M&S
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Marks and Spencer Group Plc
Half Year Results for 26 Weeks Ended 2 October 2021
"Transformation and Covid Bounce Back Drives Strong Performance"

The impact of Covid in 2020/21 renders comparisons to the prior year less meaningful. To aid understanding, throughout this document we are showing the 26 weeks to 28 September 2019 as the comparative period for commentary and percentage changes.

Strong financial results
- Profit before tax & adjusting items of £269.4m (2019/20, £176.3m)
- Profit before tax of £187.3m (2019/20, £158.8m; 2020/21, loss of £87.6m)
- Food sales[1] up 10.4%, sales ex hospitality and franchise[2] up 16.9%
- Food operating profit before adjusting items of £143.7m (2019/20, £92.2m)
- C&H sales[1] down 1%, full price sales[1] up 17.3%
- C&H online sales[1] growth of 60.8%, now 34.4% of total C&H sales. Store sales down 17.6%
- C&H operating profit before adjusting items of £156.2m (2019/20, £109.6m)
- Net debt reduced to £3.15bn down 22.6% on 2019/20.

Underlying improvements in all main businesses
- M&S Food growing market share with consistent strong quality and improved value perceptions
- Ocado Retail opens 3 new CFCs. Planned capacity growth over 50% since M&S investment
- C&H increased value and style perception. Market share growth across key categories and channels
- MS2 driving strong online growth, record active customers and increased retention
- UK pipeline includes 20 full line stores, enabling 3 full line closures in H1
- International rebounding despite lockdowns, trading restrictions and EU border costs

Steve Rowe, Chief Executive commented:
"Given the history of M&S we've been clear that we won't overclaim our progress. Unpacking the numbers isn't a linear exercise and we've called out the Covid bounce back tailwinds, as well as the headwinds from the pandemic, supply chain and Brexit, some of which will continue into next year. But, thanks to the hard work of our colleagues, it is clear that underlying performance is improving, with our main businesses making important gains in market share and customer perception. The hard yards of driving long term change are beginning to be borne out in our performance."

Group Results (26 weeks ended)	2 Oct 21	26 Sep 20	28 Sep 19	Change vs 2019/20 (%)
Statutory revenue	£5,105.3m	£4,090.9m	£4,860.9m	*5.0*
Sales before adjusting items	£5,112.9m	£4,102.1m	£4,860.9m	*5.2*
Operating profit before adjusting items	£363.2m	£61.8m	£269.9m	*34.6*
Profit/(loss) before tax & adjusting items	£269.4m	£(17.4)m	£176.3m	*52.8*
Adjusting items	£(82.1)m	£(70.2)m	£(17.5)m	*n/a*
Profit/(loss) before tax	£187.3m	£(87.6)m	£158.8m	*17.9*
Profit/(loss) after tax	£159.9m	£(71.6)m	£122.4m	*30.6*
Basic earnings/(loss) per share	8.2p	(3.5)p	6.4p	*28.1*
Adjusted basic earnings/(loss) per share	12.1p	(0.4)p	7.1p	*70.4*
Free cash flow[3]	£287.6m	£88.1m	£(4.7)m	*n/a*
Net debt[3]	£3.15bn	£3.82bn	£4.07bn	*-22.6*
Net debt excluding lease liabilities[3]	£0.82bn	£1.31bn	£1.54bn	*-46.8*
Dividend per share	-	-	3.9p	*n/a*

There are a number of non-GAAP measures and alternative profit measures "APMs", discussed within this announcement and a glossary and reconciliation to statutory measures is provided at the end of this report. 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.

[1]All references to sales, a new APM, throughout this document are statutory revenue plus the gross value of consignment sales excluding VAT.

[2] The Food ex hospitality and franchise APM is based on total revenue rather than like-for-like revenue, as was presented at the 20/21 year-end results.

[3] Due to a change in the Group's accounting policy to recognise BACS payments at the settlement date, rather than when they are initiated, the comparative amounts for net debt and free cashflow have been restated.

TRANSFORMATION DRIVING STRONG PERFORMANCE ACROSS M&S

The combined effects of reshaping the business and the bounce back from the pandemic have driven an encouraging performance across M&S. Profit before tax and adjusting items for the period was £269.4m. Better financial results and a strong focus on working capital management generated free cashflow and a further reduction in net debt. Results include £47.5m of UK business rates relief, and a net rates charge of £50.3m in the period.

A repositioned Food business delivering growth

Consistently strong growth in Food sales of 10.4% and an improving margin mix has helped to deliver a strong increase in operating profit before adjusting items compared to 2019/20. Whilst it is hard to unravel the residual effects of the pandemic, and the bounce back in spending, from the benefits of the reshaping of M&S Food, we are encouraged by the market share gains increasingly being generated in the core categories at the centre of our strategy. Alongside this, Ocado Retail benefited from a step change in the online grocery market and, following the opening of 3 CFCs (Customer Fulfilment Centres) and further planned capacity, will be well positioned to drive customer growth in the coming year.

Better product and omni-channel strategy deliver sharp uplift online in Clothing & Home

The Clothing & Home business delivered 17.3% growth in full price sales helping to drive a healthy improvement in operating profit before adjusting items. There are early indicators of renewed competitiveness in most categories, with increased market share overall and in both the online and store channels and improving style and value perception. The number of online customers continued to grow, and we have seen stronger retention levels of newer shoppers supported by the Sparks data and personalisation programme. In October, we relaunched the acquired Jaeger business as a digital-first brand, with an encouraging early customer response.

Good progress on rotation of the store estate

We are making good progress on the store rotation programme we set out in May. Initial results from new full line store openings have been encouraging. The pipeline of new full line stores has grown to 20 and now includes six former Debenhams sites, in addition to Leamington Spa which opened in the period. In all of these stores we expect to deliver high volume, enabling consolidation of nearby stores. Wherever possible we will accelerate this programme.

International focused on strong trading partnerships and global online

The International business has also grown online sales, both in markets with M&S stores and on marketplaces. In addition, we have seen a solid recovery in Clothing & Home sales while managing the headwinds of lockdown and restrictions in India plus the impact of EU border costs, primarily affecting Food. Despite these headwinds, International made a solid contribution to group results.

Outlook and path to growth

As we move from the ‘fixing the basics’ phase of the transformation, we are confident of our ability to drive shareholder value in the next phase. Trading for the first four weeks of H2 has been consistent with growth rates reported in Q2 and ahead of plan and we expect the strong demand relating both to the bounce back and improved customer perception to be sustained in the near term. However, well publicised cost pressures will become progressively steeper increasing the importance of our productivity plans, store rotation and technology investment in the coming year. Taking these factors into account and assuming there is no further acute pandemic related disruption, our central case is for profit before tax and adjusting items for the year to be ahead of expectations and in the region of £500m.

A REPOSITIONED FOOD BUSINESS DELIVERING GROWTH

M&S Food delivered strong sales growth of 10.4% on 2019/20 and exited the period as the best performing UK grocery chain (Source: Kantar 12 weeks to 3 October 2021). Sales grew 16.9% after adjusting for the adverse impact on the hospitality and franchise travel businesses which are still progressively recovering from the impacts of Covid consumer behaviour. This imbalance was also reflected in the geographical pattern of recovery: compared with 2 years ago M&S Food sales on retail parks were up 23.3%, while Food sales in city centre stores were down 18.4%.

% change to 19/20	
M&S.com (flowers/hampers/wine)	137
Simply Food	27
Retail parks	23
Franchise fuel	13
Total	26

% change to 19/20	
Shopping centre	-
High street	-10
City centre	-18
Franchise travel (rail/air/roadside)	-49
Total	-16

Operating profit before adjusting items of £143.7m, as compared to £92.2m in 2019/20, reflected strong sales growth and steady gross margin offset by modest cost growth.

Broadened appeal of the M&S Food range

The transformation of the M&S Food range over the last few years, previously obscured by pandemic distortions, has delivered an improvement in customer perception, strong core sales growth and market share gains.

- Product development has been refocussed on the mainstream, improving choice in core product categories such as pasta, ready meals, bakery and wine, as well as seasonal family products and frozen ranges. Perception for quality and in critical areas such as farm standards is now market leading.

- As part of the shift to trusted value, promotions have been substantially reduced and entry price points have been sharpened with the introduction of the 'Remarksable' range and 'Fresh Market Specials'. The iconic 'Dine In' programme has been relaunched and expanded to create more compelling offers for dinner for two, for families and for key events.

- With that, there has been a sharp improvement in customer value perception and recent market share increased 20bps on 2019/20 with strong growth in the categories that are important to family shoppers such as produce, meat and grocery. Average basket size on everyday shopping trips remains c.30% higher than pre-pandemic levels, even as the frequency of trips is recovering.

Our food-on-the-move and hospitality businesses continued to be impacted in the period. However, since schools and some offices returned to more normal working patterns, sales in city centre, high street and franchise - air and some rail locations - have also improved. Compared to 2019/20 levels, food-on-the-move sales were down 11.4% in September and higher margin hospitality sales were down 34.9%, improving on first half performance which is shown below.

% change to 19/20	
Frozen	40
Grocery & household	33
Beers, wines, spirits	30
Meat, fish, poultry, deli, dairy	20
Produce & flowers	14
Total	20

% change to 19/20	
Hospitality	-53
Food-on-the-move	-18
Total	-30

Our Food strategy is to shift to larger stores in the evolving 'renewal' innovation format which offer greater choice in core categories in a more operationally efficient way. The format has now been implemented in 29 new and renewed stores including 14 since our full year results. Sales in renewal stores opened in the current year have increased 15.7% in the period and 19.0% in September, compared to 2019/20.

Multi-year supply chain efficiency programme underway

The Food business has a multi-year programme to improve efficiency and availability and reduce waste. The Vangarde store process improvements have now been implemented across 75% of the estate. Comprehensive new forecasting, ordering, allocation and space planning systems are under development and commence roll out towards year-end. With our distribution partners, we are also working on plans to create a streamlined, modern, automated network.

As widely reported, there are growing issues of driver, warehouse and supplier labour shortages creating additional pressures for all retailers, including M&S. We have a number of recruitment initiatives which include targeted incentives for drivers. We are also increasing truck, cage and tray-fill, and resetting delivery schedules and depot picking processes to help manage the pressures. We are planning for significant supply chain cost increases in the second half of the year with further on-costs next financial year. However, because of our concentrated supplier base and much improved working relationship with our logistics partner Gist, the Food business is comparatively well placed for these challenges.

Ocado Retail set for rapid capacity growth

Compared to 2020/21, Ocado.com customer orders grew by c.19% and revenue declined 2.7% over the 26 weeks ended 29 August 2021, contributing a share of net income of £28.1m. M&S product sales on Ocado Retail were c.£309m, 27% of total sales.

As expected, revenue was lower compared to 2020/21 as trade annualised against strong performance during the first national lockdown and towards the end of the period was impacted by the fire at the Erith CFC. Average basket size was £124 compared with £151 last year as it returned to pre-Covid levels. The fire at Erith CFC on 16 July and the additional safety measures put in place impacted revenue, which declined 19% in the final 7 weeks of the period.

The pandemic has driven a substantial step up in the penetration of online grocery sales from c.7% of market demand pre-Covid to over 12% today. In the medium term this will create significant growth opportunities for Ocado Retail as it is able to use the superior service and range driven by the CFC model to attract customers newly familiar with online ordering.

Our objective for Ocado Retail is to drive long term growth and loyalty through better service, quality and more extensive range, underpinned by the M&S brand.

- Ocado Retail has plans to reach capacity of c.700,000 orders per week based on pre-Covid basket sizes and will have invested in growing capacity when fully ramped by over 50% since the M&S investment.
- The Erith site has reopened and is expected to return to pre-fire capacity by the end of November on release of temporary additional safety measures put in place at the site. New CFC capacity at Purfleet (85k OPW 'Orders Per Week') and Andover (60k OPW) is ramping up rapidly and ahead of plan, to be followed by the opening of Bicester (30k OPW) next summer and Luton (65k OPW) in 2023.
- The Zoom rapid delivery service format will be expanded to a further 3 sites in Ocado Retail's FY 2021/22.

We continue to have a strong programme of capacity growth in Ocado Retail and we expect to deliver strong revenue growth in FY 2021/22. In the near term, margins will reflect the higher percentage of immature capacity as well as the resumption of normal peaks and troughs associated with trading pre-lockdown. In addition, Ocado Retail has been impacted by the industry wide labour market and logistics issues requiring investment in colleague development, retention and reward which will put pressure on costs in the remainder of our financial year.

BETTER PRODUCT AND OMNI-CHANNEL STRATEGY DELIVER SHARP UPLIFT ONLINE IN CLOTHING & HOME

Clothing & Home delivered a substantial improvement in profitability with sales down just 1.0% compared with 2019/20 despite lockdown extending into week one of the period. Sales grew in Q2 and overall full price sales were up 17.3% for the period. Operating profit before adjusting items was £156.2m as compared to £109.6m in 2019/20.

MS2 delivered strong online growth, with sales up 60.8% vs 2019/20 and 19.7% compared with last year. Online market share increased 1.1 percentage points compared to 2019/20 in the 12 weeks to 19 September. Online sales represented 34% of Clothing & Home sales in the period, well on the way to our target of over 40%. Online active customers have increased by 60.0% over two years to 9.6m and retention rates are higher than before the pandemic, creating an expanded opportunity for growth.

Store sales declined 17.6% compared with 2019/20. The 'legacy' store base meant that the business remained impacted by the enduring weakness of city centre and high street trade. Stores on retail parks were level on 2019/20, while our stores in city centres declined by 32.1%. Nevertheless, store market share was up 0.8 percentage points in the 12 weeks to 19 September.

% change to 19/20	
Retail parks	-
Outlets	-5
Shopping centres	-21
High Street	-23
City centre	-32
Total C&H stores	**-18**

Re-engineering of the Clothing & Home product engine

The re-engineering of the Clothing & Home operating model is now demonstrating its potential to reverse years of decline in the business.

