.3m (last year: £29.3m) in the year. A significant level of estimation has been used to determine the charges to be recognised in the year. The most significant judgement that impacts the charge is that the stores identified as part of the programme are more likely than not to close. Further significant closure costs and impairment charges may be recorded in future years depending on decisions made about further store closures and the successful delivery of the transformation programme.

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

- Reassessment of the useful lives of store fixed assets and closure dates.
- Estimation in respect of the expected shorter-term trading value in use, including assumptions with regard to the period of trading as well as changes to future sales, gross margin and operating costs.
- Estimation of the sale proceeds for freehold stores which is dependent upon location-specific factors, timing of likely exit and future changes to the UK retail property market valuations.
- Estimation of the value of dilapidation payments required for leasehold store exits, which is dependent on a number of factors including the extent of modifications of the store, the terms of the lease agreement, and the condition of the property.

The assumptions most likely to have a material impact are closure dates and changes to future sales. See notes 5 and 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 the 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 in relation to the cash flow projections over the three-year strategic plan period (which is a key source of estimation uncertainty), the long-term growth rate to be applied beyond this three-year period and the risk-adjusted pre-tax discount rate used to discount the assumed cash flows to present value. See notes 13 and 14 for further details on the Group's assumptions and associated sensitivities.

The assumption that cash flows continue into perpetuity (with the exception of stores identified as part of the UK store estate programme) is a source of significant estimation uncertainty. A future change to the assumption of trading into perpetuity for any Cash-Generating Unit (CGU) would result in a reassessment of useful economic lives and residual value and could give rise to a significant impairment of property, plant and equipment and intangibles, particularly where the store carrying value exceeds fair value less cost to sell. Due to the nature of the Group's property, plant and equipment, it is not practicable to provide a meaningful sensitivity analysis for this source of estimation uncertainty.

Inventory provisioning

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

Post-retirement benefits

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

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2 Segmental Information

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

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

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

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

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

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

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

	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
Revenue before adjusting items ¹	2,239.0	6,138.5	789.4	-	9,166.9	3,209.1	6,028.2	944.6	-	10,181.9
Operating (loss)/profit before adjusting items ²	(130.8)	228.6	44.1	1.9	143.8	223.6	236.4	110.7	16.8	587.5
Finance income before adjusting items					57.4					44.0
Finance costs before adjusting items					(229.3)					(231.6)
(Loss)/profit before tax and adjusting items	(130.8)	228.6	44.1	1.9	(28.1)	223.6	236.4	110.7	16.8	399.9
Adjusting items					(238.7)					(339.7)
(Loss)/profit before tax	(130.8)	228.6	44.1	1.9	(266.8)	223.6	236.4	110.7	16.8	60.2

¹ Revenue is stated prior to adjusting items of £11.2m (see note 5).

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

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Other segmental information

	UK Clothing & Home £m	UK Food £m	International £m	All other segments £m	Group £m	UK Clothing & Home £m	UK Food £m	International £m	All other segments £m	Group £m
Additions to property, plant and equipment, and intangible assets (excluding goodwill and right-of-use assets)	50.5	105.0	6.8	-	162.3	166.5	170.1	15.7	-	352.3
Depreciation and amortisation ^{1,2}	(312.3)	(259.4)	(25.1)	-	(596.8)	(350.6)	(283.4)	(34.6)	-	(668.6)
Impairment charges, impairment reversals and asset write-offs ¹	(155.1)	(34.9)	(4.7)	-	(194.7)	(69.9)	(45.3)	(10.3)	-	(125.5)

¹ These costs are allocated to a reportable segment where they are directly attributable. Where costs are not directly attributable, a proportional allocation is made to each segment based on an appropriate cost driver.

² Includes £0.3m (last year: £nil) depreciation charged on the investment property.

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

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3 Expense analysis

	2021 Total £m	2020 Total £m
Revenue	9,155.7	10,181.9
Cost of sales	(6,244.1)	(6,746.5)
Gross profit	2,911.6	3,435.4
Selling and administrative expenses	(3,018.9)	(3,225.8)
Other operating income	12.4	35.3
Operating (loss)/profit	(94.9)	244.9

The figures above include revenue adjusting item charges of £11.2m (last year: £nil) and operating profit adjusting item charges of £227.5m (last year: £342.6m), totalling £238.7m (last year: £342.6m) of adjusting item charges within operating (loss)/profit.

The £238.7m (last year: £342.6m) adjusting items charges for the year (see note 5) are further analysed against the categories of revenue (£11.2m; last year: £nil), cost of sales (£86.3m gain; last year: £157.0m charge), selling and administrative expenses (£313.8m; last year: £188.8m) and other operating income (£nil; last year: £3.2m).

The selling and administrative expenses are further analysed below:

	2021 Total £m	2020 Total £m
Employee costs ^{1,2}	1,339.1	1,434.3
Occupancy costs	223.9	352.5
Repairs, renewals and maintenance of property	95.8	81.0
Depreciation, amortisation and asset impairments and write-offs ³	791.7	772.4
Other costs	568.4	585.6
Selling and administrative expenses	3,018.9	3,225.8

¹ There are an additional £68.8m (last year: £53.1m) employee costs recorded within cost of sales. These costs are included within the aggregate remuneration disclosures in note 9A.

² Includes furlough income (see note 28).

³ Includes £0.3m (last year: £nil) depreciation charged on the investment property.

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

4 (Loss)/profit before taxation

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

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

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

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

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

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5 Adjusting items

The total adjusting items reported for the 53-week period ended 3 April 2021 is a net charge of £238.7m (last year: £339.7m). The adjustments made to reported (loss)/profit before tax to arrive at adjusted (loss)/profit are:

	Notes	2021 £m	2020 £m
Included in revenue			
Sparks loyalty programme transition		(11.2)	-
		(11.2)	-
Included in operating (loss)/profit			
Strategic programmes - Organisation	14, 21	(133.7)	(13.8)
Strategic programmes - UK store estate ¹	14, 21	(95.3)	(29.3)
Strategic programmes - International store closures and impairments	21	(3.6)	(2.2)
Strategic programmes - UK logistics	14, 21	(2.2)	(10.2)
Strategic programmes - Operational transformation		-	(11.6)
Strategic programmes - Changes to pay and pensions	21	-	(2.9)
Strategic programmes - IT restructure	21	-	(0.4)
Directly attributable gains/(expenses) resulting from the Covid-19 pandemic ¹		90.8	(166.5)
Intangible asset impairments	13	(79.9)	(13.4)
Store impairments, impairment reversals and other property charges ¹	14, 21	6.9	(78.5)
Sparks loyalty programme transition		(5.4)	-
M&S Bank charges incurred in relation to insurance mis-selling and Covid-19 forward economic guidance provision		(2.4)	(12.6)
Establishing the investment in Ocado Retail Limited by the Ultimate Parent Group		(1.7)	(1.2)
GMP and other pension equalisation	10	(1.0)	-
		(227.5)	(342.6)
Included in net finance costs			
Directly attributable gains/(expenses) resulting from the Covid-19 pandemic ^{1, 2}		-	2.9
		-	2.9
Adjustments to (loss)/profit before tax		(238.7)	(339.7)

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

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

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

Strategic programmes – Organisation (£133.7m)

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

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

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

Strategic programmes - UK store estate (£95.3m)

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

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

The Group has recognised a charge of £95.3m in the year in relation to those stores identified as part of the revised transformation plans. The charge primarily reflects a revised view of latest store exit routes and assumptions underlying estimated store closure costs in response to the unanticipated acceleration in channel shift experienced as a result of the pandemic. The charge primarily relates to impairment of buildings and fixtures and fittings, and depreciation as a result of shortening the useful economic life of stores based on the latest approved exit routes. Refer to notes 14 and 21 for further detail on these charges.

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

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

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

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

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

Strategic programmes – UK logistics (£2.2m)

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

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

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

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

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

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

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of the amounts required, the release or reassessment of any amounts previously provided would also be treated as adjusting items.

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

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

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

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

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

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

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

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

The impact that Covid-19 has had on underlying trading continues not to be recognised within adjusting items. The Group has provided additional disclosure of the significant impacts of Covid-19 on the underlying results on page 10.

Within this, the Group has received support from the government during the period in the form of Business Rates relief of £174.6m and the Coronavirus Job Retention Scheme of £131.5m. Further details of which are provided in note 28 – government support.

Intangible asset impairments (£79.9m)

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

A further impairment charge of £39.6m has been recorded against per una goodwill. The charge primarily reflects an updated view of assumptions and cash flows to reflect the impact of the new broader Brands strategy and a longer Covid-19 recovery period. Refer to note 13 for further details on the impairment charge related to per una goodwill.

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

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

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

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

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

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

In response to the ongoing pressures impacting the retail industry in light of the ongoing Covid-19 pandemic, as well as reflecting the Group's strategic focus towards growing online market share, the Group has revised future cash flow projections for UK and International stores (excluding those stores that have been captured as part of the UK store estate programme). As a result, store impairment testing has identified stores where the current and anticipated future performance does not support the carrying value of the stores. A charge of £66.4m has been incurred primarily in respect of the impairment of assets associated with these stores. In addition, a credit of £73.3m has been incurred for the reversal of store impairments recognised in previous periods, where revised future cash flow projections more than support the carrying value of the stores, reflecting improved trading expectations compared to those assumed at the prior year end. Refer to note 14 for further details on the impairments.

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

Sparks loyalty programme transition (£16.6m)

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

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

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

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

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

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

Establishing the investment in Ocado Retail Limited by the Ultimate Parent Group (£1.7m)

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

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

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

GMP and other pension equalisation (£1.0m)

The Group has recognised a charge of £1.0m in respect of the Group's defined benefit pension liability arising from equalisation of GMP for past transfers following a High Court ruling in November 2020. Additional detail on the Group's GMP assessment is provided in note 10.

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

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6 Finance income/(costs)

	2021 £m	2020 £m
Bank and other interest receivable	2.9	8.6
Other finance income	1.8	5.9
Pension net finance income (see note 10F)	47.2	23.6
Interest income on subleases	5.5	5.9
Finance income before adjusting items	57.4	44.0
Finance income in adjusting items	-	2.9
Finance income	57.4	46.9
Other finance costs	(0.6)	-
Interest payable on syndicated bank facility	(3.9)	(2.3)
Interest payable on Medium Term Notes	(86.4)	(78.2)
Interest payable on commercial paper facility	(0.4)	-
Interest payable on lease liabilities	(130.4)	(139.3)
Unwind of discount on provisions	(2.7)	(4.9)
Unwind of discount on partnership liability to the Marks & Spencer UK Pension Scheme (see note 11)	(4.9)	(6.9)
Finance costs before adjusting items	(229.3)	(231.6)
Finance costs in adjusting items	-	-
Finance costs	(229.3)	(231.6)
Net finance costs	(171.9)	(184.7)

7 Income tax (credit)/expense

A. Taxation charge

	2021 £m	2020 £m
Current tax		
UK corporation tax on profits for the year at 19% (last year: 19%)		
- current year	5.0	43.3
- adjustments in respect of prior years	(12.1)	(4.1)
UK current tax	(7.1)	39.2
Overseas current taxation		
- current year	0.2	8.8
- adjustments in respect of prior years	(0.2)	(0.1)
Total current taxation	(7.1)	47.9
Deferred tax		
- origination and reversal of temporary differences	6.7	(4.3)
- adjustments in respect of prior years	(5.9)	(4.1)
- changes in tax rate	(0.6)	(3.4)
Total deferred tax (see note 22)	0.2	(11.8)
Total income tax (credit)/expense	(6.9)	36.1

B. Taxation reconciliation

The effective tax rate was 2.6% (last year: 60.0%) and is explained below.

	2021 £m	2020 £m
(Loss)/profit before tax	(266.8)	60.2
Notional taxation at standard UK corporation tax rate of 19% (last year: 19%)	(50.7)	11.4
Depreciation and other amounts in relation to fixed assets that do not qualify for tax relief	5.2	4.8
Other income and expenses that are not taxable or allowable for tax purposes	8.6	17.4
Joint venture results accounted for as profit after tax	0.3	-
Retranslation of deferred tax balances due to the change in statutory UK tax rates	-	(6.6)
Overseas profits taxed at rates different to those of the UK	0.7	(0.6)
Movement in unrecognised overseas deferred tax assets	0.9	0.8
Adjustments to the current and deferred tax charges in respect of prior periods	(18.2)	(8.3)
Capital losses no longer recognised	25.8	-
Adjusting items:		
- UK store and strategic programme impairments and other property charges where no tax relief is available	8.5	11.5
- International store closures and impairments	(1.0)	0.7
- Other strategic programme income and expenses that are not taxable or allowable for tax purposes	13.0	5.0
Total income tax (credit)/expense	(6.9)	36.1

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The effective tax rate of (loss)/profit before tax and adjusting items was 90.0% (last year: 20.9%).

Other income and expenses that are not taxable or allowable for tax purposes include a charge of £4.1m (last year: £12.8m charge) in relation to the Marks and Spencer Scottish Limited Partnership. Under this structure tax relief for payments to be made to the Marks & Spencer UK Pension Scheme in relation to the first partnership interest arose in the first 10 years of the structure and some of this benefit is recaptured in subsequent years.

Capital losses no longer recognised relate to a restriction on deferred tax assets recognised following changes to the UK tax legislation. Please refer to note 22.

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

C. Current tax reconciliation

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

	2021	2020
	£m	£m
(Loss)/profit before tax	(266.8)	60.2
Notional taxation at standard UK corporation tax rate of 19% (last year: 19%)	(50.7)	11.4
Disallowable accounting depreciation and other similar items	75.1	52.5
Deductible capital allowances	(50.0)	(56.8)
Adjustments in relation to employee share schemes	1.9	2.3
Adjustments in relation to employee pension schemes	(4.7)	8.2
Overseas profits taxed at rates different to those of the UK	0.7	(0.6)
Movement in unrecognised overseas deferred tax	0.9	0.8
Joint venture results accounted for as profit after tax	0.3	-
Current year losses carried forward	11.3	-
Other income and expenses that are not taxable or allowable	(0.1)	5.2
Adjusting items:		
- UK store and strategic programme impairments and other property charges where no tax relief is available	8.5	21.0
- International store closures and impairments	(1.0)	0.5
- Other strategic programme income and expenses that are not taxable or allowable for tax purposes	5.5	7.6
- Impairment to per una goodwill	7.5	-
Current year current tax charge	5.2	52.1
Represented by:		
UK current year current tax	5.0	43.3
Overseas current year current tax	0.2	8.8
	5.2	52.1
UK adjustments in respect of prior years	(12.1)	(4.1)
Overseas adjustments in respect of prior years	(0.2)	(0.1)
Total current taxation (note 7A)	(7.1)	47.9

8 Dividends

	2021	2020	2021	2020
	per share	per share	£m	£m
Dividends on equity ordinary shares				
Paid final dividend	-	4.1p	-	116.8
Paid interim dividend	-	2.7p	-	77.0
	-	6.8p	-	193.8

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

In June 2021, a dividend of £16.8m was paid as part of an intra-group funding arrangement.

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9 Employees

A. Aggregate remuneration

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

	2021 Total £m	2020 Total £m
Wages and salaries	1,210.3	1,263.7
Social security costs	99.5	80.0
Pension costs	71.3	72.9
Share-based payments (see note 12)	19.3	18.5
Employee welfare and other personnel costs	43.7	51.8
Capitalised staffing costs	(6.4)	(22.5)
Total aggregate remuneration¹	1,437.7	1,464.4

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

Details of key management compensation are given in note 27.