- More focused category management has enabled total option count to be reduced by around one quarter compared with three years ago, resulting in substantially improved line-item rate of sale. For instance, in our 'hero' category of women's denim, sales per option are up 56% on 2019/20 from 29% fewer options.
- Over 1,300 colleagues have been trained in efficient buying and merchandising in the 'Never the Same Again academy'. Combined with a test and repeat programme and new tools to accurately rank and plan product, this is having a positive impact on product appeal and finish.
- Alongside the reduction in duplication and creation of a more focused core range, we have broadened choice in growth areas such as activewear, kids' daywear and home. For instance, the Goodmove activewear brand has seen very rapid growth since its launch prior to the pandemic and our girls' daywear market share has grown by 160bps.
- Nine weeks have been taken out of the womenswear 'critical path' resulting in orders being placed closer to the date of sale, speeding up the supply chain. This has helped support the business which has traded with three weeks less stock compared with 2019/20.
- The combination of these changes has also enabled a significant shift towards 'every day low prices'. The intensive promotions of the past including the quarterly 'friends and family' discount events have been removed and only partially replaced by personalised discounts through Sparks. Overall, the volume of stock into the clearance sale has reduced by over 50%.
- Product display has also been updated both in store and online with initiatives such as 'The Edit' in womenswear which seeks to create a more inspiring store environment backed by volume stock commitment in popular lines.
- These changes have driven an improvement in customer perceptions of value for money with M&S Clothing now holding a leading position, alongside our continued lead on quality.

As illustrated in the tables below, overall performance in the first half remained skewed towards more casual categories. However, since the return to offices in September, performance in formal categories has improved with suits up 3% on 2019/20 and trousers up 8.7% in the month.

% change to 19/20	Online	Stores
Lingerie & essentials	97	-16
Casual	68	-7
Kids	70	-13
Women's outerwear	60	8
Home & Beauty	52	-13
Total	69	-11

% change to 19/20	Online	Stores
Holiday	-27	-38
Formal	-3	-42
Shoes & accessories	-2	-41
Total	-6	-41

MS2 beginning to prove the power of the omni-channel strategy

MS2 continues to progress and drive strong results for the online business. We have one of the largest active online customer bases in the UK and an opportunity to drive sales through increased frequency, recency and spend. We aim to achieve well over 40% of Clothing & Home sales through online in three years compared with 34% in H1.

MS2 was created to bring the online, digital and data teams together to improve the online offer and draw on the group's customer data and the relaunched Sparks loyalty programme to personalise selling. Our objective is to match the speed and flexibility of pure play competitors with the advantages of an omni-channel fulfilment strategy using the store base for click and collect, returns, and rapid fulfilment.

Sparks and the M&S App creating competitive advantage

- We have seen continued improvement in website performance and useability with mobile now accounting for c.50% of orders, of which almost half are generated through the M&S App.
- The relaunched Sparks loyalty and personalisation programme now has over 13m members, and the M&S App user base has grown to over 3m. The combination of Sparks and the App user base creates powerful advantages in online marketing as well as better service for customers.
- The App also gives access to digital services such as bra fit appointments, 'scan and shop' in Food and easy online collection and returns.

Investment in fulfilment providing resilience

- Capacity and productivity at our Castle Donington fulfilment centre has proved resilient and we expect to extend output to handle continued growth alongside an investment in online fulfilment capacity at Bradford.
- To develop our omni-channel approach, systems changes have enabled rapid growth of low-cost store-based online fulfilment. This enables stock to be picked in a customer's preferred store of collection and paves the way to a rapid same day fulfilment service as well as reducing 'trapped stock' in stores.
- In the first half, store-based fulfilment was 57% up on 2019/20 and accounted for 9% of click and collect sales.

M&S brand platform extending customer reach

- In October we relaunched the acquired Jaeger business and have generated an encouraging customer response. Jaeger stands for effortless elegance, styled in an inclusive, modern, British way. The brand is built as digital first but ultimately with an omni-channel vision and is able to capitalise on the advantages that the M&S infrastructure and platform can bring.
- The emerging platform strategy has produced encouraging results with strong initial sales from our newly launched brands. M&S now trades with over 30 partners from Sloggi lingerie to Ghost dresses to Clarks school shoes. The majority of the brands will be online-only but we plan a limited presence of leading brands such as Jaeger and Clarks in our largest high-footfall shops during H2.
- The average online basket size for brands is more than twice the average for M&S.com with brands contributing c.3.5% of total online sales in H1.

GOOD PROGRESS ON ROTATION OF THE STORE ESTATE

At the year-end we set out our goal of achieving a modernised full line estate of c.180 stores through store rotation, reflecting the accelerated channel shift post pandemic. Rotation means closing at least 110 locations and relocating to either a new full line or food-only store and in many cases consolidating multiple stores into one.

The pandemic has further polarised store performance with very significant decline in sales in some locations and improved performance in others. At the same time, some of the older M&S stores are high cost to operate with multi-floor facilities and stock rooms which are too expensive to modernise.

Promising early results from rotation

- Store rotation allows us to break the paradox of short-term profit considerations and lease exit costs which have previously inhibited the pace of change.

- As a result of accelerated channel shift, we have been able to generate over 30% Clothing & Home sales recapture in nearby stores or online from many store closures to date, offsetting much of the contribution lost from closure.

- We have also generated encouraging initial results from new full line store openings such as Nottingham Giltbrook, Sears Solihull, and Maidstone Eclipse with a very good customer reaction and paybacks in line with plan.

Good progress on renewing the full line estate

- The pipeline of new full line stores is showing encouraging growth with 20 already identified over the next three financial years. These include six former Debenhams sites, in addition to Leamington Spa which opened during the period, all of which we expect to deliver high volume allowing consolidation of nearby stores.

- All new stores are opened with our renewal format in Food and emerging new approach to Clothing & Home layout, décor and display. We intend to incorporate our 'digital store' initiatives providing for rapid fulfilment and returns.

- We now have around 20 asset management projects under consideration for feasibility which will free up cash to help finance the store rotation. We are engaged in constructive discussions with multiple landlords about initiatives such as repurposing buildings and joint development programmes helping to release 'hidden value' in the M&S estate.

In addition, in stores which are well located but have surplus Clothing & Home space, we have a programme to fallow, reallocate to Food or repurpose space for in-store fulfilment.

Good examples of store rotation and consolidation acted upon in the period

Paisley

During the first half we relocated the aged Paisley town centre Clothing & Home outlet and Food store, which had sharply declining sales, to a modern Foodhall on the adjacent retail park with good access and parking. The cash closure costs of the legacy site have been partially funded with a freehold disposal, and the new site is trading ahead of plan.

	Paisley Outlet Actuals		Paisley Retail Park Business Case
Sales ex VAT (£m)	9.9		10.5
LFL (%)	-5.7		n/a
Cash profit (£m)	0.6		1.4
Net cash relocation costs (£m)	-		-2.4

Leamington Spa

In Leamington Spa we have recently consolidated two units into one, by closing a clothing site in the Royal Priors shopping centre and the Warwick Simply Food and extending a new Food site at Leamington Shopping Park into the former Debenhams next door to create a new prime full line store. The incremental cash contribution net of closure costs is expected to generate payback on the net capital invested in under four years.

	Leamington Town Centre Actuals		Warwick Simply Food Actuals		Leamington Shopping Park Business Case
Sales ex VAT (£m)	5.5		4.0		21.7
LFL (%)	-6.1		-2.1		n/a
Cash profit (£m)	1.3		0.3		4.0
Net cash relocation costs (£m)					-7.9

INTERNATIONAL FOCUSED ON STRONG TRADING PARTNERSHIPS AND GLOBAL ONLINE

Our objective is to create a growing International business through strong partnerships and a multi-platform online business with global reach. International sales in H1 reflected the strong rebound of activity in the Republic of Ireland upon reopening and in India in Q2 following lockdown. International online sales grew strongly, both in markets with an M&S store presence and through marketplace growth led by Zalando.

Operating profit before adjusting items of £35.9m included operating costs of c.£13m due to ongoing EU border issues, largely relating to our Republic of Ireland business following Brexit.

- We have an ambition to double the International online business over the next three years. In the first half, sales increased 142% on 2019/20 and grew 29% against the prior year. Growth has been driven by the Republic of Ireland and India, broadening the number of markets with an online presence and rapid scaling of our wholesale relationship with Zalando marketplace.
- The Clothing & Home store business in the Republic of Ireland has seen rapid recovery following reopening. However, we are working to mitigate the very substantial headwinds relating to the impact of EU border issues on the Irish Food business, including restructuring the cost base and a planned step up in local sourcing. During the first half we also announced a restructuring of our Food operations in continental Europe, as a result of EU border costs.

- The joint venture in India is now well embarked on an omni-channel strategy and will launch an M&S App later this year which will enable us to create a single view of the customer and drive an experience similar to the UK. With our joint venture partner, Reliance Retail, we now operate 93 stores in India.
- We continued the renewal of the International store estate despite lockdowns and restricted trading conditions. For instance, during H1 we modernised stores in Singapore with the expansion of Wheelock Place and Vivo City and opened digital stores at Yas Mall in Abu Dhabi and Phoenix High Street in India.
- To reduce lead times, improve stock presentation and order visibility for International partners we opened a new UK hub which enables deliveries to bypass the UK network. To address EU border issues and improve speed to market, we also plan to open an EU hub in Croatia in 2022.

OUTLOOK AND PATH TO GROWTH

As we move from the 'fixing the basics' phase of the transformation, we are confident of our ability to drive shareholder value in the next phase. In the main businesses there is demonstrable scope for further improvement and the customer response to the transformation has been encouraging.

Trading for the first four weeks of the second half has remained consistent with growth rates reported in Q2 and ahead of plan. In the near term we expect the strong demand relating both to the bounce back and improved customer perception to be sustained in the second half.

However, well publicised supply chain pressure, combined with pandemic supply interruptions, rising labour costs, EU border challenges and tax increases means the cost incline becomes steeper in the second half and steeper again in the 2022/23 year. That will increase the importance of our productivity plans, store rotation and technology investment.

Taking these factors into account and assuming there is no further acute pandemic related disruption, our central case is for profit before tax and adjusting items for the year to be ahead of expectations and in the region of £500m.

Capital expenditure, partly as a result of supply chain delays is running behind plan at around £250m. As a result, net debt is likely to reduce more than previously anticipated, and we are strengthening the balance sheet in anticipation of the growth opportunities ahead.

As we enter the new phase, we expect to bring forward our plans for continued far-reaching changes in the shape of the business. Financially, our objectives over the next three years remain; progressive growth in sales, market share and profit in Food, Clothing & Home online sales to exceed 40% of total sales, and delivering an overall Clothing & Home profit margin in excess of 2019/20 levels.

Our capital allocation priorities also remain unchanged. Firstly, we will invest in the transformation of the business to return to sustainable profit growth. Alongside this, we will prioritise the recovery of balance sheet metrics consistent with an investment grade rating. We will assess the reintroduction of dividend payments in this context although this remains unlikely in the current year.

We will report trading for the third quarter on 13 January 2022.

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Investor & Analyst presentation and Q&A:
A pre-recorded investor and analyst presentation will be available on the Marks and Spencer Group plc website from 7:30am on 10 November 2021.

Steve Rowe and Eoin Tonge will host a Q&A session at 9.30am on 10 November 2021:
Dial in number: +44 (0)800 279 7204/+44 (0)330 336 9424 Confirmation code: 2955677

Please join 5 minutes prior to the scheduled start time.

Link to skip the virtual queue here

A recording of this call will be available until 11am 17 November 2021.

Dial in number: +44 (0)20 3859 5407 Confirmation code: 2955677

Fixed Income Investor Conference Call:
This will be hosted by Eoin Tonge, Chief Finance Officer, at 2pm on 10 November 2021:
Dial in number: +44 (0)800 279 7209/+44 (0)330 336 9434 Confirmation code: 7732156

A recording of this call will be available until 11am 17 November 2021.

Dial in number: +44 (0)20 3859 5407 Confirmation code: 7732156

FULL YEAR FINANCIAL REVIEW

Financial Summary

	26 weeks ended					52 weeks ended[1]
	2 Oct 21 £m	26 Sep 20 £m	28 Sep 19 £m	*Change vs 20/21 %*	*Change vs 19/20 %*	27 Mar 21 £m
Group statutory revenue	**5,105.3**	**4,090.9**	**4,860.9**	*24.8*	*5.0*	**8,961.5**
Group sales before adjusting items	**5,112.9**	**4,102.1**	**4,860.9**	*24.6*	*5.2*	**8,972.7**
UK Food	3,143.0	2,838.6	2,845.8	*10.7*	*10.4*	5,994.8
UK Clothing & Home	1,534.6	917.2	1,550.4	*67.3*	*-1.0*	2,198.6
International	435.3	346.3	464.7	*25.7*	*-6.3*	779.3
Group operating profit/(loss) before adjusting items	**363.2**	**61.8**	**269.9**	*487.7*	*34.6*	**209.7**
UK Food	143.7	109.7	92.2	*31.0*	*55.9*	213.6
UK Clothing & Home	156.2	(107.5)	109.6	*n/a*	*42.5*	(129.4)
International	35.9	19.7	55.8	*82.2*	*-35.7*	45.1
M&S Bank and Services	(0.7)	1.1	12.9	*n/a*	*n/a*	2.0
Share of result in associates and joint ventures	28.1	38.8	(0.6)	*-27.6*	*n/a*	78.4
Interest payable on lease liabilities	(58.9)	(62.2)	(68.3)	*-5.3*	*-13.8*	(122.5)
Net financial interest	(34.9)	(17.0)	(25.3)	*105.3*	*37.9*	(45.6)
Profit/(loss) before tax & adjusting items	**269.4**	**(17.4)**	**176.3**	*n/a*	*52.8*	**41.6**
Adjusting items	(82.1)	(70.2)	(17.5)	*-17.0*	*369.1*	(242.8)
Profit/(loss) before tax	**187.3**	**(87.6)**	**158.8**	*n/a*	*17.9*	**(201.2)**
Profit/(loss) after tax	**159.9**	**(71.6)**	**122.4**	*n/a*	*30.6*	**(194.4)**
Basic earnings/(loss) per share	8.2p	(3.5)p	6.4p	*n/a*	*28.1*	(9.8p)
Adjusted basic earnings/(loss) per share	12.1p	(0.4)p	7.1p	*n/a*	*70.4*	1.1p
Dividend per share	-	-	3.9p	*n/a*	*n/a*	-
Net debt	**£3.15bn**	**£3.82bn**	**£4.07bn**	*-17.5*	*-22.6*	**£3.52bn**

Notes:
There are a number of non-GAAP measures and alternative profit measures ("APMs") discussed within this announcement and a glossary and reconciliation to statutory measures is provided at the end of this report. Adjusted results are consistent with how business performance is measured internally and presented to aid comparability of performance. Refer to the adjusting items table below for further details.