B. Average monthly number of employees

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

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

	2021 £'000	2020 £'000
Highest paid director	1,949.5	1,205.0
Aggregate emoluments of all other directors	1,688.4	975.5

One director (last year: one) accrued retirement benefits under a defined benefit scheme.

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

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

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10 Retirement benefits

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

The UK DB Pension Scheme operated on a final pensionable salary basis and is governed by a Trustee board which is independent of the Group. The UK DB Pension Scheme closed to future accrual on 1 April 2017. There will be no further service charges relating to the scheme and no future monthly employer contributions for current service. At year end, the UK DB Pension Scheme had no active members (last year: nil), 53,674 deferred members (last year: 55,887) and 52,794 pensioners (last year: 52,165).

The DC plan is a pension plan under which the Group pays contributions to an independently administered fund. Such contributions are based upon a fixed percentage of employees' pay. The Group has no legal or constructive obligations to pay further contributions to the fund once the contributions have been paid. Members' benefits are determined by the amount of contributions paid by the Group and the member, together with the investment returns earned on the contributions arising from the performance of each individual's investments and how each member chooses to receive their retirement benefits. As a result, actuarial risk (that benefits will be lower than expected) and investment risk (that assets invested in will not perform in line with expectations) fall on the employee. At the year end, the defined contribution arrangement had some 46,191 active members (last year: 52,059) and some 40,604 deferred members (last year: 33,578).

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

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

The most recent actuarial valuation of the UK DB Pension Scheme was carried out as at 31 March 2018 and showed a funding surplus of £652m. This is an improvement on the previous position at 31 March 2015 (statutory surplus of £204m), primarily due to lower assumed life expectancy. The Company and Trustee have confirmed, in line with the current funding arrangement, that no further contributions will be required to fund past service as a result of this valuation (other than those already contractually committed under the existing Marks and Spencer Scottish Limited Partnership arrangements – see note 11). We have yet to reach agreement with the Trustee of the UK DB Pension Scheme with regards to the triennial actuarial valuation of the scheme as at 31 March 2021.

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

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

A. Pensions and other post-retirement liabilities

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

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

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B. Financial assumptions

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

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

C. Demographic assumptions

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

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

D. Sensitivity analysis

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

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

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

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

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 bond (including corporate bonds and gilts) and derivative instruments (including inflation, interest rate, cross-currency and total return swaps) in order to align movements in the value of its assets with movements in its liabilities arising from changes in market conditions. Broadly, the scheme has hedging that covers 105% of interest rate movements and 102% of inflation movements, as measured on the Trustee's funding assumptions which use a discount rate derived from gilt yields.

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

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

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

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

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

	Quoted £m	Unquoted £m	2021 Total £m	Quoted £m	Unquoted £m	2020 Total £m
Debt investments						
- Government bonds net of repurchase agreements ¹	3,945.2	(1,443.5)	2,501.7	3,596.8	352.0	3,948.8
- Corporate bonds	6.4	1,036.6	1,043.0	6.2	728.3	734.5
- Asset backed securities and structured debt	-	256.1	256.1	-	264.4	264.4
Scottish Limited Partnership Interest (see note 11)	-	142.5	142.5	-	211.2	211.2
Equity investments						
- Developed markets	450.9	-	450.9	338.7	56.6	395.3
- Emerging markets	131.1	-	131.1	90.3	-	90.3
Growth asset funds						
- Global property	5.4	276.8	282.2	5.8	291.4	297.2
- Hedge and reinsurance	43.8	299.0	342.8	32.6	385.1	417.7
- Private equity and infrastructure	-	224.1	224.1	-	175.4	175.4
Derivatives						
- Interest and inflation rate swaps	18.4	298.6	317.0	19.9	253.7	273.6
- Foreign exchange contracts and other derivatives	93.2	4.5	97.7	(0.4)	162.4	162.0
Cash and cash equivalents	13.6	148.9	162.5	108.1	181.8	289.9
Other						
- Buy-in insurance	-	3,177.0	3,177.0	-	2,430.0	2,430.0
- Secure income asset funds	-	1,064.4	1,064.4	-	934.6	934.6
- Other	38.7	211.2	249.9	28.8	0.1	28.9
	4,746.7	5,696.2	10,442.9	4,226.8	6,427.0	10,653.8

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

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

At year end, the UK schemes (UK DB Pension Scheme and post-retirement healthcare) indirectly held 75,223 (last year: 63,527) ordinary shares in 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:

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

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

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G. Scheme assets

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

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

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

H. Pensions and other post-retirement liabilities

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

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

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

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

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

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

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12 Share-based payments

This year, a charge of £19.3m was recognised for share-based payments (last year: charge of £18.5m). Of the total share-based payments charge, £9.2m (last year: £7.6m) relates to the Save As You Earn share option scheme and a charge of £1.7m (last year: £4.9m) relates to the Performance Share Plan. The remaining charge of £8.4m (last year: £6.0m) is spread over the other share plans. Further details of the operation of the Group share plans are provided in the Remuneration Report of the Marks and Spencer Group plc Annual Report 2021 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 the Company once in each financial year to those employees who enter into Her Majesty's Revenue & Customs (HMRC) approved SAYE savings contract. The scheme allows participants to save up to a maximum of £500 (last year: £250) each month. The price at which options may be offered is 80% of the average mid-market price for three consecutive dealing days preceding the offer date. The options may normally be exercised during the six-month period after the completion of the SAYE contract.

	2021		2020	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of the year	53,139,941	190.7p	38,023,501	267.9p
Granted	101,466,321	82.0p	34,087,655	237.6p
Exercised	(556)	151.0p	(49,610)	250.2p
Forfeited	(23,811,474)	155.7p	(15,727,568)	237.9p
Expired	(11,642,826)	248.7p	(3,194,037)	380.2p
Outstanding at end of year	119,151,406	99.4p	53,139,941	190.7p
Exercisable at end of year	7,211,376	212.5p	11,272,515	249.6p

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

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

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

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

Volatility has been estimated by taking the historical volatility in the 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	2021	2020	2021	2020	Option price
January 2016	-	3,720	-	-	416p
January 2017	9,202	11,344,003	-	0.3	250p
January 2018	4,112,855	5,557,053	0.3	1.3	251p
January 2019	3,405,862	4,910,783	1.3	2.3	238p
February 2020	12,331,683	31,324,382	2.3	3.3	151p
February 2021	99,291,804	-	3.3	-	82p
	119,151,406	53,139,941	3.1	2.4	99p

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

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B. Performance Share Plan*

The Performance Share Plan (PSP) is the primary long-term incentive plan for approximately 170 of the most senior managers within the Group. It was first approved by shareholders at the 2005 AGM and again at the 2020 AGM. Under the plan, annual awards, based on a percentage of salary, may be offered. The extent to which an award vests is measured over a three-year period against financial targets which for 2020/21 included earnings per share (EPS), return on capital employed (ROCE), total shareholder return (TSR) and strategic measures 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. Awards under this plan have been made in each year since 2005. More information is available in relation to this plan within the Remuneration Report of the Marks and Spencer Group plc Annual Report 2021 which does not form part of this report.

During the year, 19,777,921 shares (last year: 12,924,621) were awarded under the plan. The weighted average fair value of the shares awarded was 101.4p (last year: 161.0p). As at 3 April 2021, 33,878,325 shares (last year: 20,502,705) were outstanding under the plan.

C. Deferred Share Bonus Plan*

The Deferred Share Bonus Plan (DSBP) was first introduced in 2005/06 as part of the Annual Bonus Scheme and was approved by shareholders at the 2020 AGM. It may be operated for approximately 4,000 of the most senior managers within the Group. As part of the plan, the managers are required to defer a proportion of any bonus paid into shares which will be held for three years. There are no further performance conditions on these shares, other than continued employment within the Group and the value of any dividends earned on the vested shares during the deferred period may also be paid on vesting. More information is available in relation to this plan within the Remuneration Report of the Marks and Spencer Group plc Annual Report 2021 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 3 April 2021, 422,672 shares (last year: 1,359,166) were outstanding under the plan.

D. Restricted Share Plan*

The Restricted Share Plan (RSP) was established in 2000 as part of the reward strategy for retention and recruitment of senior managers who are vital to the success of the business and was approved by shareholders at the 2020 AGM. The plan operates for the senior management team. Awards vest at the end of the restricted period (typically between one and three years) subject to the participant still being in employment of the Company on the relevant vesting date. The value of any dividends earned on the vested shares during the restricted period may also be paid on vesting. More information is available in relation to this plan within the Remuneration Report of the Marks and Spencer Group plc Annual Report 2021 which does not form part of this report.

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

E. Republic of Ireland Save As You Earn scheme

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

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

F. Marks and Spencer Employee Benefit Trust

The Marks and Spencer Employee Benefit Trust (the "Trust") holds 527,116 (last year: 1,557,996) shares with a book value of £0.1m (last year: £3.4m) and a market value of £0.8m (last year: £1.5m). These shares were acquired by the Trust through a combination of market purchases and new issues and are recognised as other financial assets (see note 15). 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 30 March 2019					
Cost	136.5	112.3	1,402.2	74.6	1,725.6
Accumulated amortisation and impairments	(59.0)	(109.5)	(1,025.1)	(32.1)	(1,225.7)
Net book value	77.5	2.8	377.1	42.5	499.9
Year ended 28 March 2020					
Opening net book value	77.5	2.8	377.1	42.5	499.9
Additions	-	-	1.1	76.5	77.6
Transfers and reclassifications	-	-	91.8	(91.4)	0.4
Asset impairments	(13.4)	-	-	-	(13.4)
Asset write-offs	-	-	(0.5)	-	(0.5)
Amortisation charge	-	(2.8)	(162.0)	-	(164.8)
Exchange difference	(0.1)	-	-	-	(0.1)
Closing net book value	64.0	-	307.5	27.6	399.1
At 28 March 2020					
Cost	136.4	112.3	1,495.1	59.7	1,803.5
Accumulated amortisation, impairments and write-offs	(72.4)	(112.3)	(1,187.6)	(32.1)	(1,404.4)
Net book value	64.0	-	307.5	27.6	399.1
Year ended 3 April 2021					
Opening net book value	64.0	-	307.5	27.6	399.1
Additions	-	6.3	0.1	41.4	47.8
Transfers and reclassifications	-	-	44.7	(44.2)	0.5
Asset impairments ¹	(39.6)	-	(40.0)	-	(79.6)
Asset write-offs	-	-	(3.2)	-	(3.2)
Amortisation charge	-	(0.2)	(131.4)	-	(131.6)
Exchange difference	(0.7)	-	(0.3)	-	(1.0)
Closing net book value	23.7	6.1	177.4	24.8	232.0
At 3 April 2021					
Cost	135.7	118.6	1,539.6	56.9	1,850.8
Accumulated amortisation, impairments and write-offs	(112.0)	(112.5)	(1,362.2)	(32.1)	(1,618.8)
Net book value	23.7	6.1	177.4	24.8	232.0

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

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

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

Goodwill impairment testing

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

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

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

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

The cash flows used for impairment testing are based on the Group's latest budget and forecast cash flows, covering a three-year period, which have regard to historical performance and knowledge of the current market, together with the Group's views

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on the future achievable growth and the impact of committed cash flows. The cash flows include ongoing capital expenditure required to maintain the store network, but exclude any growth capital initiatives not committed.

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

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

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

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

per una

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

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

In the medium to long-term, the key assumption driving the value in use is the ability to generate profitable growth in the context of significant change in the UK retail market. The model assumes 0.5% (last year: 0.7%) growth into perpetuity, which is the per una sales growth assumed in year 3 of the plan. If a shorter trading period was assumed then this could result in a further impairment.

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

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

Computer software impairment testing

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

Jaeger

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

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14 Property, plant and equipment

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

Property, plant and equipment - owned

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

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

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

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Right-of-use assets

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

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

Right-of-use assets			
	Land and buildings	Fixtures, fittings and equipment	Total
	£m	£m	£m
As at 30 March 2019	1,637.8	37.6	1,675.4
Additions	140.3	40.4	180.7
Transfers and reclassifications	0.2	(0.2)	-
Disposals	(18.9)	-	(18.9)
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
Additions	37.2	13.1	50.3
Transfers and reclassifications	0.3	-	0.3
Disposals	(5.5)	0.2	(5.3)
Impairment reversals	36.9	-	36.9
Impairment charge	(52.7)	-	(52.7)
Depreciation charge	(132.0)	(21.1)	(153.1)
Exchange difference	(10.6)	(0.1)	(10.7)
As at 3 April 2021	1,444.7	51.3	1,496.0

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

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

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

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

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

Impairments – UK stores excluding the UK store estate programme

During the year, the Group has recognised an impairment charge of £66.4m and impairment reversals of £64.5m as a result of UK store impairment testing unrelated to the UK store estate programme (last year: impairment charge of £69.3m). The impaired stores were impaired to their 'value in use' recoverable amount of £98.5m, which is their carrying value at year end. The stores with impairment reversals were written back to their 'value in use' recoverable amount of £223.0m. These impairments and impairment reversals have been recognised within adjusting items (see note 5).

For UK stores, cash flows beyond the three-year period are extrapolated using the Group's current view of achievable long-term growth of 1.75%, adjusted to 0% where management believes the current trading performance and future expectations of the store do not support the growth rate of 1.75%. The rate used to discount the forecast cash flows for UK stores is 8.9% (last year: 8.6%).

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

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Management has performed sensitivity analysis on the key assumptions in the impairment model using reasonably possible changes in these key assumptions across the UK store portfolio.

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

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

Impairments – UK store estate programme

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

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

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

A delay of 12 months in the probable date of each store exit would result in a decrease in the impairment charge of £24.7m. A 5% reduction in planned sales in years 2 and 3 (where relevant) would result in an increase in the impairment charge of £21.7m. Neither a 50 basis point increase in the discount rate, a 25 basis point reduction in management gross margin during the period of trading nor a 2% increase in the costs associated with exiting a store would result in a significant increase to the impairment charge, individually or in combination with the other reasonably possible scenarios considered.

Impairments – International stores

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

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

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

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

15 Other financial assets

	2021 £m	2020 (Restated) ¹ £m
Non-current		
Unlisted investments	9.7	9.7
Other investments ²	0.8	1.5
Amounts owed by parent company	2,541.8	2,543.4
	2,552.3	2,554.6
Current		
Short-term investments ³	18.4	11.7
Amounts owed by fellow subsidiaries of the parent company	-	10.5
	18.4	22.2

¹ See note 1 for details on a change in classification of amounts owed by parent company and the resulting restatement.

² Other investments represents shares in Marks and Spencer Group plc held for issue against employee schemes.

³ Includes £9.2m (last year: £5.8m) of money market deposits held by the Company in an escrow account.

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

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16 Trade and other receivables

	2021 £m	2020 £m
Non-current		
Trade receivables	0.1	0.2
Lease receivables - net	62.8	69.2
Other receivables	2.1	2.2
Prepayments	196.4	191.0
	261.4	262.6
Current		
Trade receivables	109.8	150.8
Less: provision for impairment of receivables	(3.7)	(4.0)
Trade receivables - net	106.1	146.8
Lease receivables - net	-	0.1
Other receivables	30.5	29.5
Prepayments	53.9	84.8
Accrued income	19.1	25.3
	209.6	286.5

The directors consider that the carrying amount of trade and other receivables approximates their fair value. The Group's assessment of any expected credit losses is included in note 20. Included in accrued income is £5.7m (last year: £17.4m) of accrued supplier income relating to rebates that have been earned but not yet invoiced. An immaterial amount of supplier income that has been invoiced but not yet settled against future trade creditor balances is included within trade creditors, where there is a right to offset. The impact on inventory is immaterial as these rebates relate to food stock which has been sold through by the year end.

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

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

17 Cash and cash equivalents

Cash and cash equivalents are £674.4m (last year: £254.2m (restated – see note 1)). The carrying amount of these assets approximates their fair value.

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

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18 Trade and other payables

	2021 £m	2020 (Restated) ¹ £m
Current		
Trade and other payables ¹	1,057.9	1,017.8
Social security and other taxes	46.8	64.4
Accruals	407.5	379.3
Deferred income	53.2	39.5
Amounts owed to fellow subsidiaries of the parent company	4.4	-
	1,569.8	1,501.0
Non-current		
Other payables	0.8	4.2
Deferred income	13.1	16.0
	13.9	20.2

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

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

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

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

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

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

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

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

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19 Borrowings and other financial liabilities

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

¹ These notes are issued under Marks and Spencer plc's £3bn Euro Medium Term Note programme and all pay interest annually.

² Interest on these bonds is payable semi-annually.

³ US\$300m Medium Term Note exposure swapped to sterling (fixed-to-fixed cross currency interest rate swaps).

⁴ In November 2020, a £300m 3.75% Medium Term Note was issued which matures in May 2026.

⁵ The Group occasionally enters into interest rate swaps to manage interest rate exposure. At year end, £nil (last year: £175m) was swapped from fixed to floating rate. Also includes £13.6m (last year: £1.2m) of fair value adjustment for terminated hedges to be amortised over the remaining debt maturity.

⁶ Revaluation consists of foreign exchange loss on revaluation of the 7.125% US\$300m Medium Term Notes 2037 of £24.2m (last year: £50.8m). Last year this also included a fair value hedge adjustment of £13.6m.

⁷ See note 1 for details on a change in accounting policy and the resulting restatement.

Leases

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

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

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

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

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

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

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

The following amounts were recognised in profit or loss:

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

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

(a) Liquidity & funding risk

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

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

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

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

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

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

The table below summarises the contractual maturity of the Group's non-derivative financial liabilities and derivatives, excluding trade and other payables and accruals. The carrying value of all trade and other payables and accruals of £1,466.2m (last year: £1,401.3m) is equal to their contractual undiscounted cash flows (see note 18) which are due within one year.

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	Bank loans and overdrafts £m	Medium Term Notes £m	Lease liabilities ³ £m	Partnership liability to the Marks & Spencer UK Pension Scheme (note 11) £m	Total borrowings and other financial liabilities £m	Cash inflow on derivatives ¹ £m	Cash outflow on derivatives ¹ £m	Total derivative assets and liabilities £m
Timing of cash flows								
Within one year	(15.5)	(71.9)	(340.2)	(71.9)	(499.5)	1,972.0	(1,898.0)	74.0
Between one and two years	-	(371.9)	(329.4)	(71.9)	(773.2)	183.5	(167.2)	16.3
Between two and five years	-	(451.6)	(834.2)	(71.9)	(1,357.7)	296.8	(238.4)	58.4
More than five years	-	(1,164.0)	(3,674.2)	-	(4,838.2)	235.3	(188.3)	47.0
	(15.5)	(2,059.4)	(5,178.0)	(215.7)	(7,468.6)	2,687.6	(2,491.9)	195.7
Effect of discounting	-	523.2	2,616.0	8.3	3,147.5			
At 28 March 2020 (restated) ²	(15.5)	(1,536.2)	(2,562.0)	(207.4)	(4,321.1)			
Timing of cash flows								
Within one year	(4.7)	(244.8)	(326.3)	(124.9)	(700.7)	2,082.2	(2,143.0)	(60.8)
Between one and two years	-	(74.8)	(289.1)	(71.9)	(435.8)	208.8	(210.2)	(1.4)
Between two and five years	-	(898.8)	(754.6)	-	(1,653.4)	46.5	(43.8)	2.7
More than five years	-	(987.7)	(3,293.2)	-	(4,280.9)	404.0	(368.6)	35.4
Total undiscounted cash flows	(4.7)	(2,206.1)	(4,663.2)	(196.8)	(7,070.8)	2,741.5	(2,765.6)	(24.1)
Effect of discounting	-	524.0	2,257.3	3.3	2,784.6			
At 3 April 2021	(4.7)	(1,682.1)	(2,405.9)	(193.5)	(4,286.2)			

¹ Cash inflows and outflows on derivative instruments that require gross settlement (such as cross currency swaps and forward foreign exchange contracts) are disclosed gross. Cash inflows and outflows on derivative instruments that settle on a net basis are disclosed net.

² See note 1 for details on a change in accounting policy and the resulting restatement.

³ Total undiscounted lease payments of £764.0m relating to the period post break clause, and the earliest contractual lease exit point, are included in lease liabilities. These undiscounted lease payments should be excluded when determining the Group's contractual indebtedness under these leases, where there is a contractual right to break.

(b) Counterparty risk

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

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

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.

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	Credit rating of counterparty								Total £m
	AAA £m	AA+ £m	AA £m	AA- £m	A+ £m	A £m	A- £m	BBB+ £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

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

¹ Includes cash on deposit and money market funds held by Marks and Spencer Scottish Limited Partnership, Marks and Spencer plc and Marks and Spencer General Insurance. Excludes cash in hand and in transit of £197.7m (last year: £144.8m).

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

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

The maximum exposure to credit risk at the balance sheet date was as follows: trade receivables £106.2m (last year: £147.0m), lease receivables £62.8m (last year: £69.3m), other receivables £32.6m (last year: £31.7m), cash and cash equivalents £674.4m (last year: £254.2m) and derivatives £33.1m (last year: £172.2m).

Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(c) Foreign currency risk

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

Group Treasury hedges these exposures principally using forward foreign exchange contracts progressively based on dynamic forecasts from the business. Hedging begins around 14 months ahead of the start of the season, with between 80% and 100% of the risk hedged eight months before the start of the season.

Other exposures arising from the export of goods to overseas subsidiaries are also hedged progressively over the course of the year before they are incurred. As at the balance sheet date, the gross notional value in sterling terms of forward foreign exchange sell or buy contracts amounted to £1,776.6m (last year: £1,872.9m) with a weighted average maturity date of six months (last year: six months).

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

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

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

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

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

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

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

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

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

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

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

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

(d) Interest rate risk

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

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

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

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

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

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

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

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

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

Derivative financial instruments

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

	28 March 2020					
	Current			Non-Current		
	Forward foreign exchange contracts	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	FVTPL	Fair value hedges	Cash flow hedges	Cash flow hedges	Fair value hedges
Notional / currency legs	1,699.3	157.0	-	193.5	173.6	175.0
Carrying amount assets	71.0	2.5	-	83.8	10.2	18.4
Carrying amount (liabilities)	(10.2)	(2.8)	-	-	(0.7)	-
Maturity date	to Feb 2021	to Oct 2020	-	Dec 2037	to Aug 2021	Jun 2025
Hedge ratio	100%	100%	-	100%	100%	100%
Description of hedged item	Highly probable transactional FX exposures	Inter-company loans/deposits	GBP fixed rate borrowing	USD fixed rate borrowing	Highly probable transactional FX exposures	GBP fixed rate borrowing
Change in fair value of hedging instrument	33.4	(0.6)	-	79.7	11.1	3.8
Change in fair value of hedged item used to determine hedge effectiveness	(30.5)	4.0	-	(79.7)	(11.1)	(3.8)
Weighted average hedge rate for the year	GBP/USD 1.3, GBP/EUR 1.15	N/A	-	7.5%	GBP/USD 1.32, GBP/EUR 1.15	3.3%
Amounts recognised within finance costs in profit and loss	2.9	3.4	-	5.9	-	-
Balance on cash flow hedge reserve at 28 March 2020	(37.3)	N/A	N/A	(40.1)	(9.8)	N/A
Balance on cost of hedging reserve at 28 March 2020	-	N/A	N/A	(7.1)	-	N/A

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

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

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

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

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

¹Cross-currency interest rate swaps

²Other comprehensive income

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

During the year, the Group closed out all interest rate swaps designating its GBP fixed debt to floating debt which were reported as fair value hedges (see note 19 for details of fair value adjustment). At 3 April 2021, the Group had a deferred fair value adjustment of £13.6m in borrowings relating to terminated fair value hedges. The ineffective portion recognised in profit or loss that arose from fair value hedges amounted to a nil gain or loss as the loss on the hedged items was £4.4m (last year: gain of £3.8m) and the gain on the hedging instruments was £4.4m (last year: loss of £3.8m).

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

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

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

Sensitivity analysis

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

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

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

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

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

Offsetting of financial assets and liabilities

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

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

	Gross financial assets/ (liabilities) £m	Gross financial (liabilities)/ assets set off £m	Net financial assets/ (liabilities) per statement of financial position £m	Related amounts not set off in the statement of financial position £m	Net £m
At 3 April 2021					
Trade and other receivables	16.5	(12.8)	3.7	-	3.7
Derivative financial assets	33.1	-	33.1	(33.1)	-
	49.6	(12.8)	36.8	(33.1)	3.7
Trade and other payables	(257.4)	12.8	(244.6)	-	(244.6)
Derivative financial liabilities	(106.7)	-	(106.7)	33.1	(73.6)
	(364.1)	12.8	(351.3)	33.1	(318.2)

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

Fair value hierarchy

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

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

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

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

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

¹ The Group holds £9.7m in unlisted equity securities measured at fair value through other comprehensive income (last year: £9.7m) (see note 15) which is a level 3 instrument. The fair value of this investment is determined with reference to the net asset value of the entity in which the investment is held, which in turn derives the majority of its net asset value through a third-party property valuation.

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

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

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

Fair value of financial instruments

With the exception of the Group's fixed rate bond debt and the Partnership liability to the Marks & Spencer UK Pension Scheme (note 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.

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

Capital policy

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

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

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

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21 Provisions

	Property £m	Restructuring £m	Other £m	2021 £m	2020 £m
At 28 March 2020	60.0	12.6	5.4	78.0	149.3
Provided in the year – charged to profit or loss	22.5	105.2	9.6	137.3	44.3
Provided in the year – charged property, plant and equipment	25.9	-	-	25.9	(16.9)
Released in the year	(29.8)	(7.6)	(0.1)	(37.5)	(69.1)
Utilised during the year	(4.6)	(81.6)	(0.3)	(86.5)	(35.1)
Exchange differences	-	(0.1)	-	(0.1)	0.6
Discount rate unwind	2.7	-	-	2.7	4.9
Reclassified to the pension liability	-	-	(2.5)	(2.5)	-
At 3 April 2021	76.7	28.5	12.1	117.3	78.0
Analysed as:					
Current				43.1	21.5
Non-current				74.2	56.5

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

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

Other provisions include amounts in respect of probable liabilities for employee-related matters with utilisation dependent on the timing of the relevant legal matters.

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

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%) for UK differences and local tax rates for overseas differences. Details of the changes to the UK corporation tax rate and the impact on the Group are described in note 7.

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

Deferred tax assets/(liabilities)	Land and buildings temporary differences £m	Capital allowances in excess of depreciation £m	Pension temporary differences £m	Other short-term temporary differences £m	Total UK deferred tax £m	Overseas deferred tax £m	Total £m
At 31 March 2019	(30.1)	(6.1)	(195.2)	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)
At 29 March 2020	(28.3)	(0.2)	(398.8)	95.2	(332.1)	(0.3)	(332.4)
Credited/(charged) to income statement	(22.0)	22.8	(7.6)	4.5	(2.3)	2.1	(0.2)
Credited/(charged) to equity/other comprehensive income	-	-	257.7	35.8	293.5	(3.2)	290.3
At 3 April 2021	(50.3)	22.6	(148.7)	135.5	(40.9)	(1.4)	(42.3)

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

The deferred tax liability on land and buildings temporary differences is reduced by the benefit of capital losses with a gross value of £228.0m (last year: £335.7m) and a tax value of £43.3m (last year: £63.8m). From 1 April 2020, the UK rules restricting the use of brought forward losses to 50% of profits or gains in excess of £5m per year were extended to include capital losses. The change in tax legislation has resulted in a restriction in the capital losses recognised by £135.8m (last year: £nil). It is not considered there are sufficient future taxable profits to recognise the carry forward loss which is considered an unrecognised deferred tax asset at the year end. Due to uncertainty over their future use, no benefit has been recognised in respect of trading losses carried forward in overseas jurisdictions with a gross value of £11.0m (last year: £9.5m) and a tax value of £3.0m (last year: £2.6m).

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

No deferred tax is recognised in respect of undistributed earnings of overseas subsidiaries and joint ventures with a gross value of £24.1m (last year: £27.0m) unless a material liability is expected to arise on distribution of these earnings under applicable tax legislation. There is a potential tax liability in respect of undistributed earnings of £2.3m (last year: £2.6m) however this has not been recognised by the Group, and it is probable that the temporary difference will not reverse in the foreseeable future.

23 Ordinary share capital

	Shares	2021 £m	Shares	2020 £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

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

B. Other material contracts

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

See note 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

	2021 £m	2020 £m
(Loss)/profit on ordinary activities after taxation	(259.9)	24.1
Income tax (credit)/expense	(6.9)	36.1
Finance costs	229.3	231.6
Finance income	(57.4)	(46.9)
Operating (loss)/profit	(94.9)	244.9
Decrease/(increase) in inventories	41.2	(29.3)
Decrease/(increase) in receivables	67.4	(9.2)
Increase/(decrease) in payables ¹	159.5	(29.3)
Depreciation, amortisation and write-offs	603.1	632.5
Non-cash share based payment expense	19.3	18.5
Defined benefit pension funding	(37.1)	(37.9)
Adjusting items net cash outflows ^{2,3}	(118.1)	(74.8)
Adjusting items M&S Bank ⁴	(2.4)	(12.6)
Adjusting operating profit items	238.7	342.6
Cash generated from operations	876.7	1,045.4

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

²Excludes £12.4m (last year: £11.3m) of surrender payments included within repayment of lease liabilities in the consolidated statement of cash flows relating to leases within the UK store estate programme.

³ Adjusting items net cash outflows relate to 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.

⁴Adjusting 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.