Given the exceptional nature of financial results last year due to the impact of Covid, all comparatives within this financial review are given against 2019/20 unless otherwise stated.

Due to a change in the Group's accounting policy to recognise BACS payments at the settlement date, rather than when they are initiated, the comparative amounts for net debt and free cashflow have been restated.
In the current period, we have introduced a new APM: 'sales'. All references to sales throughout this document are statutory revenue plus the gross value of consignment sales excluding VAT. Where third-party branded goods are sold on a consignment basis, only the commission receivable is included in statutory revenue. This new measure has been introduced given the Group's focus on launching and growing third-party brands and is consistent with how the business performance is reported and assessed by the Board and the Executive Committee.

[1] 2020/21 was a 53 week year and comparative periods are on a 52 week basis. To aid understanding, we have presented the unaudited 52 weeks to 27 March 2021, however net debt is given on a 53 week basis.

Group results

Group sales before adjusting items were £5,112.9m. Sales increased 5.2% versus 2019/20, driven by Food sales up 10.4%, with Clothing & Home sales down 1.0% and International sales down 6.3%. Statutory revenue in the period was £5,105.3m, an increase of 5.0% versus 19/20. The Group generated an adjusted profit before tax of £269.4m and a statutory profit before tax of £187.3m.

Within Group profit, we incurred a number of direct Covid costs such as door hosts, hygiene and increased absence from the pandemic totalling £12.1m (2020/21: £41.4m; 2019/20: nil).

In addition, UK business rates relief of £47.5m helped to compensate for the continuing loss of trade from lower footfall to Clothing & Home stores in the UK, as well as the Food hospitality business which was closed until mid-May. A net rates charge of £50.3m for UK business rates was recognised in the period.

Statutory profit before tax includes total charges for adjusting items of £82.1m.

For full details on adjusting items and the Group's related policy see notes 1 and 3 to the financial information.

UK: Food

UK Food sales increased 10.4% driven by the strong performance of core categories, partly offset by reduced sales from the franchise and hospitality businesses which are still recovering from the pandemic. Excluding franchise and hospitality, sales grew 16.9%.

Change vs 19/20 %	Q1	Q2	H1
Food	9.4	11.5	10.4
Food ex franchise and hospitality	17.0	16.8	16.9

M&S Food reported sales do not benefit from a direct online grocery presence, with these sales instead reported through Ocado Retail.

26 weeks ended	2 Oct 21	26 Sep 20	28 Sep 19	Change vs 19/20 %
Footfall, m (average/week)	9.5	7.4	11.6	-18.1
Transactions, m (average/week)	7.4	5.1	9.3	-20.4
Basket value inc VAT (£)	15.9	20.6	11.7	35.9
Total sales ex VAT £m (inc. M&S.com)	3,143.0	2,838.6	2,845.8	10.4

Whilst footfall is recovering, on average it has remained 18.1% below pre-pandemic levels, with a similar trend echoed in the average number of transactions, down 20.4%. Basket value remains 35.9% above pre-pandemic levels at an average of £15.90 over the period and has declined compared to 2020/21 driven by the gradual recovery of our hospitality and food-on-the-move businesses which typically have smaller baskets.

26 weeks ended	2 Oct 21 £m	26 Sep 20 £m	28 Sep 19 £m	Change vs 19/20 %
Sales	3,143.0	2,838.6	2,845.8	10.4
Operating profit before adjusting items	**143.7**	**109.7**	**92.2**	55.9
Operating margin	*4.6%*	*3.9%*	*3.2%*	*c.+140bps*

The Food business in total generated operating profit before adjusting items of £143.7m compared with £92.2m in 2019/20.

The table below sets out the drivers of the movement in operating profit margin before adjusting items over two years.

Operating profit margin before adjusting items	%
2019/20	**3.2**
Gross margin	(0.4)
Store staffing	1.5
Other store costs	1.0
Distribution and warehousing	(0.8)
Central costs	0.1
2021/22	**4.6**

- **Gross margin** decreased c.40bps. The decrease in margin rate was primarily as a result of lower sales from the higher margin hospitality business and additional warehousing and freight charges, partly offset by strong growth in core categories and cost saving programmes including Ocado synergies. Food waste and stock loss were broadly level.
- **Store staffing** costs improved c.150bps, primarily driven by retail restructuring efficiencies enabled by technology improvements in store and ongoing efficiency programmes, partly offset by pay inflation and ongoing Covid related costs.
- The c.100bps improvement in **other store costs** relates to government business rates relief of £19.7m and lower depreciation charges as legacy store modernisations come to the end of their useful economic lives, partly offset by increased maintenance costs.
- **Distribution and warehousing** costs increased c.80 bps reflecting investment in our Milton Keynes ambient depot to support volume growth, increased pay and incentives related to warehouses and haulage, the higher cost to serve of online orders, and inefficiencies from EU border-related processes for serving Northern Ireland.
- **Central costs** improved c.10bps, with a reduction in depreciation of technology assets as they reach the end of their useful lives offset by increased technology operating expenditure, including in forecasting, ordering and allocation systems and projects to enable retail restructuring efficiencies.

Ocado Retail Ltd

The Group holds a 50% interest in Ocado Retail Ltd ("Ocado Retail"). The remaining 50% interest is held by Ocado Group plc ("Ocado Group"). Half year results are consistent with the quarterly results reported by Ocado Group on behalf of Ocado Retail for the quarterly periods ended 30 May 2021 and 29 August 2021.

All commentary in this section is against 2020/21 comparatives as the acquisition of the investment in Ocado Retail Ltd by M&S was made part-way through 2019/20.

Group share of consolidated results of Ocado Retail Ltd

£m	26 weeks ended 29 Aug 21	26 weeks ended 30 Aug 20	*Change* %
Revenue	1,136.3	1,167.7	-2.7
EBITDA before exceptional items	80.7	89.1	-9.4
Exceptional items	3.4	28.5	-88.1
Operating profit	64.8	100.5	-35.5
Profit after tax	56.3	77.6	-27.4
M&S 50% share of profit after tax	28.1	38.8	-27.6

Ocado Retail Ltd is reported as an associate of M&S as certain rights are conferred on Ocado Group plc for an initial period of at least five years from acquisition. Exceptional items are defined within the Ocado Group plc Annual Report and Accounts 2021. A 2019/20 comparative is not provided here as the investment in Ocado Retail Ltd was made part-way through 2019/20.

Revenue declined 2.7% compared to 2020/21 as trade annualised against strong performance during the first national lockdown in 2020 and towards the end of the period was impacted by the fire at the Erith CFC on 16 July. These impacts were partly offset by an increase in capacity to just over 600k orders per week in the period. M&S products continue to account for over 25% of the average Ocado basket.

Ocado Retail EBITDA before exceptional items was down 9.4% reflecting the revenue and cost impacts of the Erith CFC fire, and the normalisation of basket size and shape of week.

In addition, Ocado Retail has recognised £3.4m of exceptional income before tax, largely related to insurance receipts for business interruption received in the period up to 29 August 2021 arising from the Andover fire in 2019 offset by £5.1m exceptional costs relating to the fire at Erith CFC. Exceptional items in the prior period also relate to the Andover fire insurance receipts. Further insurance receipts are anticipated in the second half.

As a result of reduced EBITDA and insurance receipts, Group share of Ocado Retail profit after tax was £28.1m.

UK: Clothing & Home

Clothing & Home sales decreased 1.0% as a result of the impact on store sales of lower footfall, offset by continued strong performance of the online business. Performance in Q1 was partly impacted by store closures during the third national lockdown, which were in place until 12 April, with Q2 performance improving as footfall increased. The online business remained robust throughout the period.

Change vs 19/20 %	Q1	Q2	H1
Clothing & Home sales	-4.2	2.0	-1.0
Clothing & Home stores sales	-21.2	-14.3	-17.6
Clothing & Home online sales	59.2	62.3	60.8
Clothing & Home statutory revenue	*-4.6*	*1.4*	*-1.5*

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

Online

26 weeks ended	2 Oct 21	26 Sep 20	28 Sep 19	Change vs 19/20 %
Traffic (m)	182.9	173.7	142.4	28.4
Active customers (m)	9.6	6.9	6.0	60.0
Conversion (%)	7.3	7.0	6.3	1.0 pts
Average order value inc VAT pre returns (£)	55.6	49.3	51.3	8.4
Returns rate (%)	25.6	18.6	28.7	-3.1 pts
Sales ex VAT £m	**528.4**	**441.4**	**328.6**	**60.8**

UK Clothing & Home online sales increased 60.8%. Following strong performance in 2020/21, online sales remained robust, with consistent growth throughout the period. Online customer traffic increased 28.4%, with traffic through the app up over 200% on 2019/20 following the relaunch of Sparks in July 2020, which has helped to drive 60.0% growth in active customers to 9.6m. Increased app usage has driven better conversion and encouragingly app conversion itself has improved to over 9%.

As anticipated, returns rates have started to normalise towards pre-pandemic levels, but remain 3.1 percentage points lower than 2019/20 due to continuing trends in customer behaviour and product mix. Average order value (AOV) was ahead of 2019/20 levels.

Stores

26 weeks ended	2 Oct 21	26 Sep 20	28 Sep 19	Change vs 19/20 %
Footfall, m (average/week)	3.7	1.6	5.8	*-36.2*
Transactions, m (average/week)	1.6	0.7	2.1	*-23.8*
Average basket value inc VAT pre returns (£)	35.0	29.9	32.4	*8.0*
Sales ex VAT £m	**1,006.2**	**475.8**	**1,221.8**	***-17.6***

UK Clothing & Home store sales decreased 17.6%: Average weekly footfall was 36.2% below pre-pandemic levels in the period, with the business adversely impacted by the shape of the store estate: Whilst sales in high streets and city centres were down c.27%, sales in retail parks were level on 2019/20 levels. Overall, store transactions were down 23.8%, with basket value up 8.0%.

Total Clothing & Home

The Clothing & Home business in total generated an operating profit before adjusting items for the six months of £156.2m compared with £109.6m in 2019/20.

26 weeks ended	2 Oct 21 £m	26 Sep 20 £m	28 Sep 19 £m	Change vs 19/20 %
Statutory revenue before adjusting items	1,527.0	917.2	1,550.4	-1.5
Sales	1,534.6	917.2	1,550.4	-1.0
Operating profit/(loss) before adjusting items	**156.2**	**(107.5)**	**109.6**	**42.5**
Operating margin	*10.2%*	*-11.7%*	*7.1%*	*+310bps*

The table below sets out the drivers of the movement in Clothing & Home operating profit before adjusting items over two years.

Operating profit margin before adjusting items	%
2019/20	7.1
Gross margin	0.9
Store staffing	2.7
Other store costs	2.2
Distribution and warehousing	(2.4)
Central costs	(0.3)
2021/22	10.2

- Gross margin improved c.90bps. The benefit of strong full price trading and lower stock into sale more than offset cost headwinds of adverse currency movements and additional freight costs.
- Store staffing costs decreased c.270bps, primarily driven by retail restructuring efficiencies enabled by technology improvements in store and ongoing efficiency programmes. Pay inflation largely offset the benefit of lower variable staffing costs.
- The movement in other store costs of c.220bps largely relates to government business rates relief of £27m and lower depreciation charges relating to legacy store modernisations.
- Distribution and warehousing increased c.240bps reflecting the higher costs to serve online demand and increased pay and incentives related to haulage.
- The increase in central costs of c.30bps was largely driven by investments in technology, data and digital initiatives and higher pay-per-click marketing activity to drive online growth, offset by a reduction in depreciation of technology assets as they reach the end of their useful lives.

Clothing & Home online generated an operating profit margin of c.10%, with the reversion towards pre-Covid returns rates reducing margin year-on-year as anticipated. The operating profit in stores also represented a margin on sales of c.10%.

International

International sales decreased 3.2% at constant currency ("CC") due to the continued impact of Covid on Asian markets, in particular in India during Q1, and the disruption and complexity arising from new EU border processes in Food supply chains, predominantly in France and the Republic of Ireland. Online sales continued to grow on both a one- and two-year basis, with both our own websites and marketplaces driving growth of 142.2%.

Change vs 19/20 %	Q1 CC	Q2 CC	H1 CC	H1 Reported
Total sales	-6.1	-0.3	-3.2	-6.3

26 weeks ended Sales	2 Oct 21 £m	26 Sep 20 £m	28 Sep 19 £m	*Change vs 19/20 %*	*Change vs 19/20 CC %*
Clothing & Home	296.9	202.1	308.0	-3.6	0.8
Food	138.4	144.2	156.7	-11.7	-10.7
Total	**435.3**	**346.3**	**464.7**	**-6.3**	**-3.2**
Memo: Online sales	*84.6*	*66.7*	*35.8*	136.3	142.2

Clothing & Home sales recovered to pre-Covid levels driven by the strong growth in online sales. Performance in India was heavily impacted in Q1 by Covid (c.-61% vs 2019/20) but recovery has been stronger than anticipated in Q2 (c.+17% vs 2019/20). Covid trading restrictions remained in place at the start of Q1 in many of our European owned markets, with sales performance upon reopening recovering strongly as customers returned to stores.