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26 Analysis of net debt

A. Reconciliation of movement in net debt

	At 31 March 2019 £m	Cash flow £m	Changes in fair values £m	Lease additions and remeasurements £m	Exchange and other non-cash movements ² £m	At 28 March 2020 £m
Net debt						
Bank loans, overdrafts and syndicated bank facility (see note 19) ¹	(3.5)	(12.0)	-	-	-	(15.5)
	(3.5)	(12.0)	-	-	-	(15.5)
Cash and cash equivalents (see note 17) ¹	310.5	(56.8)	-	-	0.5	254.2
Net cash per statement of cash flows	307.0	(68.8)	-	-	0.5	238.7
Current other financial assets (see note 15)¹	141.8	(129.5)	-	-	9.9	22.2
Medium Term Notes (see note 19)	(1,673.8)	230.1	-	-	(92.5)	(1,536.2)
Lease liabilities (see note 19)	(2,576.8)	335.7	-	(204.1)	(116.8)	(2,562.0)
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 11)	(266.2)	71.9	-	-	(8.4)	(202.7)
Derivatives held to hedge Medium Term Notes	23.9	(7.7)	86.0	-	-	102.2
Liabilities from financing activities	(4,492.9)	630.0	86.0	(204.1)	(217.7)	(4,198.7)
Less: Cashflows related to interest and derivative instruments	62.6	(215.1)	(86.0)	-	236.2	(2.3)
Net debt	(3,981.5)	216.6	-	(204.1)	28.9	(3,940.1)

	At 29 March 2020 £m	Cash flow £m	Changes in fair values £m	Lease additions and remeasurements £m	Exchange and other non-cash movements ² £m	At 3 April 2021 £m
Net debt						
Bank loans, overdrafts and syndicated bank facility (see note 19) ¹	(15.5)	10.8	-	-	-	(4.7)
	(15.5)	10.8	-	-	-	(4.7)
Cash and cash equivalents (see note 17) ¹	254.2	423.5	-	-	(3.3)	674.4
Net cash per statement of cash flows	238.7	434.3	-	-	(3.3)	669.7
Current other financial assets (see note 15)¹	22.2	6.7	-	-	(10.5)	18.4
Medium Term Notes (see note 19)	(1,536.2)	(87.9)	-	-	(58.0)	(1,682.1)
Lease liabilities (see note 19)	(2,562.0)	316.7	-	(48.3)	(112.3)	(2,405.9)
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 11)	(202.7)	23.6	-	-	(6.4)	(185.5)
Derivatives held to hedge Medium Term Notes	102.2	(14.0)	(96.3)	-	-	(8.1)
Liabilities from financing activities	(4,198.7)	238.4	(96.3)	(48.3)	(176.7)	(4,281.6)
Less: Cashflows related to interest and derivative instruments	(2.3)	(212.6)	96.3	-	196.2	77.6
Net debt	(3,940.1)	466.8	-	(48.3)	5.7	(3,515.9)

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B. Reconciliation of net debt to statement of financial position

	2021 £m	2020 £m
Statement of financial position and related notes		
Cash and cash equivalents (see note 17) ¹	674.4	254.2
Current other financial assets (see note 15) ¹	18.4	22.2
Bank loans and overdrafts (see note 19) ¹	(4.7)	(15.5)
Medium Term Notes – net of foreign exchange revaluation (see note 19)	(1,657.9)	(1,471.4)
Lease liabilities (see note 19)	(2,405.9)	(2,562.0)
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 11 and 20)	(193.5)	(207.4)
	(3,569.2)	(3,979.9)
Interest payable included within related borrowing and the partnership liability to the Marks & Spencer UK Pension Scheme	53.3	39.8
Total net debt	(3,515.9)	(3,940.1)

¹ See note 1 for details of changes in an accounting policy and the classification of receivables and the resulting restatements.

² Exchange and other non-cash movements includes interest charge on Medium Term Notes of £86.4m (last year: £78.2m), interest charge on lease liabilities of £130.4m (last year: £139.3m) and interest charge relating to Partnership liability to the Marks & Spencer UK Pension Scheme of £4.9m (last year: £6.9m).

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 Executive Committee.

	2021 £m	2020 £m
Salaries and short-term benefits	7.5	4.8
Share-based payments	3.2	1.7
Total	10.7	6.5

D. Other related party transactions

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

Sales and purchases of goods and services:

	2021 £m	2020 £m
Sales of goods and services	28.5	-
Purchases of goods and services	-	-

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

As at 3 April 2021, the Company owed £4.4m to fellow subsidiaries of its parent company (last year: was owed £10.5m).

E. Transactions with parent company

During the year, the Company paid dividends to its parent company, Marks and Spencer Group plc of £nil (last year: £193.8m) and has decreased its loan to its parent company by £1.6m (last year: decrease of £5.1m). The outstanding balance was £2,541.8m (last year: £2,543.4m) and was non-interest bearing.

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28 Government support

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

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

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

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

29 Subsequent events

As announced in March 2021, the Group has proposed future redevelopment plans for the Marble Arch store and surrounding site. To enable the redevelopment, the store's title was transferred from the Marks and Spencer Scottish Limited Partnership ("SLP") into the Company in June 2021. In accordance with the agreement with the Marks and Spencer Pension Scheme, it was agreed to transfer several properties from the Company into the SLP.

There is no impact on the Group as these transactions are entirely intra-group. The Company recognised a loss on disposal of £39.3m.

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Glossary

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

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

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

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose																																	
Income Statement Measures																																				
Like-for-like revenue growth	Movement in revenue per the income statement	Sales from non like-for-like stores	The period-on-period change in revenue (excluding VAT) from stores which have been trading and where there has been no significant change (greater than 10%) in footage for at least 52 weeks and online sales. The measure is used widely in the retail industry as an indicator of sales performance. It excludes the impact of new stores, closed stores or stores with significant footage change.																																	
			<table><tr><td></td><td>2020/21 £m</td><td>2019/20 £m</td></tr><tr><td colspan="3"><i>UK Food</i></td></tr><tr><td>Like-for-like</td><td>5,831.1</td><td>5,872.1</td></tr><tr><td>Net new space¹</td><td>163.7</td><td>156.1</td></tr><tr><td>Week 53</td><td>143.7</td><td>-</td></tr><tr><td>Total UK Food revenue</td><td>6,138.5</td><td>6,028.2</td></tr><tr><td colspan="3"><i>UK Clothing & Home</i></td></tr><tr><td>Like-for-like</td><td>2,164.5</td><td>3,196.9</td></tr><tr><td>Net new space</td><td>34.1</td><td>12.2</td></tr><tr><td>Week 53</td><td>40.4</td><td>-</td></tr><tr><td>Total UK Clothing & Home revenue</td><td>2,239.0</td><td>3,209.1</td></tr></table>		2020/21 £m	2019/20 £m	<i>UK Food</i>			Like-for-like	5,831.1	5,872.1	Net new space ¹	163.7	156.1	Week 53	143.7	-	Total UK Food revenue	6,138.5	6,028.2	<i>UK Clothing & Home</i>			Like-for-like	2,164.5	3,196.9	Net new space	34.1	12.2	Week 53	40.4	-	Total UK Clothing & Home revenue	2,239.0	3,209.1
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APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose																												
Food LFL ex hospitality and franchise	Movement in revenue per the Income Statement	Sales from non like-for-like stores and hospitality and franchise categories	<p>The period-on-period change in Food excluding the hospitality and franchise categories' revenue (excluding VAT) from stores which have been trading and where there has been no significant change (greater than 10%) in footage for least 52 weeks and online sales. The LFL measure is used widely in the retail industry as an indicator of sales performance. It excludes the impact of new stores, closed stores or stores with significant footage change. The hospitality category includes cafes, counters and marketplace. This measure has been introduced as both hospitality and franchise were closed for a majority of the year.</p> <table> <tr> <th></th><th>2020/21 £m</th><th>2019/20 £m</th><th>%</th></tr> <tr> <td>UK Food</td><td></td><td></td><td></td></tr> <tr> <td>Like-for-like</td><td>5,831.1</td><td>5,754.4</td><td>1.3</td></tr> <tr> <td>Hospitality</td><td>(52.0)</td><td>(249.4)</td><td>(79.1)</td></tr> <tr> <td>Franchise</td><td>(420.2)</td><td>(491.0)</td><td>(14.4)</td></tr> <tr> <td>Like-for-like ex hospitality and franchise</td><td>5,358.9</td><td>5,014.0</td><td>6.9</td></tr> </table>		2020/21 £m	2019/20 £m	%	UK Food				Like-for-like	5,831.1	5,754.4	1.3	Hospitality	(52.0)	(249.4)	(79.1)	Franchise	(420.2)	(491.0)	(14.4)	Like-for-like ex hospitality and franchise	5,358.9	5,014.0	6.9				
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Clothing & Home stores/Clothing & Home online	None	Not applicable	<p>Clothing & Home revenue through stores and through the Clothing & Home online platforms. These revenues are reported within the UK Clothing & Home segment results. Store revenue excludes revenue from 'shop your way' and click & collect, which are included in online revenue. The growth in revenues on a year-on-year basis is a good indicator of the performance of the stores and online channels. This measure has been introduced given the Group's focus on online sales.</p> <table> <tr> <th></th><th>2020/21 £m</th><th>2019/20 £m</th><th>%</th></tr> <tr> <td>UK Clothing & Home</td><td></td><td></td><td></td></tr> <tr> <td>Stores</td><td>1,088.9</td><td>2,487.8</td><td>(56.2)</td></tr> <tr> <td>Online</td><td>1,109.7</td><td>721.3</td><td>53.9</td></tr> <tr> <td>Total UK Clothing & Home revenue – 52-week basis</td><td>2,198.6</td><td>3,209.1</td><td>(31.5)</td></tr> <tr> <td>Week 53</td><td>40.4</td><td>-</td><td>-</td></tr> <tr> <td>Total UK Clothing & Home revenue</td><td>2,239.0</td><td>3,209.1</td><td>(30.2)</td></tr> </table>		2020/21 £m	2019/20 £m	%	UK Clothing & Home				Stores	1,088.9	2,487.8	(56.2)	Online	1,109.7	721.3	53.9	Total UK Clothing & Home revenue – 52-week basis	2,198.6	3,209.1	(31.5)	Week 53	40.4	-	-	Total UK Clothing & Home revenue	2,239.0	3,209.1	(30.2)
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M&S.com revenue / Online revenue	None	Not applicable	<p>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 of the Marks and Spencer Group plc Annual Report 2021 which does not form part of this report for an explanation of why this measure is used within incentive plans.</p>																												

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APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose																												
International online	None	Not applicable	<p>International revenue through International online platforms. These revenues are reported within the International segment results. The growth in revenues on a year-on-year basis is a good indicator of the performance of the online channel. This measure has been introduced given the Group's focus on online sales.</p> <table> <tr> <th></th><th>2020/21 £m</th><th>2019/20 £m</th><th>%</th></tr> <tr> <td>International revenue</td><td></td><td></td><td></td></tr> <tr> <td>Stores</td><td>613.6</td><td>867.4</td><td>(29.3)</td></tr> <tr> <td>Online</td><td>165.7</td><td>77.2</td><td>114.6</td></tr> <tr> <td>Week 53</td><td>10.1</td><td>-</td><td>-</td></tr> <tr> <td>At reported currency</td><td>789.4</td><td>944.6</td><td>(16.4)</td></tr> </table>		2020/21 £m	2019/20 £m	%	International revenue				Stores	613.6	867.4	(29.3)	Online	165.7	77.2	114.6	Week 53	10.1	-	-	At reported currency	789.4	944.6	(16.4)				
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Revenue growth at constant currency	None	Not applicable	<p>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.</p> <table> <tr> <th></th><th>2020/21 £m</th><th>2019/20 £m</th><th>%</th></tr> <tr> <td>International revenue</td><td></td><td></td><td></td></tr> <tr> <td>At constant currency</td><td>779.3</td><td>942.7</td><td>(17.3)</td></tr> <tr> <td>Impact of FX retranslation</td><td>-</td><td>1.9</td><td>-</td></tr> <tr> <td>International revenue – 52-week basis</td><td>779.3</td><td>944.6</td><td>(17.5)</td></tr> <tr> <td>Week 53</td><td>10.1</td><td>-</td><td>-</td></tr> <tr> <td>At reported currency</td><td>789.4</td><td>944.6</td><td>(16.4)</td></tr> </table>		2020/21 £m	2019/20 £m	%	International revenue				At constant currency	779.3	942.7	(17.3)	Impact of FX retranslation	-	1.9	-	International revenue – 52-week basis	779.3	944.6	(17.5)	Week 53	10.1	-	-	At reported currency	789.4	944.6	(16.4)
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Adjusting items	None	Not applicable	<p>Those items which the Group excludes from its adjusted profit metrics in order to present a further measure of the Group's performance. Each of these items, costs or incomes, is considered to be significant in nature and/or quantum or are consistent with items treated as adjusting in prior periods. Excluding these items from profit metrics provides readers with helpful additional information on the performance of the business across periods because it is consistent with how the business performance is planned by, and reported to, the Board and the Executive Committee.</p>																												
Revenue before adjusting items	Revenue	Adjusting items (See note 5)	<p>Revenue before the impact of adjusting items. The Group considers this to be an important measure of Group performance and is consistent with how the business performance is reported and assessed by the Board and the Executive Committee. This measure has been introduced as certain adjustments have been made to revenue for the first time in accordance with the Group's policy for adjusting items.</p>																												
Operating profit before adjusting items	Operating profit	Adjusting items (See note 5)	<p>Operating profit before the impact of adjusting items. The Group considers this to be an important measure of Group performance and is consistent with how the business performance is reported and assessed by the Board and the Executive Committee.</p>																												
Finance income before adjusting items	Finance income	Adjusting items (See note 5)	<p>Finance income before the impact of adjusting items. The Group considers this to be an important measure of Group performance and is consistent with how the business performance is reported and assessed by the Board and the Executive Committee.</p>																												

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APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Finance costs before adjusting items	Finance costs	Adjusting items (See note 5)	Finance costs before the impact of adjusting items. The Group considers this to be an important measure of Group performance and is consistent with how the business performance is reported and assessed by the Board and the Executive Committee.
Interest on leases	Finance income/costs	Finance income/costs (See note 6)	The net of interest income on subleases and interest payable on lease liabilities. This measure has been introduced as it allows the Board and Executive Committee to assess the impact of IFRS 16 Leases.
Net financial interest	Finance income/costs	Finance income/costs (See note 6)	Calculated as net finance costs, excluding interest on leases and adjusting items. The Group considers this to be an important measure of Group performance and is consistent with how the business performance is reported and assessed by the Board and the Executive Committee.
EBIT before adjusting items	EBIT ¹	Adjusting items (See note 5)	Calculated as profit before the impact of adjusting items, net finance costs and tax as disclosed on the face of the consolidated income statement. This measure is used in calculating the return on capital employed for the Group.
Profit before tax and adjusting items	Profit before tax	Adjusting items (See note 5)	<p>Profit before the impact of adjusting items and tax. The Group considers this to be an important measure of Group performance and is consistent with how the business performance is reported and assessed by the Board and the Executive Committee.</p> <p>This is a measure used within the Group's incentive plans. Refer to the Remuneration Report of the Marks and Spencer Group plc Annual Report 2021 which does not form part of this report for an explanation of why this measure is used within incentive plans.</p>
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.