Food sales declined due to disruption caused by EU border-related processes in European markets. Supply chain complexities have heavily restricted our ability to provide a chilled catalogue in Europe. This has resulted in significant cost and complexity in servicing the Republic of Ireland and a restructuring of our Food operations in continental Europe.

Operating profit before adjusting items was down 35.7% driven principally by the additional operating costs of new EU border processes and tariffs of £13.0m, and associated trade impacts such as higher waste.

The table below sets out the drivers of the movement in International operating profit before adjusting items over two years.

Operating profit margin before adjusting items	%
2019/20	12.0
Gross margin	(0.8)
Store staffing	(0.3)
Other store costs	1.3
Distribution and warehousing	(2.2)
Central costs	(1.8)
2021/22	8.2

- **Gross margin** declined c.80bps primarily as a result of additional tariffs and waste due to inefficiencies from EU border-related processes for serving the Republic of Ireland. This was partly offset by growth of the online business.
- **Store staffing** as a percentage of sales increased c.30bps primarily as a result of reduced store sales, offset by efficiency savings from retail restructuring in the Republic of Ireland.
- The movement in **other store costs** largely relates to government relief in owned markets and rent concessions in India which resulted in one-off savings in the period.
- **Distribution and warehousing** reflects higher costs to serve online demand, and EU border-related processes.
- **Central costs** includes higher marketing spend associated with the growth of the online channel.

M&S Bank and Services

M&S Bank & Services profit before adjusting items was down £13.6m to a loss of £(0.7)m. M&S Bank & Services profit after adjusting items relating to PPI decreased £3.9m to a loss of £(1.7)m. The lower profit reflects reduced demand for credit during the pandemic impacting the profitability of the bank lending portfolio.

Net finance cost

	26 weeks ended				53 weeks ended
	2 Oct 21 £m	26 Sep 20 £m	28 Sep 19 £m	Change vs 19/20 £m	3 Apr 21 £m
Interest payable	(44.7)	(38.0)	(42.6)	(2.1)	(91.3)
Interest income	6.9	1.9	11.9	(5.0)	4.7
Net interest payable	**(37.8)**	**(36.1)**	**(30.7)**	**(7.1)**	**(86.6)**
Pension net finance income	6.4	22.8	11.3	(4.9)	47.2
Unwind of discount on Scottish Limited Partnership liability	(1.7)	(2.4)	(3.4)	1.7	(4.9)
Unwind of discount on provisions	(1.8)	(1.3)	(2.5)	0.7	(2.7)
Net financial interest	**(34.9)**	**(17.0)**	**(25.3)**	**(9.6)**	**(47.0)**
Net interest payable on lease liabilities	**(58.9)**	**(62.2)**	**(68.3)**	**9.4**	**(124.9)**
Net finance costs before adjusting items	**(93.8)**	**(79.2)**	**(93.6)**	**(0.2)**	**(171.9)**

Net finance costs increased £0.2m to £93.8m. This was driven by lower pension income due to the reduced IAS19 pension surplus compared with 2019/20 and the reversal of ineffectiveness on a currency swap in 2019/20, offset by a reduction in the net interest payable on lease liabilities.

Group profit before tax and adjusting items

Group profit before tax and adjusting items was £269.4m, up £93.1m on 2019/20. The profit increase was driven by strong full-price performance in Clothing & Home, robust sales growth in Food and the additional profit from the Ocado joint venture, offset by a reduction in International and M&S Bank operating profits.

Group profit before tax

Group profit before tax was £187.3m, up £28.5m on 2019/20. This includes adjusting items of £82.1m (2019/20: £17.5m).

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 3 to the financial information.

	26 weeks ended				53 weeks ended
	2 Oct 21 £m	26 Sep 20 £m	28 Sep 19 £m	Change vs 19/20 £m	3 Apr 21 £m
Strategic programmes – UK store estate	(58.1)	(2.9)	(9.9)	(48.2)	(95.3)
Strategic programmes – Organisation	1.9	(92.1)	(11.3)	13.2	(133.7)
Amortisation and fair value adjustments arising as part of the investment in Ocado Retail Ltd	(25.4)	(7.1)	-	(25.4)	(14.2)
Directly attributable gains resulting from the Covid-19 pandemic	15.0	49.4	-	15.0	90.8
European restructure	(11.9)	-	-	(11.9)	-
M&S Bank charges	(1.0)	(1.4)	(10.7)	9.7	(2.4)
Sparks loyalty programme transition	-	(15.3)	-	-	(16.6)
Other	(2.6)	(0.8)	14.4	(17.0)	(88.3)
Adjusting items	**(82.1)**	**(70.2)**	**(17.5)**	**(64.6)**	**(259.7)**

Adjusting items charges incurred in the period were £82.1m.

A charge of £58.1m has been recognised in relation to store closures identified as part of UK Store Estate rotation plans. The charge reflets a revised view of latest store exit routes and assumptions underlying estimated store closure costs, as well as charges relating to the impairment of buildings and fixtures and fittings, and depreciation as a result of shortening the useful economic life of stores. Further material charges relating to the closure and rotation of the UK store estate are anticipated as the programme progresses, with total future charges of up to c.£227m, bringing anticipated total programme costs since 2016 to c.£943m.

A credit of £1.9m has been recognised in relation to organisational change. This credit is based on the latest estimate of redundancy costs associated with this programme.

A charge of £25.4m has been recognised with respect to the amortisation of intangible assets acquired on the purchase of our share in Ocado Retail and related deferred tax charges of £16.6m predominantly relating to the substantive enactment of the Finance Act 2021 during the period increasing the UK's main corporation tax rate from 19% to 25% from 1 April 2023.

A gain of £15.0m has been recognised as being directly attributable to the Covid pandemic relating mostly to the release of a portion of the inventory provision made in 2019/20 compared to initial estimates. The sell-through of Clothing & Home stock has been stronger than anticipated.
A charge of £11.9m has been recognised in relation to the restructure of our European operations.

Charges of £1.0m have been incurred relating to M&S Bank, primarily due to the insurance mis-selling provision. The total charges recognised in adjusting items since September 2012 for PPI is £320.2m which exceeds the total offset against profit share of £238.5m 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 profit before adjusting items was 12.4% (2019/20: 23.1%; 2020/21: 27.0%). In the 6 months to 2 October 2021, as part of cash optimisation measures, no payments were made to the Marks and Spencer Scottish Limited Partnership ("SLP"). As such, there has been no recapture of previous tax relief, resulting in a lower effective tax rate than prior years.

As well as there being no recapture of previous tax relief under the SLP structure in the period, future changes to the UK statutory corporation tax rate result in deferred tax assets being recognised at the higher substantively enacted rate of 25%. Restating these deferred tax assets from a rate of 19% to 25% results in a tax credit in the period, reducing the effective tax rate.

Subject to no significant other changes, we anticipate the full year effective tax rate on profit before adjusting items to be slightly higher than the H1 effective tax rate given the less pronounced impact of the change in rate against the expected full year profits.

The effective tax rate on statutory profit before tax was 14.6% (2019/20: 22.9%; 2020/21: 18.3%), which was higher than the effective tax rate on profit before adjusting items due to the impact of disallowable adjusting items.

Next year, we anticipate an effective tax rate on profit before adjusting items higher than the UK corporation tax rate of 19%, principally due to the recapture of previous tax relief as payments to the SLP resume.

Earnings/loss per share

Basic earnings per share was 8.2p (2019/20: 6.4p; 2020/21: loss of 3.5p), due to the increase in profit year on year. The weighted average number of shares in issue during the period was 1,957.6m (2019/20: 1,840.2m; 2020/21: 1,951.7m).

Adjusted basic earnings per share was 12.1p (2019/20: 7.1p; 2020/21: loss of 0.4p) due to higher adjusted profit year on year.

Capital expenditure

	26 weeks ended 2 Oct 21 £m	26 weeks ended 26 Sep 20 £m	26 weeks ended 28 Sep 19 £m	Change vs 19/20 £m
UK store remodelling	27.5	3.6	22.8	4.7
New UK stores	19.3	9.0	15.6	3.7
International	5.0	2.3	4.2	0.8
Supply chain	14.9	10.4	18.6	(3.7)
IT & M&S.com	23.0	23.9	32.3	(9.3)
Property asset replacement	20.8	5.1	28.2	(7.4)
Capital expenditure before property acquisitions and disposals	**110.5**	**54.3**	**121.7**	**(11.2)**
Property acquisitions and disposals	(2.2)	1.1	(1.5)	(0.7)
Capital expenditure	**108.3**	**55.4**	**120.2**	**(11.9)**

Group capital expenditure before disposals decreased £11.9m to £108.3m compared to 2019/20, however was up on 2020/21 as we increased investment in the transformation.

UK store remodelling costs related principally to 7 Food renewal stores as well as upgrades to Clothing & Home space.

Spend on New UK stores primarily related to 3 new or extended Simply Foods and 6 new or extended full line stores in the current year, some of which have not opened yet.

Supply chain expenditure reflects investment in food equipment and the expansion of our Bradford warehouse to support online growth in Clothing & Home.

IT & M&S.com spend includes costs related to the development of the Food ordering and allocation system and buying portals, development of our 'BEAM' platform, website development and ongoing investment in digital capability and technology in stores.

Property asset replacement normalised towards pre-pandemic levels.

Cash flow

	26 weeks ended				53 weeks ended
	2 Oct 21	26 Sep 20 restated	28 Sep 19 restated	*Change vs 19/20*	3 Apr 21
	£m	£m	£m	*£m*	£m
Adjusted operating profit	**363.2**	**61.8**	**269.9**	***93.3***	**222.2**
Depreciation and amortisation before adjusting items	253.9	306.1	315.9	*(62.0)*	603.1
Cash lease payments	(173.1)	(129.1)	(159.2)	*(13.9)*	(316.6)
Working capital	111.5	85.5	(95.7)	*207.2*	268.1
Defined benefit scheme pension funding	(36.3)	(36.2)	(36.5)	*0.2*	(37.1)
Capex and disposals	(125.5)	(132.6)	(149.1)	*23.6*	(203.8)
Financial interest and taxation	(52.6)	(38.4)	(86.4)	*33.8*	(81.8)
Investment in associate Ocado Retail Ltd	(16.8)	11.5	(577.6)	*560.8*	11.2
Investment in joint venture	-	(2.5)	(2.9)	*2.9*	(2.5)
Investment in other non-current financial assets	(1.0)	-	-	*(1.0)*	-
Employee-related share transactions	18.7	6.9	1.8	*16.9*	18.5
Proceeds from rights issue net of costs	-	-	583.2	*(583.2)*	-
Share of (profit)/loss from associate	(28.1)	(38.8)	0.5	*(28.6)*	(78.4)
Cash received from settlement of derivatives	-	12.7	-	-	14.0
Adjusting items outflow	(26.3)	(18.8)	(68.6)	*42.3*	(120.5)
Free cash flow	**287.6**	**88.1**	**(4.7)**	***292.3***	**296.4**
Dividends paid	-	-	(115.1)	*115.1*	-
Free cash flow after shareholder returns	**287.6**	**88.1**	**(119.8)**	***407.4***	**296.4**
Opening net debt excluding lease liabilities	**(1,110.0)**	**(1,388.6)**	**(1,404.9)**	***294.9***	**(1,388.6)**
Free cash flow after shareholder returns	287.6	88.1	(119.8)	*407.4*	296.4
Exchange and other non-cash movements excluding leases	(1.6)	(13.2)	(18.5)	*16.9*	(17.8)
Closing net debt excluding lease liabilities	**(824.0)**	**(1,313.7)**	**(1,543.2)**	***719.2***	**(1,110.0)**
Opening net debt	**(3,515.9)**	**(3,950.6)**	**(3,981.5)**	***465.6***	**(3,950.6)**
Free cash flow after shareholder returns	287.6	88.1	(119.8)	*407.4*	296.4
Decrease in lease obligations	107.9	77.5	90.2	*17.7*	184.3
New lease commitments and remeasurements	(38.2)	(11.5)	(55.8)	*17.6*	(48.3)
Exchange and other non-cash movements	4.4	(25.1)	(5.6)	*10.0*	2.3
Closing net debt	**(3,154.2)**	**(3,821.6)**	**(4,072.5)**	***918.3***	**(3,515.9)**

2019/20 and 2020/21 net debt 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, the comparative amounts have been restated.

The business generated free cash flow of £287.6m, largely driven by EBITDA growth, working capital inflow and reduced cash tax and capital expenditure.

Cash lease payments increased £13.9m partly as a result of rental payments which were deferred from last year into this year as part of our Covid cash conservation measures enacted at the start of the pandemic. Prior half year cash lease payments were lower reflecting the timing of lease payments over half year end.

Strong trading and the timing of stock intake in advance of the peak Christmas period has resulted in trade payables increasing ahead of stock, leading to a working capital benefit in the period.

Lower capital expenditure compared to 2019/20 reflects a disciplined approach to investment and returns whilst investing in the transformation. It should be noted that 2020/21 H1 capital expenditure cashflow included c.£77m of accrued spend relating to 2019/20.

Reduced financial interest and tax payments of £52.6m are due to no UK corporation tax being paid in the period. This is driven by the utilisation of carried forward tax losses from 2020/21.

The investment in Ocado Retail Ltd in the period relates to payment of contingent consideration. As part of the investment in Ocado Retail Ltd, a contingent consideration arrangement was agreed. The arrangement comprises three separate elements which only become payable on the achievement of three separate financial and operational performance targets. In the period to 2 October 2021, £16.8m was settled, relating to the first of the three targets. On 8 October 2021, subsequent to the reporting period, £17.0m was settled, relating to the second target. The final target relates to Ocado Retail Ltd achieving a specified target level of earnings in the financial year ending November 2023. If achieved, the final element of contingent consideration of c.£156m plus interest would be paid in financial year 2024/25.

Defined benefit scheme pension funding of £36.3m reflects the second limited partnership interest distribution to the pension scheme.