Marks and Spencer plc

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose																																																												
52-week basis for the 2020/21 financial year	Corresponding equivalent statutory measure	Last trading week of 2020/21	<p>The Group's financial year ends on the nearest Saturday to 31 March. The current financial year is for the 53 weeks ended 3 April 2021 with the comparative financial year being for the 52 weeks ended 28 March 2020. In order to provide comparability with the prior year results, adjustments have been made to the 2020/21 53-week income statement to remove sales, operating costs and other items relating to the last trading week of the 2020/21 financial year. In determining the week 53 adjustment, revenue and cost of goods sold represent the actual trading performance in that week, with overhead expenses allocated proportionally to week 53.</p> <table> <tr> <th></th><th>2020/21 £m</th><th>Exclude week 53 £m</th><th>2020/21 52- week basis</th></tr> <tr> <td>Revenue</td><td></td><td></td><td></td></tr> <tr> <td>UK Food</td><td>6,138.5</td><td>(143.7)</td><td>5,994.8</td></tr> <tr> <td>UK Clothing & Home</td><td>2,239.0</td><td>(40.4)</td><td>2,198.6</td></tr> <tr> <td>Total UK Retail</td><td>8,377.5</td><td>(184.1)</td><td>8,193.4</td></tr> <tr> <td>International</td><td>789.4</td><td>(10.1)</td><td>779.3</td></tr> <tr> <td>Total Group</td><td>9,166.9</td><td>(194.2)</td><td>8,972.7</td></tr> <tr> <td>Operating profit/(loss) before adjusting items</td><td></td><td></td><td></td></tr> <tr> <td>UK Food</td><td>228.6</td><td>(15.0)</td><td>213.6</td></tr> <tr> <td>UK Clothing & Home</td><td>(130.8)</td><td>1.4</td><td>(129.4)</td></tr> <tr> <td>International</td><td>44.1</td><td>1.0</td><td>45.1</td></tr> <tr> <td>Adjusted profit before tax</td><td></td><td></td><td></td></tr> <tr> <td>Total Group</td><td>(28.1)</td><td>(8.7)</td><td>(36.8)</td></tr> <tr> <td>Loss before tax</td><td></td><td></td><td></td></tr> <tr> <td>Total Group</td><td>(266.8)</td><td>8.2</td><td>(258.6)</td></tr> </table>		2020/21 £m	Exclude week 53 £m	2020/21 52- week basis	Revenue				UK Food	6,138.5	(143.7)	5,994.8	UK Clothing & Home	2,239.0	(40.4)	2,198.6	Total UK Retail	8,377.5	(184.1)	8,193.4	International	789.4	(10.1)	779.3	Total Group	9,166.9	(194.2)	8,972.7	Operating profit/(loss) before adjusting items				UK Food	228.6	(15.0)	213.6	UK Clothing & Home	(130.8)	1.4	(129.4)	International	44.1	1.0	45.1	Adjusted profit before tax				Total Group	(28.1)	(8.7)	(36.8)	Loss before tax				Total Group	(266.8)	8.2	(258.6)
	2020/21 £m	Exclude week 53 £m	2020/21 52- week basis																																																												
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Total Group	(266.8)	8.2	(258.6)																																																												
Balance Sheet Measures																																																															
Net debt/(cash)	None	Reconciliation of net debt (see note 26)	<p>Net debt/(cash) 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.</p> <p>This measure is a good indication of the strength of the Group's balance sheet position and is widely used by credit rating agencies.</p>																																																												
Net debt/(cash) excluding lease liabilities	None	Reconciliation of net debt (see note 26) Lease liabilities (see note 19)	<p>Calculated as net debt/(cash) less lease liabilities. This measure is a good indication of the strength of the Group's balance sheet position and is widely used by credit rating agencies.</p>																																																												
Cash Flow Measures																																																															
Free cash flow	Net cash inflow from operating activities	See Financial Review	<p>The cash generated from the Group's operating activities less capital expenditure, cash lease payments and interest paid.</p> <p>This measure shows the cash retained by the Group in the year.</p>																																																												

Marks and Spencer plc

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Free cash flow pre-shareholder returns	Net cash inflow from operating activities	See Financial Review	<p>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).</p> <p>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.</p>
Other Measures			
Covid-19 scenario	None	Not applicable	<p>As part of the Group's normal financial planning process, the Board approved the 2020/21 budget and three-year plan.</p> <p>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.</p> <p>The downside scenario assumed the government guidelines at the period end continued for a period of at least four months, resulting in a significant decline in sales for the remainder of 2020/21, as outlined in the basis of preparation in the Group's 2020 Annual Report and Financial Statements.</p> <p>This downside scenario was approved by the directors and is defined as the Covid-19 scenario.</p>
Capital expenditure	None	Not applicable	<p>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.</p>

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 3 April 2021 £m	As at 28 March 2020 (Restated) ¹ £m	As at 30 March 2019 (Restated) ¹ £m
Assets				
Non-current assets				
Intangible assets	C7	193.2	325.1	412.9
Property, plant and equipment	C8	4,179.8	4,584.2	4,816.4
Investments in group undertakings	C9	862.9	907.5	923.7
Investment in joint ventures		8.6	6.1	3.4
Other financial assets	C10	10.5	11.3	14.7
Retirement benefit asset	C4	1,025.8	2,369.6	1,402.2
Trade and other receivables	C11	2,843.8	2,935.0	2,963.7
Derivative financial instruments	C15	0.3	112.8	19.8
		9,124.9	11,251.6	10,556.8
Current assets				
Inventories		570.6	518.8	647.2
Other financial assets	C10	9.2	6.0	135.6
Trade and other receivables	C11	263.3	362.5	274.3
Derivative financial instruments	C15	22.8	77.8	40.7
Current tax assets		31.1	45.5	-
Cash and cash equivalents	C12	625.7	171.5	242.0
		1,522.7	1,182.1	1,339.8
Total assets		10,647.6	12,433.7	11,896.6
Liabilities				
Current liabilities				
Trade and other payables	C13	2,727.9	2,561.3	2,806.2
Borrowings and other financial liabilities	C14	469.5	262.6	645.3
Derivative financial instruments	C15	93.1	17.1	14.4
Provisions	C16	18.7	17.7	59.7
Current tax liabilities		-	-	4.6
		3,309.2	2,858.7	3,530.2
Non-current liabilities				
Retirement benefit deficit	C4	6.5	6.5	8.1
Trade and other payables	C13	4.5	7.7	10.4
Borrowings and other financial liabilities	C14	4,544.4	4,780.0	4,640.3
Derivative financial instruments	C15	10.8	0.9	2.8
Provisions	C16	68.9	53.3	70.1
Deferred tax liabilities	C17	95.7	385.4	172.0
		4,730.8	5,233.8	4,903.7
Total liabilities		8,040.0	8,092.5	8,433.9
Net assets		2,607.6	4,341.2	3,462.7
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	C15	(54.5)	78.1	(6.2)
Retained earnings		1,555.5	3,156.5	2,362.3
Total equity		2,607.6	4,341.2	3,462.7

¹ See note C1 for details of changes in an accounting policy and the classification of receivables and the resulting restatements.

The Company's loss for the year was £475.6m (last year: profit of £264.4m).

The financial statements were approved by the Board and authorised for issue on 1 September 2021. The financial statements also comprise the notes on pages 105 to 140.



Eoin Tonge, Chief Financial Officer

Registered number: 00214436

Marks and Spencer plc

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 31 March 2019	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 income/(expense):							
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 on fair value through other comprehensive income equity investments	-	-	-	-	-	(12.4)	(12.4)
Other comprehensive income/(expense)	-	-	-	96.3	(6.0)	705.7	796.0
Total comprehensive income/(expense)	-	-	-	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
At 29 March 2020	712.5	386.1	8.0	72.4	5.7	3,156.5	4,341.2
Loss for the year	-	-	-	-	-	(475.6)	(475.6)
Other comprehensive (expense)/income:							
Remeasurements of retirement benefit schemes	-	-	-	-	-	(1,414.1)	(1,414.1)
Tax credit on retirement benefit schemes	-	-	-	-	-	268.6	268.6
Cash flow hedges							
- fair value movements in other comprehensive income	-	-	-	(205.9)	(1.3)	-	(207.2)
- reclassified and reported in profit or loss	-	-	-	26.5	-	-	26.5
Tax on cash flow hedges	-	-	-	34.7	0.2	-	34.9
Loss on fair value through other comprehensive income equity investments	-	-	-	-	-	(3.1)	(3.1)
Other comprehensive (expense)/income	-	-	-	(144.7)	(1.1)	(1,148.6)	(1,294.4)
Total comprehensive (expense)/income	-	-	-	(144.7)	(1.1)	(1,624.2)	(1,770.0)
Cash flow hedges recognised in inventories	-	-	-	16.3	-	-	16.3
Tax on cash flow hedges recognised in inventories	-	-	-	(3.1)	-	-	(3.1)
Transactions with owners:							
Credit for share-based payments	-	-	-	-	-	19.2	19.2
Deferred tax on share schemes	-	-	-	-	-	4.0	4.0
At 3 April 2021	712.5	386.1	8.0	(59.1)	4.6	1,555.5	2,607.6

Marks and Spencer plc

Company statement of cash flows

		53 weeks ended 3 April 2021	52 weeks ended 28 March 2020 (Restated) ¹
	Notes	£m	£m
Cash flows from operating activities			
Cash generated from operations	C20	815.4	1,301.2
Income tax paid		(3.1)	(82.8)
Net cash inflow from operating activities		812.3	1,218.4
Cash flows from investing activities			
Purchase of property, plant and equipment		(154.3)	(252.9)
Proceeds from sale of property, plant and equipment		2.9	4.7
Purchase of intangible assets		(41.4)	(74.8)
Purchase of non-current financial assets		(2.5)	(2.7)
(Purchase)/sale of current financial assets		(3.2)	129.6
Interest received		5.1	2.2
Net cash used in investing activities		(193.4)	(193.9)
Cash flows from financing activities			
Interest paid ²		(260.5)	(283.9)
Issuance of Medium Term Notes		300.0	250.0
Redemption of Medium Term Notes		(136.4)	(400.0)
Movement in intercompany loans treated as financing		168.7	(248.7)
Repayment of lease liabilities		(224.9)	(221.9)
Equity dividends paid		-	(193.8)
Purchase of shares in ultimate parent company held in employee trust		(0.8)	(8.9)
Net cash used in financing activities		(153.9)	(1,107.2)
Net cash inflow/(outflow) from activities		465.0	(82.7)
Opening net cash		156.0	238.7
Closing net cash	C12	621.0	156.0

¹See note C1 for details on a change in accounting policy and the resulting restatement.

²Includes interest paid on lease liabilities of £189.4m (last year: £194.0m).

Marks and Spencer plc

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.

Prior year restatements

Change in accounting policy

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

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

Change in classification of amounts owed by group companies

Amounts owed by parent company and subsidiary companies have previously been presented within current assets as these amounts are repayable on demand. However, there was no expectation that some of these amounts would be repaid within 12 months, being the Company's normal operating cycle, and therefore did not meet the criteria to be classified as current assets. The impact on the 28 March 2020 balance sheet is an increase to non-current assets of £2,772.1m (2019: £2,794.0m) and an equal decrease to current assets. There is no impact on the income statement or net assets.

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 29 March 2020:

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

The Company also elected to adopt the following amendment early:

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

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

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

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

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

The amount recognised in profit or loss in the period to reflect changes in lease payments arising from Covid-19-related rent concessions was a gain of £0.3m.

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

New accounting standards in issue but not yet effective

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

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

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

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 estimated based on the fair value of each of the subsidiaries as determined by their individual net asset values. In estimating the recoverable amount, the Company makes assumptions and judgements on the value of these investments using inherently subjective underlying property valuations. Whilst the Company considers the assumptions adopted represent the best estimate, because of the inherent uncertainty of valuation, it is reasonably possible that outcomes within the next financial year may differ significantly from the assumptions. Refer to note C9 for further details.

Marks and Spencer plc

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C2 DIVIDENDS

	2021 per share	2020 per share	2021 £m	2020 £m
Dividends on equity ordinary shares				
Paid final dividend	-	4.1p	-	116.8
Paid interim dividend	-	2.7p	-	77.0
	-	6.8p	-	193.8

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

In June 2021, a dividend of £16.8m was paid as part of an intra-group funding arrangement.

C3 EMPLOYEES

A. AGGREGATE REMUNERATION

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

	2021 Total £m	2020 Total £m
Wages and salaries	1,057.7	1,108.0
Social security costs	87.0	66.9
Other pension costs	64.3	65.4
Share based payments	19.2	18.3
Employee welfare and other personnel costs	38.3	45.7
Capitalised staffing costs	(6.4)	(22.5)
Total aggregate remuneration	1,260.1	1,281.8

B. AVERAGE MONTHLY NUMBER OF EMPLOYEES

	2021	2020
Stores		
- management and supervisory categories	4,870	5,278
- other	54,076	62,027
Head office		
- management and supervisory categories	2,948	2,947
- other	749	764
Operations		
- management and supervisory categories	117	115
- other	1,507	1,302
Total average number of employees	64,267	72,433

The average number of full-time equivalent employees is 44,423 (last year 49,094).

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C4 RETIREMENT BENEFITS

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

The UK DB pension scheme operated on a final pensionable salary basis and is governed by a Trustee board which is independent of the 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), 53,674 deferred members (last year: 55,887) and 52,794 pensioners (last year: 52,165).

The DC plan is a pension plan under which the Company pays contributions to an independently administered fund. Such contributions are based upon a fixed percentage of employees' pay. The Company has no legal or constructive obligations to pay further contributions to the fund once the contributions have been paid. Members' benefits are determined by the amount of contributions paid by the Company and the member, together with the investment returns earned on the contributions arising from the performance of each individual's investments and how each member chooses to receive their retirement benefits. As a result, actuarial risk (that benefits will be lower than expected) and investment risk (that assets invested in will not perform in line with expectations) fall on the employee. At the year end, the defined contribution arrangement had some 46,191 active members (last year: 52,059) and some 40,604 deferred members (last year: 33,578).

Other retirement benefits also include a UK post-retirement healthcare scheme and unfunded retirement benefits.

The total Company retirement benefit income was £8.0m (last year: cost £14.4m). Of this, income of £67.8m (last year: £46.8m) relates to the UK DB pension scheme, costs of £59.5m (last year: £61.7m) to the DC plan and costs of £0.3m (last year: income £0.5m) relates to other retirement benefit schemes.

The most recent actuarial valuation of the UK DB Pension Scheme was carried out as at 31 March 2018 and showed a funding surplus of £652m. This is an improvement on the previous position at 31 March 2015 (statutory surplus of £204m), primarily due to lower assumed life expectancy. The Company and Trustee have confirmed, in line with the current funding arrangement, that no further contributions will be required to fund past service as a result of this valuation (other than those already contractually committed under the existing Marks and Spencer Scottish Limited Partnership arrangements – see note C5). We have yet to reach agreement with the Trustee of the UK DB Pension Scheme with regards to the triennial actuarial valuation of the scheme as at 31 March 2021.

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

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

A. PENSIONS AND OTHER POST-RETIREMENT LIABILITIES

	2021 £m	2020 £m
Total market value of assets	10,700.5	10,986.8
Present value of scheme liabilities	(9,674.7)	(8,617.2)
Net funded pension plan asset	1,025.8	2,369.6
Unfunded retirement benefit	(2.5)	(2.5)
Post-retirement healthcare	(4.0)	(4.0)
Net retirement benefit asset	1,019.3	2,363.1
	2021 £m	2020 £m
Analysed in the statement of financial position as:		
Retirement benefit asset	1,025.8	2,369.6
Retirement benefit deficit	(6.5)	(6.5)
	1,019.3	2,363.1

Marks and Spencer plc

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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 UK DB Pension Scheme is recognised in full.

B. FINANCIAL ASSUMPTIONS

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

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

C. DEMOGRAPHIC ASSUMPTIONS

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

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

D SENSITIVITY ANALYSIS

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

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

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

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

E. ANALYSIS OF ASSETS

The investment strategy of the UK 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 105% of interest rate movements and 102% of inflation movements, as measured on the Trustee's funding assumptions which use a discount rate derived from gilt yields.