Adjusting items cash outflow was £26.3m. This included £6.0m relating to the UK store estate strategy, £15.5m of organisational restructuring costs largely relating to the Republic of Ireland, and £3.4m relating to restructuring the UK Clothing & Home logistics network.

Net debt

Group net debt decreased £361.7m from the start of the year driven by free cashflow generation.

There was also a further reduction in the value of discounted lease obligations outstanding. New lease commitments and remeasurements in the period were £38.2m largely relating to new UK leases and UK liability remeasurements, which was more than offset by £107.9m of capital lease repayments.

The composition of Group net debt is as follows:

	26 weeks ended				53 weeks ended
	2 Oct 21 £m	26 Sep 20 restated £m	28 Sep 19 restated £m	vs 19/20 £m	3 Apr 21 £m
Cash and cash equivalents	951.9	308.8	378.2	573.7	674.4
Medium Term Notes	(1,680.6)	(1,531.1)	(1,956.9)	276.3	(1,682.1)
Current financial assets and other	92.6	94.1	238.2	(145.6)	83.2
Partnership liability	(187.9)	(185.5)	(202.7)	14.8	(185.5)
Net debt excluding lease liabilities	**(824.0)**	**(1,313.7)**	**(1,543.2)**	**719.2**	**(1,110.0)**
Lease liabilities	(2,330.2)	(2,507.9)	(2,529.3)	199.1	(2,405.9)
- Full line stores	(944.8)	(1,022.6)	(1,029.8)	85.0	(982.6)
- Simply Food stores	(719.4)	(745.6)	(757.7)	38.3	(727.0)
- Offices, warehouses and other	(466.9)	(518.1)	(508.0)	41.1	(494.5)
- International	(199.1)	(221.6)	(233.8)	34.7	(201.8)
Group net debt	**(3,154.2)**	**(3,821.6)**	**(4,072.5)**	**918.3**	**(3,515.9)**

2019/20 and 2020/21 net debt 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, the comparative amounts have been restated.

Of the outstanding discounted lease commitment at period end, approximately c.41% related to full line stores and c.31% to Simply Food stores, with c.8.5% relating to International leases and the balance largely relating to warehousing and offices.

Liquidity

At 2 October 2021, the Group held cash balances of £951.9m (2019/20: £378.2m), with undrawn facilities of £1.1bn expiring April 2023. This strong liquidity position is as a result of free cashflow performance and a £300m bond issuance in November 2020, which was used to partly refinance the bond maturity due in December 2021.

The refinancing of the Group's December 2021 bond 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 £2.1bn.

Dividend

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

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

Pension

At 2 October 2021, the IAS 19 net retirement benefit surplus was £734.2m (2019/20: £890.0m).

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 used are to be agreed between the Trustee and the Company. The Scheme surplus on a statutory basis was £652m at the last actuarial valuation in 2018.

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

Statement of financial position

Net assets were £2,531.7m at the period end, an increase of 10.8% since the start of the year largely due to free cash generation.

Important Notice:

Statements made in this announcement that look forward in time or that express management's beliefs, expectations or estimates regarding future occurrences and prospects are "forward-looking statements" within the meaning of the United States federal securities laws. These forward-looking statements reflect Marks & Spencer's current expectations concerning future events and actual results may differ materially from current expectations or historical results. Any forward-looking statements are subject to various risks and uncertainties, including, but not limited to, failure by Marks & Spencer to predict accurately customer preferences; decline in the demand for products offered by Marks & Spencer; competitive influences; changes in levels of store traffic or consumer spending habits; effectiveness of Marks & Spencer's brand awareness and marketing programmes; general economic conditions including, but not limited to, those related to the Covid-19 pandemic or a downturn in the retail or financial services industries; acts of war or terrorism worldwide; work stoppages, slowdowns or strikes; and changes in financial and equity markets. For further information regarding risks to Marks & Spencer's business, please consult the risk management section of the 2021 Annual Report (pages 47-57).

The forward-looking statements contained in this document speak only as of the date of this announcement, and Marks & Spencer does not undertake to update any forward-looking statement to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

- Ends -

Principal risks and uncertainties

The principal risks and uncertainties which could impact the Group's long-term performance, along with additional information on the impact of Covid-19, were set out on pages 48-56 of the Group's 2021 Annual Report and Financial Statements. This disclosure also incorporated details of mitigating activities relevant to each risk. Information on financial risk management was also included on pages 164-169. A copy of the 2021 Annual Report and Financial Statements is available on the Group's website www.marksandspencer.com. An update on this disclosure is set out below.

The continued consequences of Covid-19 and related uncertainty

The Annual Report outlined the business response to changes to our risk profile linked to the Covid-19 pandemic. It also explained how Covid-19 had a pervasive impact across the suite of principal risks and uncertainties impacting the business and was not, therefore, presented as a single principal risk.

In the period since publication of the Annual Report and Financial Statements the consequences of Covid-19 have continued to evolve and combined with other external macro factors (in particular, the continued impact of Brexit) to contribute to ongoing uncertainty in the environment in which we operate.

Continued lockdown measures in a number of countries; labour shortages across transport, distribution, manufacturing and service industries; threats to supplier resilience and viability; on-going changes to customer behaviours; price inflation and the potential for interest rate rises; socio-political tensions; and disruption to the supply of natural, refined and manufactured resources have combined to create a challenging environment for our, and all businesses, to operate within.

These challenges are not specific to M&S but have amplified many of the existing principal risks and uncertainties for our business. The risks related to Trading Performance Recovery; Ocado Retail; Talent, Culture & Capability; and Business Continuity & Resilience have, in particular, been impacted by this mix of global and national events.

Linked to the factors described above, our risk relating to the consequences of the post-Brexit era also remains. While the business has taken measures to mitigate some of its impact (including the restructuring of our operations across the island of Ireland, ending the relationship with one of our French franchise partners and by adapting product ranges available in other European locations), the unspecified extension to the Northern Ireland easements and unstable regulatory environment continue to create uncertainty.

Principal risks & uncertainties

The Board of Directors have considered the principal risks and uncertainties disclosed in the Annual Report and Accounts for the year ended 3 April 2021 and, while recognising the additional impact of the factors discussed above, do not consider the fundamental principal risks and uncertainties to have changed. The order of the principal risks and uncertainties has, however, been amended to reflect the Board's assessment of priority. Our summary principal risk statements are set out below - the numbers in brackets show the risk order included in the 2021 Annual Report and Financial Statements.

1 (1)	Trading performance recovery: A failure of our Food and/or Clothing & Home business to effectively and rapidly respond to the pressures of an increasingly competitive and changing retail environment, including recovery from the pandemic, would adversely impact customer experience, operational efficiency and business performance. As indicated above, sustained disruption to our supply chain or logistics networks, (caused by labour, raw material or product shortages, supplier resilience, disruption to freight or other external factors), price inflation, further restrictions linked to the pandemic, Brexit requirements or changes in customer confidence could impact this risk.
2 (2)	Business transformation: A failure to execute our transformation and cultural change initiatives with pace, consistency and cross business buy-in would impede our ability to improve operational efficiency, competitiveness, and to restore the business to sustainable profitable growth.
3 (3)	Brexit: A failure to mitigate the continuing costs and friction arising from the complexities surrounding the border and further developments in the Trade and Cooperation Agreement may have a significant and long-term impact on our trading performance.
4 (4)	Ocado Retail: 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.
5 (5)	Talent, culture and capability: An inability to evolve the culture of our business as well as attract, 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.
6 (6)	Food safety and integrity: Failure to prevent or effectively respond to a food safety incident, or to maintain the integrity of our products, could impact business performance, customer confidence and our brand.
7 (10)	Business continuity and resilience: 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 supply chain disruption, would also significantly impact business performance.
8 (8)	Social, ethical and environmental responsibility: An inability to maintain adequate oversight of our commitments, and respond to changes, in relation to ethical and environmental responsibilities (including supply chains) may result in a failure to meet the expectations of our customers, colleagues, investors and other stakeholders.

9 (9)	Technology and digital capability: A failure to simplify and improve our core technology, enhance our digital capabilities and reduce our dependency on legacy systems could limit our ability to keep pace with market competition and customer expectations, preventing successful transformation.
10 (11)	Information security: 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.
11 (7)	Liquidity and funding: 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.
12 (12)	Corporate compliance: Failure to deliver against our legal and regulatory obligations, as well as related 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.

The business is also continuing to monitor the emerging risks disclosed at the year-end, namely:

- The impact of climate change on our business activities, linked to the relaunch of Plan A in October 2021 and the achievement of our committed targets in the coming years; and

- The implications of changes to UK corporate governance responsibilities in the UK.

Statement of directors' responsibilities

The directors confirm that, to the best of their knowledge, this condensed consolidated interim financial information has been prepared in accordance with IAS 34 as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.4R, DTR 4.2.7R and DTR 4.2.8R, namely:

- the condensed set of financial statements gives a true and fair view of the assets, liabilities, financial position, cash flows and profit or loss of the issuer, or undertakings included in the consolidation;
- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related party transactions in the first six months and any material changes in the related party transactions described in the last annual report.

There have been no changes to the directors of Marks and Spencer Group plc to those listed in the Group's 2021 Annual Report and Financial Statements. A list of current directors is maintained on the Group’s website: www.marksandspencer.com.

By order of the Board

Steve Rowe
Chief Executive

Condensed consolidated income statement

		26 weeks ended		53 weeks ended
		2 Oct 2021 (Unaudited)	26 Sep 2020 (Unaudited)	3 April 2021 (Audited)
	Notes	Total £m	Total £m	Total £m
Revenue	2, 3	**5,105.3**	4,090.9	9,155.7
Share of result in associate - Ocado Retail Limited	2, 3, 8	**2.7**	31.7	64.2
Operating profit/(loss)	2, 3	**282.0**	(9.4)	(30.7)
Finance income	4	**16.0**	28.3	57.4
Finance costs	4	**(110.7)**	(106.5)	(236.1)
Profit/(loss) before tax	2, 3	**187.3**	(87.6)	(209.4)
Income tax (expense)/credit	5	**(27.4)**	16.0	8.2
Profit/(loss) for the period		**159.9**	(71.6)	(201.2)
Attributable to:				
Owners of the parent		**160.3**	(67.4)	(198.0)
Non-controlling interests		**(0.4)**	(4.2)	(3.2)
		159.9	(71.6)	(201.2)
Earnings per share				
Basic	6	**8.2p**	(3.5p)	(10.1p)
Diluted	6	**7.9p**	(3.5p)	(10.1p)

Reconciliation of adjusted profit/(loss) before tax:				
Profit/(loss) before tax		**187.3**	(87.6)	(209.4)
Adjusting items	3	**82.1**	70.2	259.7
Profit/(loss) before tax & adjusting items – non-GAAP measure		**269.4**	(17.4)	50.3
Adjusted earnings per share – non-GAAP measure				
Basic	6	**12.1p**	(0.4p)	1.4p
Diluted	6	**11.7p**	(0.4p)	1.4p

Condensed consolidated statement of comprehensive income

	Notes	26 weeks ended 2 Oct 2021 (Unaudited) £m	26 weeks ended 26 Sep 2020 (Unaudited) £m	53 weeks ended 3 April 2021 (Audited) £m
Profit/(loss) for the period		**159.9**	**(71.6)**	**(201.2)**
Other comprehensive income/(expense):				
Items that will not be reclassified subsequently to profit or loss				
Remeasurements of retirement benefit schemes	9	59.8	(1,069.3)	(1,352.0)
Tax (charge)/credit on retirement benefit schemes		(58.5)	203.7	256.5
		1.3	(865.6)	(1,095.5)
Items that may be reclassified subsequently to profit or loss				
Foreign currency translation differences				
- movement recognised in other comprehensive income		(0.6)	(4.2)	(27.7)
- reclassified and reported in profit or loss		-	-	3.7
Cash flow hedges				
- fair value movements in other comprehensive income		61.3	(80.3)	(215.5)
- reclassified and reported in profit or loss		(4.2)	8.8	26.5
Tax (charge)/credit on cash flow hedges		(11.0)	13.6	37.0
		45.5	(62.1)	(176.0)
Other comprehensive income/(expense) for the period, net of tax		46.8	(927.7)	(1,271.5)
Total comprehensive income/(expense) for the period		**206.7**	**(999.3)**	**(1,472.7)**
Attributable to:				
Owners of the parent		207.1	(995.1)	(1,469.5)
Non-controlling interests		(0.4)	(4.2)	(3.2)
		206.7	**(999.3)**	**(1,472.7)**

Condensed consolidated statement of financial position

	Notes	As at 2 Oct 2021 (Unaudited) £m	As at 26 Sep 2020 (Unaudited) (Restated)[1] £m	As at 3 April 2021 (Audited) £m
Assets				
Non-current assets				
Intangible assets		204.5	351.6	232.0
Property, plant and equipment		4,918.1	5,293.5	5,058.6
Investment property		15.1	15.5	15.2
Investment in joint ventures and associates	8	827.9	793.9	825.8
Other financial assets	11	10.7	9.7	9.7
Retirement benefit asset	9	742.2	902.3	639.2
Trade and other receivables		257.5	262.6	261.4
Derivative financial instruments	11	21.3	51.7	0.3
		6,997.3	**7,680.8**	**7,042.2**
Current assets				
Inventories	3	778.0	663.4	624.6
Other financial assets	11	24.0	13.2	18.4
Trade and other receivables		256.5	255.4	209.6
Derivative financial instruments	11	22.6	34.5	32.8
Current tax assets		21.6	25.2	35.4
Cash and cash equivalents		951.9	308.8	674.4
		2,054.6	**1,300.5**	**1,595.2**
Assets held for sale[2]		20.5	-	-
		2,075.1	**1,300.5**	**1,595.2**
Total assets		**9,072.4**	**8,981.3**	**8,637.4**
Liabilities				
Current liabilities				
Trade and other payables		1,872.4	1,516.4	1,599.0
Partnership liability to the Marks & Spencer UK Pension Scheme	10	71.9	124.9	124.9
Borrowings and other financial liabilities		407.8	288.0	432.8
Derivative financial instruments	11	21.0	31.0	96.0
Provisions		35.6	122.8	43.1
		2,408.7	**2,083.1**	**2,295.8**
Non-current liabilities				
Retirement benefit deficit	9	8.0	12.3	7.8
Trade and other payables		192.9	218.1	192.3
Partnership liability to the Marks & Spencer UK Pension Scheme	10	117.7	66.0	68.6
Borrowings and other financial liabilities		3,603.0	3,752.3	3,659.9
Derivative financial instruments	11	-	1.7	10.7
Provisions		86.7	37.2	74.2
Deferred tax liabilities		123.7	98.1	42.3
		4,132.0	**4,185.7**	**4,055.8**
Total liabilities		**6,540.7**	**6,268.8**	**6,351.6**
Net assets		**2,531.7**	**2,712.5**	**2,285.8**
Equity				
Issued share capital		19.6	488.4	489.2
Share premium account		910.4	910.4	910.4
Capital redemption reserve		2,680.4	2,210.5	2,210.5
Hedging reserve		11.2	8.5	(54.8)
Cost of hedging reserve		4.0	3.5	4.6
Other reserve		(6,542.2)	(6,542.2)	(6,542.2)
Foreign exchange reserve		(60.5)	(40.1)	(59.9)
Retained earnings		5,506.4	5,671.7	5,325.2
Equity attributable to owners of the parent		**2,529.3**	**2,710.7**	**2,283.0**
Non-controlling interests		2.4	1.8	2.8
Total equity		**2,531.7**	**2,712.5**	**2,285.8**

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

[2]The assets held for sale of £20.5 million are properties in the United Kingdom, previously used in the Group's distribution network, which the Group is in the process of selling. The proceeds of the disposal are expected to exceed the carrying amount and, accordingly, no gain or loss was recognised on the classification of the property as held for sale.