Marks and Spencer plc

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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 UK 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:

	2021			2020		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Debt investments						
– Government Bonds net of repurchase agreements ¹	3,937.3	(1,443.5)	2,493.8	3,589.3	352.0	3,941.3
– Corporate Bonds	-	1,036.6	1,036.6	-	728.3	728.3
– Asset backed securities and structured debt	-	256.1	256.1	-	264.4	264.4
Scottish Limited Partnership Interest (see note C5)	-	537.1	537.1	-	665.9	665.9
Equity investments						
– Developed markets	410.2	-	410.2	301.8	56.6	358.4
– Emerging markets	131.1	-	131.1	90.3	-	90.3
Growth Asset Funds						
– Global Property	-	276.8	276.8	-	291.4	291.4
– Hedge and Reinsurance	-	299.0	299.0	-	385.1	385.1
– Private Equity and Infrastructure	-	224.1	224.1	-	175.4	175.4
Derivatives						
– Interest and inflation rate swaps	-	298.6	298.6	(0.4)	253.7	253.3
– Foreign exchange contracts and other derivatives	93.2	4.5	97.7	(0.4)	162.4	162.0
Cash and Cash equivalents	(0.2)	148.9	148.7	95.9	181.8	277.7
Other						
– Buy In Insurance	-	3,177.0	3,177.0	-	2,430.0	2,430.0
– Secure Income Asset Funds	-	1,064.4	1,064.4	-	934.6	934.6
– Other	38.1	211.2	249.3	28.7	-	28.7
	4,609.7	6,090.8	10,700.5	4,105.2	6,881.6	10,986.8

¹ Repurchase agreements were £1,433.5m (last year £820.5m)

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

At year end, the UK schemes (UK DB Pension Scheme and post-retirement healthcare) indirectly held 75,223 (last year: 63,527) ordinary shares in Marks and Spencer Group plc through its investment in UK Equity Index Funds.

Marks and Spencer plc

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

F. ANALYSIS OF AMOUNT CHARGED AGAINST PROFITS

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

	2021 £m	2020 £m
Administration costs	4.3	4.3
Past service costs	1.0	-
Net interest income	(71.0)	(51.1)
Total	(65.7)	(46.8)
Remeasurement on the net defined benefit surplus:		
Actual return on scheme assets excluding amounts included in net interest income	188.0	(467.8)
Actuarial (gain)/loss – demographic assumptions	(12.5)	10.0
Actuarial gain – experience ¹	(81.3)	(41.4)
Actuarial loss/(gain) – financial assumptions	1,319.9	(418.1)
Components of defined benefit expense/(income) recognised in other comprehensive income	1,414.1	(917.3)

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

G. SCHEME ASSETS

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

	2021 £m	2020 £m
Fair value of scheme assets at start of year	10,986.8	10,577.0
Interest income based on discount rate	276.9	270.6
Actual return on scheme assets excluding amounts included in net interest income ¹	(188.0)	467.8
Employer contributions	4.6	4.9
Benefits paid	(375.5)	(329.2)
Administration costs	(4.3)	(4.3)
Fair value of scheme assets at end of year	10,700.5	10,986.8

¹ The actual return on scheme assets was a gain of £88.9m (last year: gain of £738.4m).

H. PENSIONS AND OTHER POST-RETIREMENT LIABILITIES

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

	2021 £m	2020 £m
Present value of obligation at start of year	8,623.7	9,182.9
Past service cost	1.0	-
Interest cost	205.9	219.5
Benefits paid	(375.5)	(329.2)
Actuarial gain – experience ¹	(81.3)	(41.4)
Actuarial (gain)/loss – demographic assumptions	(12.5)	10.0
Actuarial loss/(gain) – financial assumptions	1,319.9	(418.1)
Present value of obligation at end of year	9,681.2	8,623.7
Analysed as:		
Present value of pension scheme liabilities	9,674.7	8,617.2
Unfunded pension plans	2.5	2.5
Post-retirement healthcare	4.0	4.0
Present value of obligation at end of year	9,681.2	8,623.7

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

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

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 & 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 & 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 £193.5m (last year: £207.4m) is valued at the net present value of the future expected distributions from the Partnership. It is recognised as a liability in the Consolidated Statement of Financial Position as it is a transferable financial instrument. This liability is also recognised in the individual financial statements of the Partnership. During the year to 3 April 2021, an interest charge of £4.9m (last year: £6.9m) was recognised in the Consolidated 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 UK DB Pension Scheme assets, valued at £142.5m (last year: £211.2m).

The second partnership interest included within the UK DB Pension Scheme assets, valued at £394.6m (last year: £454.7m), is not a transferable financial instrument and therefore is not included as a plan asset in accordance with IAS 19 in the Consolidated Statement of Financial Position, although it is included within plan assets on the Company's Statement of Financial Position. Similarly, the associated liability is recognised in the individual financial statements of the Partnership but is not included in the Consolidated Statement of Financial Position; 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.

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C7 INTANGIBLE ASSETS

	Computer software £m	Computer software under development £m	Total £m
At 30 March 2019			
Cost	1,308.7	61.8	1,370.5
Accumulated amortisation, impairments and write-offs	(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	(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	1,397.0	46.9	1,443.9
Accumulated amortisation, impairments and write-offs	(1,110.6)	(8.2)	(1,118.8)
Net book value	286.4	38.7	325.1
Year ended 3 April 2021			
Opening net book value	286.4	38.7	325.1
Additions	-	41.4	41.4
Transfers	44.6	(44.1)	0.5
Asset impairments ¹	(40.0)	-	(40.0)
Asset write-offs	(3.2)	-	(3.2)
Amortisation charge	(130.6)	-	(130.6)
Closing net book value	157.2	36.0	193.2
At 3 April 2021			
Cost	1,441.6	44.2	1,485.8
Accumulated amortisation, impairments and write-offs	(1,284.4)	(8.2)	(1,292.6)
Net book value	157.2	36.0	193.2

¹Asset impairments of £40.0m relate to assets replaced, retired or decommissioned as part of the MS2 programme.

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C8 PROPERTY, PLANT AND EQUIPMENT

The Company's property, plant and equipment of £4,179.8m (last year: £4,584.2m) consists of owned assets of £2,255.9m (last year: £2,461.3m) and right-of-use assets of £1,923.9m (last year: £2,122.9m).

Property, plant and equipment – owned

	Land and buildings £m	Fixtures, fittings and equipment £m	Assets in the course of construction £m	Total £m
At 30 March 2019				
Cost	985.5	5,093.9	105.2	6,184.6
Accumulated depreciation, impairments 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 and reclassifications	22.2	181.7	(202.9)	1.0
Disposals	(3.5)	–	–	(3.5)
Impairment reversals	15.0	20.6	–	35.6
Impairment charge	(16.1)	(44.3)	–	(60.4)
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, impairments 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
Year ended 3 April 2021				
Opening net book value	702.5	1,618.6	140.2	2,461.3
Additions	3.8	17.3	89.4	110.5
Transfers and reclassifications	4.8	154.4	(160.0)	(0.8)
Impairment reversals	11.7	50.4	–	62.1
Impairment charge ¹	(52.0)	(50.4)	–	(102.4)
Asset write-offs	(8.4)	(17.2)	–	(25.6)
Depreciation charge	(38.3)	(210.9)	–	(249.2)
Closing net book value	624.1	1,562.2	69.6	2,255.9
At 3 April 2021				
Cost	963.5	4,881.7	73.9	5,919.1
Accumulated depreciation, impairments and write-offs	(339.4)	(3,319.5)	(4.3)	(3,663.2)
Net book value	624.1	1,562.2	69.6	2,255.9

¹Asset impairments of £102.4m made up of: £52.1m charge as a result of UK store impairment testing, £50.0m charge relating to the ongoing UK store estate programme and £0.3m in relation to assets replaced, retired or decommissioned as part of the MS2 programme.

Asset write-offs in the year include assets with gross book value of £64.5m (last year: £675.1m) and £nil (last year: £nil) netbook value that are no longer in use and have therefore been retired.

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C8 PROPERTY, PLANT AND EQUIPMENT CONTINUED

Right-of-use assets

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

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

Right-of-use assets

	Land and buildings £m	Fixtures, fittings and equipment £m	Total £m
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)
Impairment charge	(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
Additions	39.7	13.4	53.1
Transfers and reclassifications	0.3	-	0.3
Disposals	(1.3)	0.2	(1.1)
Impairment reversals	27.7	-	27.7
Impairment charge	(79.5)	-	(79.5)
Depreciation charge	(179.2)	(20.3)	(199.5)
As at 3 April 2021	1,872.6	51.3	1,923.9

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

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 ongoing Covid-19 pandemic is considered an impairment trigger and as a result all stores have been tested for impairment.

The value in use of each CGU is calculated based on the 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 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 Company'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, Company size premium and a risk adjustment (beta). The pre-tax discount rates range from 8.9% to 14.0% (last year: 8.6% to 16.8%). If the CGU relates to a store which the 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 £80.7m and impairment reversals of £53.5m as a result of UK store impairment testing unrelated to the UK store estate programme (last year: impairment charge of £72.0m). These stores were impaired to their 'value in use' recoverable amount of £301.6m, 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 1.75%, adjusted to 0% where management believes the current trading performance and future expectations of the store do not support the growth rate of 1.75%. The rate used to discount the forecast cash flows for UK stores is 8.9% (last year: 8.6%).

As disclosed in the accounting policies (note C1), the cash flows used within the impairment model are based on assumptions which are sources of estimation uncertainty and small movements in these assumptions 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 £31.7m and a 25 basis point reduction in gross profit margin throughout the plan period would increase the impairment charge by £15.3m. A 5% reduction in planned sales in years 2 and 3 (where relevant) would result in an increase in the impairment charge of £5.7m. In combination, a 1% fall in sales and a 10 basis point fall in gross profit margin would increase the impairment charge by £55.9m.

Impairments – UK store estate programme

During the year, the Company has recognised an impairment charge of £100.8m and impairment reversals of £36.4m relating to the on-going UK store estate programme (last year: impairment charge of £61.6m and impairment reversal of £35.6m). These stores were impaired to their 'value in use' recoverable amount of £250.6m, which is their carrying value at year end. Impairment reversals predominantly reflect improved trading expectations compared to those assumed at the end of the prior year end.

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

As disclosed in the accounting policies (note C1), 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 £23.6m and a 5% reduction in planned sales in years 2 and 3 (where relevant) would result in an increase in the impairment charge of £9.3m. A 25 basis point reduction in management gross margin during the period of trading would result in an increase in the impairment charge of £6.9m. In combination, a 1% fall in sales and a 10 basis point fall in gross profit margin would increase the impairment charge by £17.3m. Neither a 50 basis point increase in the discount rate, nor a 2% increase in the costs associated with exiting a store would result in a significant increase to the impairment charge.

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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 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
Year ended 3 April 2021			
Opening net book value	907.0	0.5	907.5
Provision for impairment	(44.6)	–	(44.6)
Closing net book value	862.4	0.5	862.9
At 3 April 2021			
Cost	1,199.9	0.5	1,200.4
Provision for impairment	(337.5)	–	(337.5)
Net book value	862.4	0.5	862.9

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 3 April 2021 is disclosed below.

	Registered address	Country of incorporation	Share Class	Proportion of shares held by:	
				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%
Aprill 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%
Marks and Spencer (Jaeger) Limited	Waterside House, 35 North Wharf Road, London, United Kingdom, W2 1NW	United Kingdom	£1 Ordinary	100%	–

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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
M&S (Spain) S.L. (in liquidation)	C / Boix y Morer 11, Local a Madrid, 28-Madrid, Spain	Spain	€1 Ordinary	–	100%
M&S Limited	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
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. (in liquidation)	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	– ²	–
Marks & Spencer Inc.	Brunswick Square, 1 Germain Street Suite 1700, Saint-John, New Brunswick, E2L 4W3, Canada	Canada	CAD 1 Common	100%	–
Marks & Spencer Outlet Limited	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Sparks Limited	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Spencer (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 (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 Pensions Trust (Ireland) Company Limited By Guarantee	24-27 Mary Street, Dublin 1, Ireland	Republic of Ireland	NA ²	–	–
Marks and Spencer (Israel) Limited (in liquidation)	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%	–

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 (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%
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%
			CZK 1,000 Ordinary	–	100%
Marks and Spencer Czech Republic a.s	Vyskocilova 1481/4, Michle, 140 00, Praha 4, Czech Republic	Czech Republic	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% ⁴

Marks and Spencer plc

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 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%
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. 262 Timisoara Boulevard, 3rd floor, premises no. 38-1, 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	–	– ³
Marks and Spencer Scottish Limited Partnership	2-28 St Nicholas Street, Aberdeen, AB10 1BU	United Kingdom	Partnership interest	– ⁶	–
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%	–
Per Una Italia SRL (in liquidation)	Via Giotto 25 - 59100 Prato, Italy	Italy	€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	A subsidiary
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 (Thorncilffe) Limited	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Ruby Properties (Tunbridge) Limited	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Simply Food (Property Investments)	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	–	100%
Simply Food (Property Ventures) Limited	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
St. Michael (Textiles) Limited	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	–	100%
St Michael Finance plc	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Teranis Limited	Heritage Hall, Le Marchant Street, St Peter Port, GY1 4JH, Guernsey	Guernsey	£1 Ordinary	–	99.99%

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 3 April 2021 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. No share capital as the company is limited by guarantee.

4. The designated members of the LLP are Teranis Limited, Ignazia Limited, Aprell Limited and Marks and Spencer (Ireland) Limited.

5. INR 5 Class C shares 100% owned by JV partner.

6. Marks and Spencer plc is the General Partner.

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C10 OTHER FINANCIAL ASSETS

	2021 £m	2020 £m
Non-current		
Unlisted investments	9.7	9.7
Other investments ¹	0.8	1.6
	10.5	11.3
Current		
Short-term investments	9.2	6.0

1. Non-current other investments are £0.8m (last year £1.6m) 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

	2021 £m	2020 (restated) ¹ £m
Non-current		
Prepayments	91.9	93.7
Lease receivables - net	62.8	69.2
Amounts owed by parent company	2,541.8	2,543.4
Amounts owed by subsidiary companies	147.3	228.7
	2,843.8	2,935.0
Current		
Trade receivables	104.8	148.0
Less: Provision for impairment of receivables	(3.4)	(3.7)
Trade receivables - net	101.4	144.3
Lease receivables - net	-	0.1
Other receivables	12.7	14.3
Prepayments	69.0	95.5
Amounts owed by subsidiary companies	80.2	108.3
	263.3	362.5

¹ See note C1 for details on a change in classification of amounts owed by group companies and the resulting restatement.

As at 3 April 2021, £192.9m (last year: £293.2m) of the amounts owed by group companies is interest bearing. Overall, the interest receivable during the year was £4.0m (last year: £4.7m). Interest rates are set within individual intercompany loan agreements however are approximately in line with LIBOR. The remaining £2,605.9m (last year: £2,587.2m) 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 £5.7m (last year: £17.4m) of accrued supplier income relating to rebates that have been earned but not yet invoiced. An immaterial amount of supplier income that has been invoiced but not yet settled against future trade creditor balances is included within trade creditors, where there is a right to offset. The impact on inventory is immaterial as these rebates relate to food stock which has been sold through by the year end.

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

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

Marks and Spencer plc

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C12 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are £621.0m (last year: £156.0m (restated)). The carrying amount of these assets approximates their fair value.

The effective interest rate on short-term bank deposits is 0.06% (last year: 0.30%). These deposits have an average maturity of 5 days (last year: 2 days).

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

	2021 £m	2020 (restated) ¹ £m
Cash at bank and in hand	625.7	171.5
Bank loans and overdrafts	(4.7)	(15.5)
	621.0	156.0

¹ See note C1 for details on a change in accounting policy and the resulting restatement.

C13 TRADE AND OTHER PAYABLES

	2021 £m	2020 (Restated) £m
Current		
Trade and other payables	1,092.7	1,043.1
Social security and other taxes	33.3	46.0
Accruals	403.9	373.8
Deferred income	49.6	37.6
Amounts owed to subsidiaries	1,148.4	1,060.8
	2,727.9	2,561.3
Non-current		
Other payables	1.0	1.6
Deferred income	3.5	6.1
Other payables and deferred income	4.5	7.7

As at 3 April 2021, £492.4m (last year: £309.7m) of the amounts owed to subsidiaries is interest bearing. Overall, the interest payable during the year was £2.8m (last year: £7.5m). Interest rates are set within individual intercompany loan agreements however are approximately in line with LIBOR. The remaining £656.0m (last year: £751.1m) 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:

	2021 £m	2020 £m
Opening balance	175.3	182.0
Issues	363.9	417.5
Released to the income statement	(350.3)	(424.2)
Closing balance	188.9	175.3

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

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

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

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

Marks and Spencer plc

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C14 BORROWINGS AND OTHER FINANCIAL LIABILITIES

	2021 £m	2020 (restated) ⁷ £m
Current		
Bank loans and overdrafts	4.7	15.5
Lease liabilities	256.1	212.0
6.125% £300m Medium Term Notes 2021 ¹	163.5	-
Interest accrued on Medium Term Notes	45.2	35.1
	469.5	262.6
Non-current		
6.125% £300m Medium Term Notes 2021 ¹	-	299.2
3.00% £300m Medium Term Notes 2023 ¹	298.5	298.0
4.75% £400m Medium Term Notes 2025 ^{1,5}	412.2	399.4
3.75% £300m Medium Term Notes 2026 ^{1,4}	298.3	-
3.25% £250m medium-term notes 2027 ¹	248.0	247.6
7.125% US\$300m Medium Term Notes 2037 ^{2,3}	192.2	192.1
Revaluation of Medium Term Notes ⁶	24.2	64.8
Lease liabilities	3,071.0	3,278.9
	4,544.4	4,780.0
Total	5,013.9	5,042.6

- These notes are issued under Marks and Spencer plc's £3bn Euro Medium Term Note programme and all pay interest annually.
- Interest on these bonds is payable semi-annually.
- US\$300m Medium Term Note exposure swapped to sterling (fixed-to-fixed cross currency interest rate swaps).
- In November 2020, a £300m 3.75% Medium Term Note was issued which matures in May 2026.
- The Company occasionally enters into interest rate swaps to manage interest rate exposure. At year end, £nil (last year: £175m) was swapped from fixed to floating rate. Also includes £13.6m (last year: £1.2m) of fair value adjustment for terminated hedges to be amortised over the remaining debt maturity.
- Revaluation consists of foreign exchange loss on revaluation of the 7.125% US\$300m Medium Term Notes 2037 of £24.2m (last year: £50.8m). Last year this also included a fair value hedge adjustment of £13.6m.
- See note C1 for details on a change in accounting policy and the resulting restatement.

Leases

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

The Company 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.

	2021 £m	2020 £m
Opening lease liabilities	3,490.9	3,608.4
Additions	63.3	176.9
Interest expense relating to lease liabilities	189.3	199.7
Payments	(401.6)	(406.2)
Disposals	(15.8)	(87.7)
Exchange and other movements	1.0	(0.2)
	3,327.1	3,490.9
Current	256.1	212.0
Non-current	3,071.0	3,278.9

The maturity analysis of lease liabilities are disclosed in note C15.

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

The Company holds certain leases that contain break clause options to provide operational flexibility. In accordance with IFRS 16, the Company has calculated the full lease term, beyond break, to represent the reasonably certain lease term (except for those stores identified as part of the UK store estate programme) within the total £3,327.1m of lease liabilities held on the balance sheet.

The following amounts were recognised in profit or loss

	2021 £m	2020 £m
Expenses relating to short-term leases	4.4	0.9
Expenses relating to low-value assets	0.9	2.4
Expenses relating to variable consideration	1.2	4.2

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

(a) Liquidity and funding risk

The risk that the 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 and 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 the covenant conditions for the tests arising in September 2021 and March 2022.

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

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

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C15 FINANCIAL INSTRUMENTS CONTINUED

The table below summarises the contractual maturity of the Company's non-derivative financial liabilities and derivatives, excluding trade and other payables and accruals. The carrying value of all trade and other payables and accruals of £1,497.5m (last year: £1,418.5m) is equal to their contractual undiscounted cash flows (see note C13) which are due within one year.

	Bank loans and overdrafts £m	Medium Term Notes £m	Lease liabilities ³ £m	Total borrowings and other financial liabilities £m	Cash inflow on derivatives ¹ £m	Cash outflow on derivatives ¹ £m	Total derivative assets and liabilities £m
Timing of cash flows							
Within one year	(15.5)	(71.9)	(420.8)	(508.2)	2,227.0	(2,154.2)	72.8
Between one and two years	-	(371.9)	(414.2)	(786.1)	183.5	(167.2)	16.3
Between two and five years	-	(451.6)	(1,127.2)	(1,578.8)	296.8	(238.4)	58.4
More than five years	-	(1,164.0)	(4,507.9)	(5,671.9)	235.3	(188.3)	47.0
Total undiscounted cash flows	(15.5)	(2,059.4)	(6,470.1)	(8,545.0)	2,942.6	(2,748.1)	194.5
Effect of discounting	-	523.2	2,979.2	3,502.4			
At 28 March 2020 (restated) ²	(15.5)	(1,536.2)	(3,490.9)	(5,042.6)			
Timing of cash flows							
Within one year	(4.7)	(244.8)	(426.2)	(675.7)	1,762.6	(1,832.2)	(69.6)
Between one and two years	-	(74.8)	(398.1)	(472.9)	208.8	(210.2)	(1.4)
Between two and five years	-	(898.8)	(1,094.0)	(1,992.8)	46.5	(43.8)	2.7
More than five years	-	(987.7)	(4,041.9)	(5,029.6)	404.0	(368.6)	35.4
Total undiscounted cash flows	(4.7)	(2,206.1)	(5,960.2)	(8,171.0)	2,421.9	(2,454.8)	(32.9)
Effect of discounting	-	524.0	2,633.1	3,157.1			
At 3 April 2021	(4.7)	(1,682.1)	(3,327.1)	(5,013.9)			

1. Cash inflows and outflows on derivative instruments that require gross settlement (such as cross currency swaps and forward foreign exchange contracts) are disclosed gross. Cash inflows and outflows on derivative instruments that settle on a net basis are disclosed net.
2. See note C1 for details on a change in accounting policy and the resulting restatement.
3. Total undiscounted lease payments of £602.0m relating to the period post break clause, and the earliest contractual lease exit point, are included in lease liabilities. These undiscounted lease payments should be excluded when determining the Company's contractual indebtedness under these leases, where there is a contractual right to break.

(b) Counterparty risk

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

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

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

	Credit rating of counterparty							Total
	AAA £m	AA £m	AA- £m	A+ £m	A £m	A- £m	BBB+ £m	
Short-term investments ¹	-	-	27.5	50.3	-	-	-	77.8
Net derivative assets ²	-	-	79.6	66.2	26.8	-	-	172.6
At 28 March 2020	-	-	107.1	116.5	26.8	-	-	250.4

	AAA £m	AA £m	AA- £m	A+ £m	A £m	A- £m	BBB+ £m	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Short-term investments ¹	-	-	49.0	166.3	245.0	-	-	460.3
Net derivative assets ²	-	-	-	8.3	0.5	-	-	8.8
At 3 April 2021	-	-	49.0	174.6	245.5	-	-	469.1

1. Includes cash on deposit held by the Company. Excludes cash in hand and in transit of £174.6m (last year: £99.7m).
2. Standard & Poor's equivalent rating shown as reference to the majority credit rating of the counterparty from either Standard & Poor's, Moody's or Fitch where applicable.

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C15 FINANCIAL INSTRUMENTS CONTINUED

The Company has very low retail credit risk due to transactions principally being 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 £101.4m (last year: £144.3m), lease receivables £62.8m (last year: £69.3m), other receivables £12.7m (last year: £14.3m), amounts owed by group companies £2,769.3m (last year: £2,880.4m), cash and cash equivalents £625.7m (last year: £171.5m) and derivatives £8.8m (last year: £172.6m).

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 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 Company may provide additional provision for the receivables of particular customers if the deterioration of financial position was observed. The Company's trade receivables are of very low credit risk due to transactions being principally of high volume, low value and short maturity. Therefore, it also has very low concentration risk.

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

Historical experience has indicated that debts aged 180 days or over are generally not recoverable. The Company 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 Company specifically holds insurance or holds the legal right of offset with debtors which are also creditors, the loss provision is applied only to the extent of the uninsured or net exposure.

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

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

	Current	Up to 30 days past due	31-60 days past due	61-90 days past due	91-180 days past due	181 days or more past due	Total
	£m	£m	£m	£m	£m	£m	£m
As at 28 March 2020							
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
	Current	Up to 30 days past due	31-60 days past due	61-90 days past due	91-180 days past due	181 days or more past due	Total
	£m	£m	£m	£m	£m	£m	£m
As at 3 April 2021							
Gross carrying amount - trade receivables	91.5	9.4	1.8	0.5	0.4	1.2	104.8
Expected loss rate	1.62%	5.13%	8.13%	14.88%	4.05%	100.0%	3.28%
Lifetime expected credit loss	1.5	0.5	0.1	0.1	-	1.2	3.4
Net carrying amount	90.0	8.9	1.7	0.4	0.4	-	101.4

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C15 FINANCIAL INSTRUMENTS CONTINUED

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

	2021 £m	2020 £m
Trade receivables expected loss provision		
Opening loss allowance as at 28 March 2020	3.7	3.0
(Decrease)/increase in loss allowance recognised in profit and loss during the year	(0.3)	0.8
Receivables written off during the year as uncollectable	-	(0.1)
Closing loss allowance as at 3 April 2021	3.4	3.7

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

	2021 £m	2020 £m
Lease receivables expected loss provision		
Opening loss allowance as at 28 March 2020	4.7	-
Increase in loss allowance recognised in profit and loss during the year	7.2	4.7
Receivables written off during the year as uncollectable	-	-
Closing loss allowance as at 3 April 2021	11.9	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 & Home products from Asia.

Group Treasury hedges these exposures principally using forward foreign exchange contracts progressively based on dynamic forecasts from the business. Hedging begins around 14 months ahead of the start of the season, with between 80% and 100% hedged eight months before the start of the season.

At the balance sheet date the gross notional value in sterling terms of forward foreign exchange contracts amounted to £1,525.0m (last year: £2,127.2m) with a weighted average maturity date of six months (last year: six months).

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

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

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

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

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C15 FINANCIAL INSTRUMENTS CONTINUED

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

The Company also hedges foreign currency intercompany loans where these exist. Forward foreign exchange contracts in relation to the hedging of the Company's foreign currency intercompany loans are classified as fair value through profit and loss. The corresponding fair value movement of the intercompany loan balance resulted in a £1.4m gain (last year: £0.6m loss) in the income statement. As at the balance sheet date, the gross notional value of intercompany loan hedges was £310.8m (last year: £157.0m).

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 payables, is set out below:

	2021			2020		
	Fixed rate £m	Floating rate £m	Total £m	Fixed rate £m	Floating rate £m	Total £m
Currency						
Sterling	5,003.0	4.7	5,007.7	4,837.0	205.6	5,042.6
	5,003.0	4.7	5,007.7	4,837.0	205.6	5,042.6

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

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

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

(d) Interest rate risk

The Company is exposed to interest rate risk in relation to sterling variable rate financial assets and liabilities.

The Company'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 £5,003.0m (last year: £4,837.0m) representing the public bond issues and lease liabilities, amounting to 99% (last year: 96%) of the Company's gross borrowings.

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

	2021 %	2020 %
Committed and uncommitted borrowings	N/A	N/A
Medium Term Notes	5.3%	4.6%
Leases	5.5%	4.4%

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

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

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

The Company will continue to apply the Phase 1 amendments to IFRS 9 (which were adopted last year) until the uncertainty arising from the interest rate benchmark reforms that the Company is exposed to ends. The Company has assumed that this uncertainty will not end until the Company'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 Company's contracts and the negotiation with lenders.

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C15 FINANCIAL INSTRUMENTS CONTINUED

Derivative financial instruments

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

	28 March 2020					
	Current			Non-current		
	Forward foreign exchange contracts	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	FVTPL	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	75.3	2.5	–	83.8	10.6	18.4
Carrying amount (liabilities)	(14.3)	(2.8)	–	–	(0.9)	–
Maturity date	to Jul 2021	to Jan 2021	–	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 & 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	33.6	(0.6)	–	79.7	11.1	3.8
Change in fair value of hedged item used to determine hedge effectiveness	(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	–	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	–	–
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

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C15 FINANCIAL INSTRUMENTS CONTINUED

3 April 2021						
	Current			Non-current		
	Forward foreign exchange contracts £m	Forward foreign exchange contracts £m	Interest rate swaps £m	Cross-currency swaps £m	Forward foreign exchange contracts £m	Interest rate swaps £m
Hedging risk strategy	Cash flow hedges	FVTPL	Fair value hedges	Cash flow hedges	Cash flow hedges	Fair value hedges
Notional / currency legs	1,334.3	310.8	-	193.5	190.7	-
Carrying amount assets	22.0	0.8	-	-	0.3	-
Carrying amount (liabilities)	(82.4)	(10.7)	-	(8.1)	(2.7)	-
Maturity date	to Sep 2021	to Jan 2022	-	to Dec 2037	to May 2022	-
Hedge ratio	100%	100%	-	100%	100%	-
Description of hedged item	Highly probable transactional FX exposures	Inter-company loans/deposits & subsidiary FX exposures	-	USD fixed rate borrowing	Highly probable transactional FX exposures	-
Change in fair value of hedging instrument ¹	(104.7)	(9.8)	-	(91.7)	(11.8)	-
Change in fair value of hedged item used to determine hedge effectiveness	104.7	11.2	-	93.0	11.8	-
Weighted average hedge rate for the year	GBP/USD 1.32, GBP/EUR1.13	-	-	7.5%	GBP/USD 1.28, GBP/EUR1.12	-
Amounts recognised within finance costs in profit and loss	-	1.4	-	1.3	-	-
Balance on cash flow hedge reserve at 3 April 2021	45.8	-	-	25.4	2.3	-
Balance on cost of hedging reserve at 3 April 2021	-	-	-	(5.8)	-	-

1. The £(9.8)m fair value change represented in the fair value movement of the forward contracts under FVTPL consists of economic hedges of certain intercompany loans/deposits and forward contracts that are no longer in hedge relationships (total equivalent notional: £310.8m). Of this fair value change, £(10.2)m relates to movements in valid hedge relationships that de-designated at the end of the financial year and were reclassified to the cost of inventory. This line also includes the cash settlements of the derivative positions during the year.