The notes on pages 35 to 55 form an integral part of the condensed consolidated interim financial information.

Condensed consolidated statement of changes in equity

26 weeks ended 2 October 2021 (Unaudited)	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Cost of hedging reserve £m	Other reserve[1] £m	Foreign exchange reserve £m	Retained earnings[2] £m	Total £m	Non-controlling interest £m	Total equity £m
As at 4 April 2021	**489.2**	**910.4**	**2,210.5**	**(54.8)**	**4.6**	**(6,542.2)**	**(59.9)**	**5,325.2**	**2,283.0**	**2.8**	**2,285.8**
Profit for the period	-	-	-	-	-	-	-	160.3	160.3	(0.4)	159.9
Other comprehensive income/(expense):											
Foreign currency translation											
- movement recognised in other comprehensive income	-	-	-	-	-	-	(0.6)	-	(0.6)	-	(0.6)
Remeasurements of retirement benefit schemes	-	-	-	-	-	-	-	59.8	59.8	-	59.8
Tax charge on retirement benefit schemes	-	-	-	-	-	-	-	(58.5)	(58.5)	-	(58.5)
Cash flow hedges											
- fair value movements in other comprehensive income	-	-	-	62.1	(0.8)	-	-	-	61.3	-	61.3
- reclassified and reported in profit or loss	-	-	-	(4.2)	-	-	-	-	(4.2)	-	(4.2)
Tax on cash flow hedges	-	-	-	(11.2)	0.2	-	-	-	(11.0)	-	(11.0)
Other comprehensive income/(expense)	**-**	**-**	**-**	**46.7**	**(0.6)**	**-**	**(0.6)**	**1.3**	**46.8**	**-**	**46.8**
Total comprehensive income/(expense)	**-**	**-**	**-**	**46.7**	**(0.6)**	**-**	**(0.6)**	**161.6**	**207.1**	**(0.4)**	**206.7**
Cash flow hedges recognised in inventories	-	-	-	23.8	-	-	-	-	23.8	-	23.8
Tax on cash flow hedges recognised in inventories	-	-	-	(4.5)	-	-	-	-	(4.5)	-	(4.5)
Transactions with owners:											
Buy back and cancellation of own shares[3]	(469.9)	-	469.9	-	-	-	-	-	-	-	-
Shares issued in respect of employee share options	0.3	-	-	-	-	-	-	(0.3)	-	-	-
Credit for share-based payments	-	-	-	-	-	-	-	18.7	18.7	-	18.7
Deferred tax on share schemes	-	-	-	-	-	-	-	1.2	1.2	-	1.2
As at 2 October 2021	**19.6**	**910.4**	**2,680.4**	**11.2**	**4.0**	**(6,542.2)**	**(60.5)**	**5,506.4**	**2,529.3**	**2.4**	**2,531.7**

26 weeks ended 26 September 2020 (Unaudited)	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Cost of hedging reserve £m	Other reserve[1] £m	Foreign exchange reserve £m	Retained earnings[2] £m	Total £m	Non-controlling interest £m	Total equity £m
As at 29 March 2020	**487.6**	**910.4**	**2,210.5**	**68.6**	**5.7**	**(6,542.2)**	**(35.9)**	**6,597.8**	**3,702.5**	**6.0**	**3,708.5**
Loss for the period	-	-	-	-	-	-	-	(67.4)	(67.4)	(4.2)	(71.6)
Other comprehensive (expense)/income:											
Foreign currency translation											
- movement recognised in other comprehensive income	-	-	-	-	-	-	(4.2)	-	(4.2)	-	(4.2)
Remeasurements of retirement benefit schemes	-	-	-	-	-	-	-	(1,069.3)	(1,069.3)	-	(1,069.3)
Tax credit on retirement benefit schemes	-	-	-	-	-	-	-	203.7	203.7	-	203.7
Cash flow hedges											
- fair value movements in other comprehensive income	-	-	-	(77.6)	(2.7)	-	-	-	(80.3)	-	(80.3)
- reclassified and reported in profit or loss	-	-	-	8.8	-	-	-	-	8.8	-	8.8
Tax on cash flow hedges	-	-	-	13.1	0.5	-	-	-	13.6	-	13.6
Other comprehensive (expense)/income	**-**	**-**	**-**	**(55.7)**	**(2.2)**	**-**	**(4.2)**	**(865.6)**	**(927.7)**	**-**	**(927.7)**
Total comprehensive (expense)/income	**-**	**-**	**-**	**(55.7)**	**(2.2)**	**-**	**(4.2)**	**(933.0)**	**(995.1)**	**(4.2)**	**(999.3)**
Cash flow hedges recognised in inventories	-	-	-	(5.4)	-	-	-	-	(5.4)	-	(5.4)
Tax on cash flow hedges recognised in inventories	-	-	-	1.0	-	-	-	-	1.0	-	1.0
Transactions with owners:											
Shares issued on exercise of employee share options	0.8	-	-	-	-	-	-	-	0.8	-	0.8
Purchase of own shares held by employee trusts	-	-	-	-	-	-	-	(0.8)	(0.8)	-	(0.8)
Credit for share-based payments	-	-	-	-	-	-	-	7.7	7.7	-	7.7
As at 26 September 2020	**488.4**	**910.4**	**2,210.5**	**8.5**	**3.5**	**(6,542.2)**	**(40.1)**	**5,671.7**	**2,710.7**	**1.8**	**2,712.5**

Condensed consolidated statement of changes in equity (continued)

53 weeks ended 3 April 2021 (Audited)	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Cost of hedging reserve £m	Other reserve[1] £m	Foreign exchange reserve £m	Retained earnings[2] £m	Total £m	Non-controlling interest £m	Total equity £m
As at 29 March 2020	**487.6**	**910.4**	**2,210.5**	**68.6**	**5.7**	**(6,542.2)**	**(35.9)**	**6,597.8**	**3,702.5**	**6.0**	**3,708.5**
Loss for the year	-	-	-	-	-	-	-	(198.0)	(198.0)	(3.2)	(201.2)
Other comprehensive (expense)/income:											
Foreign currency translation											
- movement recognised in other comprehensive income	-	-	-	-	-	-	(27.7)	-	(27.7)	-	(27.7)
- reclassified and reported in profit and loss	-	-	-	-	-	-	3.7	-	3.7	-	3.7
Remeasurements of retirement benefit schemes	-	-	-	-	-	-	-	(1,352.0)	(1,352.0)	-	(1,352.0)
Tax credit on items that will not be reclassified	-	-	-	-	-	-	-	256.5	256.5	-	256.5
Cash flow hedges											
- fair value movements in other comprehensive income	-	-	-	(214.2)	(1.3)	-	-	-	(215.5)	-	(215.5)
- reclassified and reported in profit or loss	-	-	-	26.5	-	-	-	-	26.5	-	26.5
Tax on cash flow hedges	-	-	-	36.8	0.2	-	-	-	37.0	-	37.0
Other comprehensive (expense)/income	**-**	**-**	**-**	**(150.9)**	**(1.1)**	**-**	**(24.0)**	**(1,095.5)**	**(1,271.5)**	**-**	**(1,271.5)**
Total comprehensive (expense)/income	**-**	**-**	**-**	**(150.9)**	**(1.1)**	**-**	**(24.0)**	**(1,293.5)**	**(1,469.5)**	**(3.2)**	**(1,472.7)**
Cash flow hedges recognised in inventories	-	-	-	33.9	-	-	-	-	33.9	-	33.9
Tax on cash flow hedges recognised in inventories	-	-	-	(6.4)	-	-	-	-	(6.4)	-	(6.4)
Transactions with owners:											
Shares issued in respect of employee share options	1.6	-	-	-	-	-	-	(1.6)	-	-	-
Purchase of own shares held by employee trusts	-	-	-	-	-	-	-	(0.8)	(0.8)	-	(0.8)
Credit for share-based payments	-	-	-	-	-	-	-	19.3	19.3	-	19.3
Deferred tax on share schemes	-	-	-	-	-	-	-	4.0	4.0	-	4.0
As at 3 April 2021	**489.2**	**910.4**	**2,210.5**	**(54.8)**	**4.6**	**(6,542.2)**	**(59.9)**	**5,325.2**	**2,283.0**	**2.8**	**2,285.8**

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

[2] Included within "Retained earnings" is the fair value through other comprehensive income reserve.

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

Condensed consolidated statement of cash flows

	Notes	26 weeks ended 2 Oct 2021 (Unaudited) £m	26 weeks ended 26 Sep 2020 (Unaudited) (Restated)[1] £m	53 weeks ended 3 April 2021 (Audited) £m
Cash flows from operating activities				
Cash generated from operations	13	656.6	367.3	876.7
Income tax paid		(5.0)	(6.0)	(5.8)
Net cash inflow from operating activities		**651.6**	**361.3**	**870.9**
Cash flows from investing activities				
Proceeds on property disposals		2.2	2.1	2.9
Purchase of property, plant and equipment		(102.8)	(110.6)	(158.9)
Purchase of intangible assets		(24.9)	(24.1)	(47.8)
Purchase of current financial assets		(5.6)	(1.7)	(6.7)
Purchase of non-current financial assets		(1.0)	-	-
Purchase of investments in associates and joint ventures[2]		(16.8)	9.0	8.7
Interest received		2.9	5.0	9.2
Net cash used in investing activities		**(146.0)**	**(120.3)**	**(192.6)**
Cash flows from financing activities				
Interest paid[3]		(115.7)	(89.0)	(219.3)
Issuance of medium term notes		-	-	300.0
Redemption of medium term notes		-	-	(136.4)
Repayment of lease liabilities		(107.9)	(77.5)	(184.3)
Payment of liability to the Marks & Spencer UK Pension Scheme		-	(17.2)	(17.2)
Purchase of own shares by employee trust		-	(0.8)	(0.8)
Cash received from settlement of derivatives		-	12.7	14.0
Net cash used in financing activities		**(223.6)**	**(171.8)**	**(244.0)**
Net cash inflow from activities		**282.0**	**69.2**	**434.3**
Effects of exchange rate changes		0.2	(0.3)	(3.3)
Opening net cash		669.7	238.7	238.7
Closing net cash		**951.9**	**307.6**	**669.7**

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

[2]Current year includes £16.8m outflow in relation to contingent consideration settled with Ocado Retail Limited. Last year includes inflow upon finalisation of the completion statement in relation to the investment in Ocado Retail Limited (last half year: £11.5m; last full year: £11.2m) and investment in Founders Factory Retail Limited (last half year: £2.5m; last full year: £2.5m).

[3]Includes interest paid on the partnership liability to the Marks & Spencer UK Pension Scheme of £nil (last half year: £6.3m; last full year: £6.4m) and interest paid on lease liabilities of £65.2m (last half year: £51.6m; last full year: £132.3m).

Notes to the financial statements (Unaudited)

1 General information and basis of preparation

General information

This condensed consolidated interim information for the period does not constitute statutory financial statements within the meaning of s434 of the Companies Act 2006.

The summary of results for the year ended 3 April 2021 is an extract from the published Annual Report and Financial Statements which were approved by the Board of Directors on 25 May 2021, have been reported on by the Group's auditors and delivered to the Registrar of Companies. The audit report on the Annual Report and Financial Statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under s498 (2) or (3) of the Companies Act 2006.

Basis of preparation

The financial information has been prepared in accordance with the UK-adopted International Accounting Standard 34 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Going concern basis

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 10 and the principal risks and uncertainties as set out on pages 27 to 28.

The Group continues to maintain a robust financial position providing it with sufficient access to liquidity, through a combination of cash and committed facilities, to meet its needs in the short and medium term. At 2 October 2021, the Group had available liquidity of £2,076.9m, comprising cash and cash equivalents of £951.9m, 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. The Group's net debt at 2 October 2021 was £3,154.2m, a decrease of £361.7m since 3 April 2021, primarily driven by strong free cash flow generation.

The forecast cashflows for the next 12-month period to November 2022 used to support the assessment of going concern incorporate a latest estimate of the ongoing impact of current market conditions on the Group and include a number of assumptions including sales growth and customer behaviour. While trading continues to be strong, in line with the announcement in August 2021, in forming their outlook on the future financial performance, the directors considered a variety of downsides that the Group might experience, such as disruption caused by driver shortages and supply chain constraints, pressures on costs and margin, and the potential negative impact of shifts in customer behaviour.