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)
	- FVTPL	61.9	95.1	2.5	(2.8)
		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)

3 April 2021					
		Notional Value		Fair Value	
		Assets £m	Liabilities £m	Assets £m	Liabilities £m
Current					
Forward foreign exchange contracts	- cash flow hedges	241.0	1,093.4	22.0	(82.4)
	- FVTPL	49.2	261.6	0.8	(10.7)
		290.2	1,355.0	22.8	(93.1)
Non-current					
Cross currency swaps	- cash flow hedges	-	193.5	-	(8.1)
Forward foreign exchange contracts	- cash flow hedges	46.2	144.5	0.3	(2.7)
		46.2	338.0	0.3	(10.8)

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C15 FINANCIAL INSTRUMENTS CONTINUED

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

	Cost of hedging reserve FX derivatives £m	Cost of hedging reserve CCIRS ¹ £m	Deferred tax £m	Total cost of hedging reserve £m	Hedge reserve FX derivatives £m	Hedge reserve CCIRS £m	Hedge reserve gilt locks £m	Deferred tax £m	Total hedge reserve £m
Opening balance 31 March 2019	-	(14.6)	2.9	(11.7)	(6.8)	32.9	0.2	(8.4)	17.9
Add: Change in fair value of hedging instrument recognised in OCI ²	-	-	-	-	(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 - 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)
Opening balance 29 March 2020	-	(7.1)	1.4	(5.7)	(49.5)	(40.1)	0.1	17.1	(72.4)
Add: Change in fair value of hedging instrument recognised in OCI	-	-	-	-	113.9	92.0	-	-	205.9
Add: Costs of hedging deferred and recognised in OCI	-	1.3	-	1.3	-	-	-	-	-
Less: Reclassified to the cost of inventory	-	-	-	-	(16.3)	-	-	-	(16.3)
Less: Reclassified from OCI to profit or loss	-	-	-	-	-	(26.5)	-	-	(26.5)
Less: Deferred tax	-	-	(0.2)	(0.2)	-	-	-	(31.6)	(31.6)
Closing balance 3 April 2021	-	(5.8)	1.2	(4.6)	48.1	25.4	0.1	(14.5)	59.1

1. Cross-currency interest rate swaps.

2. Other comprehensive income.

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

During the year, the Company closed out all interest rate swaps designating its GBP fixed debt to floating debt which were reported as fair value hedges (see note C14 for details of fair value adjustment). At 3 April 2021, the Company had a deferred fair value adjustment of £13.6m in borrowings relating to terminated fair value hedges. The ineffective portion recognised in profit or loss that arose from fair value hedges amounted to a nil gain or loss as the loss on the hedged items was £4.4m (last year: gain of £3.8m) and the gain on the hedging instruments was £4.4m (last year: loss of £3.8m).

Movement in hedged items and hedging instruments

	2021 £m	2020 £m
Net gain/(loss) in fair value of interest rate swap	4.4	(3.8)
Net (loss)/gain on hedged items	(4.4)	3.8
Ineffectiveness	-	-

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C15 FINANCIAL INSTRUMENTS CONTINUED

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

Movement in hedged items and hedging instruments

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

Sensitivity analysis

The table below illustrates the estimated impact on the income statement and equity as a result of market movements in foreign exchange and interest rates in relation to the Company'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 Company believes that these illustrative assumed movements continue to provide sufficient guidance.

The table excludes financial instruments that expose the Company 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 Company's floating rate debt as at the balance sheet date. The impact in equity reflects the fair value movement in relation to the Company's cross-currency swaps.

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

	2% decrease in interest rates £m	2% increase in interest rates £m	20% weakening in sterling £m	20% strengthening in sterling £m
At 28 March 2020				
Impact on income statement: gain/(loss)	3.1	(1.7)	-	-
Impact on other comprehensive income: gain/(loss)	26.8	(19.7)	212.7	(212.7)
At 3 April 2021				
Impact on income statement: (loss)/gain	(9.2)	9.2	-	-
Impact on other comprehensive income: (loss)/gain	(2.6)	4.1	230.5	(230.5)

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 Company's balance sheet are set out below. For trade and other receivables and trade and other payables, amounts not offset in the balance sheet but which could be offset under certain circumstances are also set out. To reconcile the amount shown in the tables below to the Statement of Financial Position, items which are not subject to offsetting should be included.

	Gross financial assets/ (liabilities) £m	Gross financial (liabilities)/ assets set off £m	Net financial assets/ (liabilities) per statement of financial position £m	Related amounts not set off in the statement of financial position £m	Net £m
At 28 March 2020					
Trade and other receivables	18.6	(14.3)	4.3	-	4.3
Derivative financial assets	190.6	-	190.6	(18.0)	172.6
	209.2	(14.3)	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	-
	(290.8)	14.3	(276.5)	18.0	(258.5)

	Gross financial assets/ (liabilities) £m	Gross financial (liabilities)/ assets set off £m	Net financial assets/ (liabilities) per statement of financial position £m	Related amounts not set off in the statement of financial position £m	Net £m
At 3 April 2021					
Trade and other receivables	16.5	(12.8)	3.7	-	3.7
Derivative financial assets	23.1	-	23.1	(23.1)	-
	39.6	(12.8)	26.8	(23.1)	3.7
Trade and other payables	(257.4)	12.8	(244.6)	-	(244.6)
Derivative financial liabilities	(103.9)	-	(103.9)	23.1	(80.8)
	(361.3)	12.8	(348.5)	23.1	(325.4)

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 Company 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 Company'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 Company held the following financial instruments at fair value:

	2021				2020			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets measured at fair value								
Financial assets at fair value through profit or loss								
– other investments	0.8	-	-	0.8	1.6	-	-	1.6
– derivatives held at FVTPL	-	0.8	-	0.8	-	2.5	-	2.5
Derivatives used for hedging	-	22.3	-	22.3	-	183.2	-	183.2
Short-term investments	-	9.2	-	9.2	-	6.0	-	6.0
Unlisted investments ¹	-	-	9.7	9.7	-	-	9.7	9.7
Liabilities measured at fair value								
Financial liabilities at fair value through profit or loss								
– derivatives held at FVTPL	-	(10.7)	-	(10.7)	-	(2.8)	-	(2.8)
Derivatives used for hedging	-	(93.2)	-	(93.2)	-	(10.3)	-	(10.3)

¹ The Group holds £9.7m in unlisted equity securities measured at fair value through other comprehensive income (last year: £9.7m) (see note C10) 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.

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

The Marks & Spencer UK Pension Scheme holds a number of financial instruments which make up the pension asset of £10,700.5m (last year: £10,986.8m). Level 1 and Level 2 financial assets measured at fair value through other comprehensive income amounted to £5,703.6m (last year: £6,328.7m). Additionally, the pension scheme assets include £4,996.9m (last year: £4,325.1m) of Level 3 financial assets. See note C4 for information on the Company's retirement benefits.

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

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

Fair value of financial instruments

With the exception of the Company's fixed rate bond debt, 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 Company's fixed rate bond debt (level 1 equivalent) was £1,682.1m (last year: £1,536.2m); the fair value of this debt was £1,807.6m (last year: £1,531.4m) which has been calculated using quoted market prices and includes accrued interest.

Capital policy

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

In doing so, the Company's strategy is to rebuild a capital structure commensurate with an investment grade credit rating and to retain appropriate levels of liquidity headroom to ensure financial stability and flexibility. To achieve this strategy, the Company 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 Company 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 Company's average debt maturity profile was six years (last year: six years). During the year, the Company maintained credit ratings of Ba1 (negative) with Moody's and BB+ (negative) with Standard & Poor's.

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

Marks and Spencer plc

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C16 PROVISIONS

				2021	2020
	Property £m	Restructuring £m	Other £m	Total £m	Total £m
At start of year	55.1	11.0	4.9	71.0	129.8
Provided in the year – charged to profit or loss	21.9	88.3	3.1	113.3	42.0
Provided in the year - charged to property, plant and equipment	25.9	-	-	25.9	(16.9)
Released in the year	(29.8)	(7.5)	(0.1)	(37.4)	(68.8)
Utilised during the year	(4.6)	(80.7)	-	(85.3)	(19.9)
Discount rate unwind	2.6	-	-	2.6	4.8
Reclassified to the pension liability	-	-	(2.5)	(2.5)	-
At end of year	71.1	11.1	5.4	87.6	71.0
Analysed as:					
Current				18.7	17.7
Non-current				68.9	53.3

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

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

Other provisions include amounts in respect of probable liabilities for employee-related matters with utilisation dependent on the timing of the relevant legal matters.

Provisions related to adjusting items were £76.2m at 3 April 2021 (last year: £64.6m), with a net charge in the year of £72.6m.

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%) 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 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
Credited/(charged) to equity	-	-	(199.2)	(24.4)	(223.6)
At 28 March 2020	(21.2)	1.4	(449.1)	83.5	(385.4)
At 29 March 2020	(21.2)	1.4	(449.1)	83.5	(385.4)
Credited/(charged) to the income statement	(27.5)	21.1	(12.5)	4.9	(14.0)
Credited/(charged) to equity	-	-	267.8	35.9	303.7
At 3 April 2021	(48.7)	22.5	(193.8)	124.3	(95.7)

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 £228.0m (last year: £335.7m) and a tax value of £43.3m (last year: £63.8m). From 1 April 2020, the UK rules restricting the use of brought forward losses to 50% of profits or gains in excess of £5m 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

	2021		2020	
	Shares	£m	Shares	£m
Issued and fully paid ordinary shares of 25p each	2,850,039,477	712.5	2,850,039,477	712.5

Marks and Spencer plc

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C19 CONTINGENCIES AND COMMITMENTS

A. Capital commitments

	2021 £m	2020 £m
Commitments in respect of properties in the course of construction	87.8	77.9
Software capital commitments	10.6	8.6
	98.4	86.5

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

	2021 £m	2020 (Restated) ¹ £m
(Loss)/profit on ordinary activities after taxation	(475.6)	264.4
Income tax expense	14.0	7.6
Finance costs	280.9	285.2
Finance income	(81.0)	(65.1)
Operating (loss)/profit	(261.7)	492.1
Decrease in inventories	46.6	284.8
Decrease/(increase) in receivables	109.2	(0.9)
Increase/(decrease) in payables	298.1	(343.2)
Depreciation, amortisation and asset impairments	572.5	653.1
Non-cash share-based payment charges	19.3	18.3
Defined benefit pension funding	(36.6)	(37.4)
Adjusting items net cash outflows ^{2,3}	(115.2)	(61.6)
Adjusting items M&S Bank ⁴	(2.4)	(12.6)
Adjusting operating profit items	185.6	308.6
Cash generated from operations	815.4	1,301.2

¹ See note C1 for details on a change in accounting policy and the resulting restatement.

² Excludes £12.2m (last year: £9.8m) of surrender payments included within repayment of lease liabilities in the company statement of cash flows relating to leases within the UK store estate programme.

³ Adjusting items net cash outflows relate to strategic programme costs associated with the UK store estate, organisation, UK logistics, expenses directly attributable to the Covid-19 pandemic, cash outflows incurred as part of the Sparks loyalty programme transition and establishing the investment in Ocado Retail Limited.

⁴ Adjusting items M&S Bank relates to M&S Bank income recognised in operating profit offset by charges incurred in relation to the insurance mis-selling provision, which is a non-cash item.

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C21 ANALYSIS OF NET DEBT

A. Reconciliation of movement in net debt

	At 31 March 2019 £m	Cash flow £m	Changes in fair values £m	Lease additions and remeasurements £m	Exchange and other non-cash movements ² £m	At 28 March 2020 £m
Net debt						
Bank loans, overdrafts and syndicated bank facility (see note C14) ¹	(3.4)	(12.1)	-	-	-	(15.5)
Cash and cash equivalents (see note C12) ¹	242.1	(70.6)	-	-	-	171.5
Net cash per statement of cash flows	238.7	(82.7)	-	-	-	156.0
Current other financial assets (see note C10)	135.6	(129.6)	-	-	-	6.0
Liabilities from financing activities						
Medium Term Notes (see note C14)	(1,673.8)	230.1	-	-	(92.5)	(1,536.2)
Lease liabilities (see note C14)	(3,608.4)	600.2	-	176.9	(659.6)	(3,490.9)
Derivatives held to hedge Medium Term Notes	23.9	(7.7)	86.0	-	-	102.2
Liabilities from financing activities	(5,258.3)	822.6	86.0	176.9	(752.1)	(4,924.9)
Less: Cash flows related to interest and derivative instruments	62.6	(215.1)	(86.0)	-	236.2	(2.3)
Net debt	(4,821.4)	395.2	-	176.9	(515.9)	(4,765.2)

	At 28 March 2020 £m	Cash flow £m	Changes in fair values £m	Lease additions and remeasurements £m	Exchange and other non-cash movements ² £m	At 3 April 2021 £m
Net debt						
Bank loans, overdrafts and syndicated bank facility (see note C14) ¹	(15.5)	10.8	-	-	-	(4.7)
Cash and cash equivalents (see note C12) ¹	171.5	454.2	-	-	-	625.7
Net cash per statement of cash flows	156.0	465.0	-	-	-	621.0
Current other financial assets (see note C10)	6.0	3.2	-	-	-	9.2
Liabilities from financing activities						
Medium Term Notes (see note C14)	(1,536.2)	(87.9)	-	-	(58.0)	(1,682.1)
Lease liabilities (see note C14)	(3,490.9)	590.9	-	63.3	(490.4)	(3,327.1)
Derivatives held to hedge Medium Term Notes	102.2	(14.0)	(96.3)	-	-	(8.1)
Liabilities from financing activities	(4,924.9)	489.0	(96.3)	63.3	(548.4)	(5,017.3)
Less: Cash flows related to interest and derivative instruments	(2.3)	(212.6)	96.3	-	196.1	77.6
Net debt	(4,765.2)	744.6	-	63.3	(352.3)	(4,309.6)

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COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

B. Reconciliation of net debt to statement of financial position

	2021	2020 (Restated)
	£m	£m
Statement of financial position and related notes		
Cash and cash equivalents (see note C12) ¹	625.7	171.5
Current other financial assets (see note C10)	9.2	6.0
Bank loans and overdrafts (see note C14)	(4.7)	(15.5)
Medium Term Notes – net of foreign exchange revaluation (see note C14)	(1,657.9)	(1,471.4)
Lease liabilities (see note C14)	(3,327.1)	(3,490.9)
	(4,354.8)	(4,800.3)
Interest payable included within related borrowing	45.2	35.1
Total net debt	(4,309.6)	(4,765.2)

¹ See note C1 for details on a change in accounting policy and the resulting restatement.

² Exchange and other non-cash movements includes interest charge on Medium Term Notes of £86.4m (last year: £78.2m) and interest charge on lease liabilities of £189.3m (last year: £199.7m).

C22 RELATED PARTY TRANSACTIONS

A. Marks and Spencer Group plc

During the year, the Company paid no dividend to its parent company, Marks and Spencer Group plc (last year £193.8m) and has decreased its loan to its parent company by £1.6m (last year decrease of £5.1m). The outstanding balance was £2,541.8m (last year £2,543.4m) and was non-interest bearing.

The following transactions were carried out with Ocado Retail Limited, an associate of the ultimate parent company, Marks and Spencer Group plc.

Sales of goods and services:

	2021 £m	2020 £m
Sales of goods and services	28.5	-

Transactions between the Company and its subsidiaries, which are related parties, are summarised below:

	2021 Transactions £m	2020 Transactions £m
Trading sales	(319.0)	(315.2)
IFRS 16 depreciation	75.6	75.5
IFRS 16 interest	75.0	79.6
Loan interest	(1.2)	2.8

B. 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.

C. Key management compensation

Payments and benefits relating to key management are set out in note 28 of the Group financial statements.

Marks and Spencer plc

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C23 GOVERNMENT SUPPORT

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

The Company has recognised government grant income of £125.2m in relation to furlough programmes, such as the Coronavirus Job Retention Scheme (CJRS) in the UK. The salary expense relating to those colleagues on furlough during the period was £171.0m.

The Company also benefited from the business rates holiday for the retail, hospitality and leisure sector of £172.2m.

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

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 3 April 2021. The consolidated financial statements of Marks and Spencer Group plc are available from Waterside House, 35 North Wharf Road, London, W2 1NW.

C25 SUBSEQUENT EVENTS

As announced in March 2021, the Group has proposed future redevelopment plans for the Marble Arch store and surrounding site. To enable the redevelopment, the store's title was transferred from the Marks and Spencer Scottish Limited Partnership ("SLP") into the Company in June 2021. In accordance with the agreement with the Marks and Spencer Pension Scheme, it was agreed to transfer several properties from the Company into the SLP.

There is no impact on the Group as these transactions are entirely intra-group. The Company recognised a loss on disposal of £39.3m.