Based on the forecast cashflows, throughout the next 12-month period to November 2022, the Group does not anticipate needing to draw on its available facilities and has adequate headroom at the point at which the covenant is reinstated in September 2022.

As a result, the directors believe that the Group is well placed to manage its financing and other principal 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 interim financial statements.

Accounting policies

The comparative figures for the financial year ended 3 April 2021 are consistent with the Group's annual financial statements. The comparative figures for the half year ended 26 September 2020 have been restated to reflect the change in accounting policy to recognise BACS payments at the settlement date, rather than when they are initiated, which had been adopted in the 2021 Annual Report and Financial Statements. The impact on the 26 September 2020 balance sheet is an increase to current trade and other payables of £85.1m, a decrease to bank loans and overdrafts, within current liabilities, of £62.2m and an increase to cash and cash equivalents of £22.9m. Net cash inflow from activities, as presented in the consolidated statement of cash flows, in the 26 weeks ended 26 September 2020 has increased by £10.5m while net debt as at 26 September 2020 has decreased by £85.1m. There is no impact on the income statement, earnings per share or net assets.

The results for the first half of the financial year have been reviewed, not audited and are prepared on the basis of the accounting policies set out in the Group's 2021 Annual Report and Financial Statements.

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

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

The adoption of the standards and interpretations listed above has not led to any changes to the Group's accounting policies or 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. The APMs are consistent with how the business performance is planned and reported within the internal management reporting to the Board and Executive Committee. Some of these measures are also used for the purpose of setting remuneration targets.

The key APMs that the Group uses include: sales; like-for-like revenue growth; operating profit/(loss) before adjusting items; profit/(loss) before tax and adjusting items; adjusted basic earnings per share; 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. The sales APM has been introduced given the Group's focus on launching and growing third-party brands and is consistent with how the business performance is reported and assessed by the Board and the Executive Committee.

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/(loss) 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. Treatment as an adjusting item provides stakeholders with additional useful information to assess the year-on-year or period-on-period trading performance of the Group. On this basis, the following items were included within adjusting items for the 26-week period ended 2 October 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 or operational changes that are not considered by the Group to be part of the normal operating costs of the business.
- Impairment charges and provisions that are considered to be significant in nature and/or value to the trading performance of the business.
- Charges and reversals of previous impairments arising from the write-off of assets and other property charges that are 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.
- Amortisation of the identified intangible assets arising as part of the investment in Ocado Retail Limited.
- Remeasurement of contingent consideration including discount unwind.
- Directly attributable gains and expenses resulting from the Covid-19 pandemic.

Refer to note 3 for a summary of the adjusting items.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of the consolidated financial statements requires the Group to make estimates and judgements that affect the application of policies and reported amounts. The critical accounting judgements and key sources of estimation uncertainty remain consistent with those presented in note 1 of the Group's 2021 Annual Report and Financial Statements.

In recognition of the ongoing impact of current market conditions in the period, the Group continues to provide additional information on the following judgements and estimates.

UK store estate programme

The Group is undertaking a significant strategic programme to review its UK store estate. 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. Significant estimation uncertainty arises in respect of determining the recoverable amount of assets and the costs to be incurred as part of the programme. The significant assumptions adopted are detailed in the Group's 2021 Annual Report and Financial Statements, with those most likely to have a material impact being closure dates and changes to future sales.

The charge recognised at 3 April 2021 reflected cash flow projections from the Group's latest budget and three-year plan. As this continues to be the most recent Board-approved budget, and trading performance in the period is ahead of those forecasts, no changes have been made to the cash flow projections. Similarly, most other assumptions have remained consistent with those used at 3 April 2021, with only small adjustments made to reflect any known changes to closure dates. Given only minor updates have been made, the sensitivities disclosed in note 15 to the Group's 2021 Annual Report and Financial Statements remain relevant. See note 3 for further details.

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.

The Group has considered whether there have been any indicators of impairment or impairment reversal during the period which would require a detailed impairment test to be performed. The Group has considered a number of different factors and, based on this, has concluded that there are no indicators of impairment or impairment reversals during the period. As a result, a detailed impairment test has not been performed. Consequently, the sensitivities disclosed in note 15 to the Group’s 2021 Annual Report and Financial Statements remain relevant.

Inventory provisioning

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

At 3 April 2021, the Group had recognised a total UK Clothing & Home inventory provision of £78.2m, which included £24.2m relating specifically to the estimated impact of the Covid-19 pandemic. The Group has considered the period of trading recovery since 3 April 2021 and has updated its assumptions regarding future performance. After utilising £10.2m of these provisions in the period, the Group has released the remaining £14.0m. See note 3 for further details.

2 Segmental Information

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

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

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

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

The Ocado operating segment was identified as reportable in the 53 weeks ended 3 April 2021 based on the quantitative thresholds in IFRS 8. As the Group’s reportable segments have changed, the comparative information for the 26 weeks ended 26 September 2020 has been restated to present Ocado separately from ‘All other segments’.

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:

		26 weeks ended 2 October 2021 (Unaudited)					
	Note	UK Clothing & Home	UK Food	International	Ocado	All other segments	Group
		£m	£m	£m	£m	£m	£m
Sales before adjusting items[1]	3	1,534.6	3,143.0	435.3	-	-	5,112.9
Revenue before adjusting items[2]	3	1,527.0	3,143.0	435.3	-	-	5,105.3
Operating profit/(loss) before adjusting items[3]	3	156.2	143.7	35.9	28.1	(0.7)	363.2
Finance income before adjusting items	3						16.0
Finance costs before adjusting items	3						(109.8)
Profit/(loss) before tax and adjusting items	3	156.2	143.7	35.9	28.1	(0.7)	269.4
Adjusting items	3						(82.1)
Profit/(loss) before tax		156.2	143.7	35.9	28.1	(0.7)	187.3

		26 weeks ended 26 Sep 2020 (Unaudited)					
		UK Clothing & Home	UK Food	International	Ocado	All other segments	Group
		£m	£m	£m	£m	£m	£m
Revenue before adjusting items[2]	3	917.2	2,838.6	346.3	-	-	4,102.1
Operating (loss)/profit before adjusting items[3]	3	(107.5)	109.7	19.7	38.8	1.1	61.8
Finance income before adjusting items	3						27.3
Finance costs before adjusting items	3						(106.5)
(Loss)/profit before tax and adjusting items	3	(107.5)	109.7	19.7	38.8	1.1	(17.4)
Adjusting items	3						(70.2)
(Loss)/profit before tax		(107.5)	109.7	19.7	38.8	1.1	(87.6)

		53 weeks ended 3 April 2021 (Audited)					
	Note	UK Clothing & Home	UK Food	International	Ocado	All other segments	Group
		£m	£m	£m	£m	£m	£m
Revenue before adjusting items[2]	3	2,239.0	6,138.5	789.4	-	-	9,166.9
Operating (loss)/profit before adjusting items[3]	3	(130.8)	228.6	44.1	78.4	1.9	222.2
Finance income before adjusting items	3						57.4
Finance costs before adjusting items	3						(229.3)
(Loss)/profit before tax and adjusting items	3	(130.8)	228.6	44.1	78.4	1.9	50.3
Adjusting items	3						(259.7)
(Loss)/profit before tax		(130.8)	228.6	44.1	78.4	1.9	(209.4)

[1] Sales before adjusting items is revenue stated prior to adjustments for UK Clothing & Home brand consignment sales of £7.6m.
[2] Revenue is stated prior to adjusting items of £nil (last half year: £11.2m; last full year: £11.2m) (see note 3).
[3] Operating profit/(loss) 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.

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.

Other disclosures

	As at 2 Oct 2021 (Unaudited)[1]	As at 26 Sep 2020 (Unaudited)[1]	As at 3 April 2021 (Audited)[1]
	£m	£m	£m
Write-down of inventories to net realisable value	85.8	19.7	117.0

[1] Includes write-back of inventories to net realisable value in relation to Covid-19. See note 3 for further detail.

3 Adjusting items

The total adjusting items reported for the 26 week period ended 2 October 2021 is a net charge of £82.1m. The adjustments made to reported profit before tax to arrive at adjusted profit are:

	26 weeks ended		53 weeks ended
	2 Oct 2021 (Unaudited)	26 Sep 2020 (Unaudited)	3 Apr 2021 (Audited)
	£m	£m	£m
Included in revenue			
Sparks loyalty programme transition	-	(11.2)	(11.2)
	-	(11.2)	(11.2)
Included in operating profit			
Strategic programmes - UK store estate	(58.1)	(2.9)	(95.3)
Strategic programmes - Organisation	1.9	(92.1)	(133.7)
Strategic programmes - UK logistics	(1.7)	(0.1)	(2.2)
Strategic programmes - International store closures and impairments	-	-	(3.6)
Amortisation and fair value adjustments arising as part of the investment in Ocado Retail Limited	(25.4)	(7.1)	(14.2)
Directly attributable gains resulting from the Covid-19 pandemic	15.0	49.4	90.8
European restructure	(11.9)	-	-
M&S Bank charges incurred in relation to the insurance mis-selling provisions	(1.0)	(1.4)	(2.4)
Sparks loyalty programme transition	-	(4.1)	(5.4)
Establishing the investment in Ocado Retail Limited	-	(1.7)	(1.7)
Intangible asset impairments	-	-	(79.9)
Store impairments, impairment reversals and other property charges	-	-	6.9
GMP and other pension equalisation	-	-	(1.0)
	(81.2)	(60.0)	(241.7)
Included in net finance costs			
Remeasurement of contingent consideration including discount unwind	(0.9)	1.0	(6.8)
	(0.9)	1.0	(6.8)
Adjustment to profit before tax	(82.1)	(70.2)	(259.7)

Strategic programmes - UK store estate (£58.1m)

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 £657.6m up to April 2021 under this programme primarily relating to closure costs associated with stores identified as part of the strategic transformation plans.

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

The Group has recognised a charge of £58.1m in the period in relation to those stores identified as part of the rotation plans. The charge primarily reflects a revised view of latest store exit routes and assumptions underlying estimated store closure costs, as well as charges relating to the impairment of buildings and fixtures and fittings, and depreciation as a result of shortening the useful economic life of stores based on the latest approved exit routes.

Further material charges relating to the closure and rotation of the UK store estate are anticipated over the next nine years as the programme progresses, the quantum of which is subject to change throughout the programme period as 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 2 October 2021, further charges of c.£227m are estimated within the next nine financial years, bringing anticipated total programme costs since 2016 up to c.£943m. In addition, where store exit routes in the next nine years lead to the recognition of gains on exit, particularly those relating to asset management, these credits will also be recognised within adjusting items as part of the programme.

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

Strategic programmes – Organisation (£1.9m credit)

During 2020/21, the Group announced a commitment to integrate more flexible management structures into store operations as well as streamline the business at store and management level in the UK and Republic of Ireland as part of the 'Never the Same Again' transformation. The changes resulted in a reduction of c.8,200 roles across central support centres, regional management and stores. A credit of £1.9m has been recognised in the period based on the latest estimate of redundancy costs associated with these changes. The provision is expected to be fully utilised and released during 2021/22, with no further significant charges anticipated.

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

Strategic programmes – UK logistics (£1.7m)

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 £1.7m 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 £41.5m with further net charges of £34.8m expected over the next 3 financial years.

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.

Amortisation and fair value adjustments arising as part of the investment in Ocado Retail Limited (£25.4m)

Intangible assets of £366.0m were acquired as part of the investment in Ocado Retail Limited in 2019/20 relating to the Ocado brand and acquired customer relationships. These intangibles are being amortised over their useful economic lives of 10 – 40 years with an amortisation charge of £8.8m recognised in the period. In addition a further deferred tax charge of £16.6m has been recognised predominantly relating to the substantial enactment of the Finance Act 2021 during the period increasing the UK's main corporation tax rate from 19% to 25% from 1 April 2023.

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

Directly attributable gains resulting from the Covid-19 pandemic (£15.0m credit)

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

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

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

Write-back of inventories to net realisable value (£14.5m 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.

During 2020/21 the Group experienced stronger trade, particularly in online than expected under the Covid-19 scenario, selling much higher volumes of stock than assumed versus the Covid-19 scenario. As a result and supported by the certainty provided by vaccines and a clear government Covid-19 re-emergence strategy, a net credit of £90.8m was recorded in 2020/21, representing a significant release to the inventory provisions recorded in the 2019/20 financial statements to align to with the latest estimates based on current sales performance, offset by charges in the period relating to reassessment of storage and fabric cancellation provisions. Incremental provisions remained in place where risk remained and included 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 as at 3 April 2021 was £36.7m.

During H1 2021/22, UK Clothing & Home performance has been strong, with better than expected sell through of stock originally provided for. During this period, £10.2m of the Covid-19 provision has been utilised, and there has been a release of £14.0m recognised in adjusting items. No UK Clothing & Home inventory provisions in relation to Covid-19 remain on the balance sheet at H1 2021/22. Similarly, following better than expected sell through of inventory previously provided for in the International markets, there has been a release of £0.5m of their Covid-19 inventory provisions during H1 2021/22. International Covid-19 stock provisions of £0.7m remain on the balance sheet at H1 2021/22. These provisions will be utilised during H2 2021/22. A provision of £7.8m 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 remains.

The carrying value of the Group's inventories at 2 October 2021 is £778.0m, split across the UK Clothing & Home, UK Food and International businesses represents gross inventories £599.9m, £177.5m and £75.2m respectively, against which a provision of £54.8m, £12.4m and £7.4m has been recognised. Included within the UK Clothing & Home provision is an incremental write-down of inventory to net realisable value of £nil (2020/21: £18.6m) reflecting management's best estimate of the impact of the Covid-19 pandemic on UK Clothing & Home inventory as at 2 October 2021. The total UK Clothing & Home inventory provisions represent 9.1% (last half year: 21%, last full year: 15.4%) of UK Clothing & Home inventory. However, trading could be higher or lower than expected and a 5% increase in the UK Clothing & Home inventory provision (from 9% to 14%) would result in a reduction in the valuation of inventory held on the balance sheet of £29.8m and would result in a corresponding decrease to recognised profit before tax in the period.

In addition, a release of £0.5m has been recognised within adjusting items in relation to the Covid-19 bad debt provision recognised against international franchise partners. At H1 2021/22 a bad debt provision of £0.3m remains. This will be utilised by the end of H2 2021/22.

The £15.0m directly attributable net gains from the Covid-19 pandemic are considered to be adjusting items as they meet the Group's established definition, being both significant in nature and value to the results of the Group in the current period and treatment as adjusting items is consistent with the treatment of charges of a consistent nature recognised in 2019/20. No future charges are expected. Any future credits relating to these items will continue to also be classified as adjusting.

European restructuring (£11.9m)

During the period, the Group recognised a charge of £11.9m in relation to the restructure of operations in continental Europe. This charge includes closure costs related to our franchise and logistics operations in continental Europe, resulting from increased EU border costs. No future costs are currently expected. The costs are considered to be adjusting items as they are one-off in nature and significant in value to the results of the Group and to the International segment.

M&S Bank charges incurred in relation to insurance mis-selling provisions (£1.0m)

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

Since the year ended 31 December 2010, M&S Bank has recognised in its audited financial statements an estimated liability for redress to customers in respect of possible mis-selling of financial products. The Group's profit share and fee income from M&S Bank has been reduced by the deduction of the estimated liability in both the current and prior years. In line with the accounting treatment under the Relationship Agreement, there is a cap on the amount of charges that can be offset against the profit share in any one year, whereby excess liabilities carried forward are deducted from the Group's future profit share from M&S Bank. The deduction in the period is £1.0m.

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 PPI is £320.2m which exceeds the total offset against profit share of £238.5m to date and this deficit will be deducted from the Group's share of future profits from M&S Bank.

Remeasurement of contingent consideration including discount unwind (£0.9m)

Contingent consideration, resulting from the investment in Ocado Retail Limited, is remeasured at fair value at each reporting date with the changes in fair value recognised in profit or loss. During the period, £16.8m of contingent consideration was settled, following the achievement of the first performance target (see note 11). A charge of £0.9m has been recognised in the period, representing the revaluation of the contingent consideration payable. The change in fair value is considered to be an adjusting item as it relates to a major transaction and consequently is not considered representative of the normal operating performance of the Group. The remeasurement will be recognised in adjusting items until the final contingent consideration payment is made in 2024/25.

4 Finance income/(costs)

		26 weeks ended		53 weeks ended
		2 Oct 2021 (Unaudited)	26 Sep 2020 (Unaudited)	3 April 2021 (Audited)
	Notes	£m	£m	£m
Bank and other interest receivable		1.3	1.3	2.9
Pension net finance income	9	6.4	22.8	47.2
Other finance income		5.6	0.6	1.8
Interest income on subleases		2.7	2.6	5.5
Finance income before adjusting items		16.0	27.3	57.4
Finance income in adjusting items	3	-	1.0	-
Finance income		**16.0**	**28.3**	**57.4**
Interest on bank borrowings		(0.1)	(0.2)	-
Interest payable on syndicated bank facility		(2.2)	(1.9)	(3.9)
Interest payable on medium-term notes		(41.8)	(35.6)	(86.4)
Interest payable on commercial paper facility		-	(0.3)	(0.4)
Interest payable on lease liabilities		(61.6)	(64.8)	(130.4)
Unwinding of discount on partnership liability to the Marks and Spencer UK Pension Scheme	10	(1.7)	(2.4)	(4.9)
Unwind of discount on provisions		(1.8)	(1.3)	(2.7)
Other finance costs		(0.6)	-	(0.6)
Finance costs before adjusting items		(109.8)	(106.5)	(229.3)
Finance costs in adjusting items	3	(0.9)	-	(6.8)
Finance costs		**(110.7)**	**(106.5)**	**(236.1)**
Net finance costs		**(94.7)**	**(78.2)**	**(178.7)**

5 Taxation

Taxes on income in the interim period are accrued using the tax rate that would be applicable to expected total annual earnings, adjusted for actual tax on adjusting items.

The taxation charge in the income statement for the half year is based on the forecast full year tax rate on profit before adjusting items of 19.4% (last half year: 27.0%; last full year: 50.3%). When the impact of the change in the tax rate is taken into account, the effective tax rate on the profit before adjusting items falls by 7% to 12.4%. This is the result of our deferred tax assets being restated to the substantively enacted UK tax rate of 25%. The effective tax rate on adjusting items is 7.2% arising in the period to 2 October 2021 (last half year: 16.1%; last full year: 12.9%) to give an effective tax rate on profit/(loss) before taxation of 14.6% (last half year: 18.3%; last full year: 3.9%).

The underlying ETR for half year 2021/22 is significantly lower than full year 2021, primarily because of the lower level of profits at the last full year (£50.3m), meaning the effect of disallowable items such as the recapture of previous tax relief under the Marks and Spencer Scottish Limited Partnership ("SLP") structure was more pronounced in full year 2021. During the period, no payments to the SLP were made as part of the Covid-19 related cash optimisation measures, reducing the tax add-back and the ETR. In addition, the impact of restating deferred tax assets from 19% to 25% creates a further credit, contributing towards the lower underlying ETR of 12.4% in the current period. Next year, we anticipate the effective tax rate on profit before adjusting items to be higher than the 19% UK statutory tax rate due to the continuation of the recapture of previous SLP tax relief following the resumption of the payments to the SLP and the Pension fund.

6 Earnings per share

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

The adjusted earnings per share figures have also been calculated based on earnings before adjusting items that are significant in nature and/or quantum and are considered to be distortive (see note 3). These have been presented to provide shareholders with an additional measure of the Group's year-on-year performance.

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

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

	26 weeks ended		53 weeks ended
	2 Oct 2021 (Unaudited) £m	26 Sep 2020 (Unaudited) £m	3 April 2021 (Audited) £m
Profit/(loss) attributable to equity shareholders of the Company	**160.3**	**(67.4)**	**(198.0)**
Add/(less):			
Adjusting items (see note 3)	82.1	70.2	259.7
Tax on adjusting items	(5.9)	(11.3)	(33.5)
Profit/(loss) before adjusting items attributable to equity shareholders of the Company	**236.5**	**(8.5)**	**28.2**
	Million	Million	Million
Weighted average number of ordinary shares in issue[1]	1,957.6	1,951.7	1,953.5
Potentially dilutive share options under the Group's share option schemes[2,3]	59.9	17.4	15.0
Weighted average number of diluted ordinary shares	**2,017.5**	**1,969.1**	**1,968.5**
	Pence	Pence	Pence
Basic earnings/(loss) per share	8.2	(3.5)	(10.1)
Diluted earnings/(loss) per share	7.9	(3.5)	(10.1)
Adjusted basic earnings/(loss) per share	12.1	(0.4)	1.4
Adjusted diluted earnings/(loss) per share	11.7	(0.4)	1.4

[1] The nominal value reduction of the Group's ordinary shares, as announced on 7 July 2021, has had no impact on the number of shares in issue.

[2] Potentially dilutive share options only considered in relation to adjusted diluted earnings per share for the periods ended 26 September 2020 and 3 April 2021 as the Group made a basic loss per share in those periods.

[3] The current year potentially dilutive share options figure includes all outstanding shares on the 2021 PSP scheme as the performance conditions have not yet been set by the Remuneration Committee due to the uncertainty created by the Covid-19 global pandemic. These will be agreed by 31 December 2021.

7 Dividends

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

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

8 Investments in joint ventures and associates

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

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

Ocado Retail Limited has a year end date of 28 November 2021, aligning with its parent company, Ocado Group Plc. For the Group's purpose of applying the equity method of accounting, Ocado Retail Limited has prepared financial information to the nearest quarter-end date of its financial year end, as to do otherwise would be impracticable. The results of Ocado Retail Limited are incorporated in this interim financial statement from 1 March 2021 to 29 August 2021. There were no significant events or transactions in the period from 30 August 2021 to 2 October 2021 that had a material effect.

The carrying amount of the Group's interest in Ocado Retail Limited is £821.7m (last half year: £786.5m; last full year: £819.0m). The Group's share of Ocado Retail Limited profits of £2.7m (last half year: £31.7m; last full year: £64.2m) includes the Group's share of underlying profits of £28.1m, which includes £1.7m of exceptional income before tax related to insurance receipts (last half year: £38.8m; last full year: £78.4m) and adjusting item charges of £25.4m (last half year: £7.1m; last full year: £14.2m) (see note 3).

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

	As at 29 August 2021 (Unaudited) £m	As at 28 February 2021 (Audited) £m
Ocado Retail Limited		
Current assets	363.7	353.9
Non-current assets	370.0	336.8
Current liabilities	(231.8)	(245.7)
Non-current liabilities	(265.4)	(264.6)
Net assets	**236.5**	**180.4**

	1 Mar 2021 to 29 Aug 2021 (Unaudited) £m	2 Mar 2020 to 30 Aug 2020 (Unaudited) £m	2 Mar 2020 to 28 Feb 2021 (Audited) £m
Revenue	1,136.3	1,167.7	2,353.2
Profit for the period	56.3	77.6	156.8
Other comprehensive income	-	-	-
Total comprehensive income	**56.3**	**77.6**	**156.8**

In addition, the Group holds immaterial investments in joint ventures totalling £6.2m (last half year: £7.4m; last full year: £6.8m). The Group's share of losses totalled £0.6m (last half year: £0.7m loss; last full year: £1.3m loss).

9 Retirement benefits

	26 weeks ended 2 Oct 2021 (Unaudited) £m	26 weeks ended 26 Sep 2020 (Unaudited) £m	53 weeks ended 3 April 2021 (Audited) £m
Opening net retirement benefit surplus	**631.4**	**1,902.6**	**1,902.6**
Current service cost	(0.1)	(0.1)	(0.2)
Administration costs	(2.2)	(2.3)	(4.5)
Past service cost	-	-	(1.0)
Net interest income	6.4	22.8	47.2
Employer contributions	38.7	39.0	41.5
Remeasurements[1]	59.8	(1,071.8)	(1,354.5)
Exchange movement	0.2	(0.2)	0.3
Closing net retirement benefit surplus	**734.2**	**890.0**	**631.4**
Total market value of assets	10,619.6	11,349.0	10,442.9
Present value of scheme liabilities	(9,877.4)	(10,451.0)	(9,803.7)
Net funded pension plan asset	742.2	898.0	639.2
Unfunded retirement benefits	(3.8)	(4.0)	(3.8)
Post-retirement healthcare	(4.2)	(4.0)	(4.0)
Net retirement benefit surplus	**734.2**	**890.0**	**631.4**
Analysed in the Statement of Financial Position as:			
Retirement benefit asset	742.2	902.3	639.2
Retirement benefit deficit	(8.0)	(12.3)	(7.8)
Net retirement benefit surplus	**734.2**	**890.0**	**631.4**

[1] The 26 September 2020 and 3 April 2021 remeasurement loss includes £2.5m relating to an equalisation charge recognised in 2018/19 that was reclassified from provisions in the respective periods.

In addition to the amounts disclosed above the Group made payments of £30.4m (last half year: £33.1m; last full year: £64.0m) relating to the Your M&S Pension Saving Plan (a defined contribution arrangement).

Financial assumptions

The main financial assumptions for the UK 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.

The most significant of these are the discount rate and the inflation rate which are 2.05% (last half year: 1.55%; last full year: 2.00%) and 3.45% (last half year: 2.90%; last full year: 3.30%) respectively. The inflation rate of 3.45% reflects the Retail Price Index (RPI) rate. Certain benefits have been calculated with reference to the Consumer Price Index (CPI) as the inflationary measure and in these instances a rate of 2.75% (last half year: 2.20%; last full year: 2.60%) has been used.

The amount of the surplus varies if the main financial assumptions change. If the discount rate decreased by 0.25%, the surplus would decrease by £20m (last half year: decrease by £20m; last full year: decrease by £20m). If the discount rate decreased by 0.50%, the surplus would decrease by £30m (last half year: decrease by £50m; last full year: decrease by £30m). If the inflation rate decreased by 0.25%, the surplus would decrease by £30m (last half year: decrease by £10m; last full year: decrease by £20m). If the inflation rate decreased by 0.50%, the surplus would decrease by £60m (last half year: decrease by £20m; last full year: decrease by £30m). A one year decrease in life expectancy would increase the scheme's surplus by £300m (last half year: increase by £280m; last full year: increase by £300m).

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.

The most recent actuarial valuation of the Marks & Spencer UK Pension Scheme was carried out as at 31 March 2018 and showed a funding surplus of £652m. This is an improvement on the previous position at 31 March 2015 (statutory surplus of £204m), primarily due to lower assumed life expectancy. The Company and Trustees 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 10). We continue to work constructively with the Trustees of the UK DB Pension Scheme with regard to agreeing the triennial actuarial valuation of the scheme as at 31 March 2021. Consequently, the results of the valuation are not yet known, although it is likely that there will continue to be a surplus.

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

10 Marks and Spencer Scottish Limited Partnership

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

The Partnership holds £1.3bn (last half year: £1.4bn; last full 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), previously entitled the Pension Scheme to receive an annual distribution of £71.9m until June 2022 from the Partnership. As a result of the Covid-19 pandemic and the need to preserve cash, in agreement with the Trustees, only £18.9m of the June 2020 payment was made with the remaining £53.0m being deferred.

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

The partnership liability in relation to the first interest of £189.6m (last half year: £190.9m; last full year: £193.5m) is included as a financial liability in the Group's financial statements as it is a transferrable financial instrument and measured at amortised cost, being the net present value of the future expected distributions from the Partnership. During the period to 2 October 2021 an interest charge of £1.7m (last half year: £2.4m; last full year: £4.9m) was recognised in the income statement representing the unwinding of the discount included in this obligation. The first limited partnership interest of the Pension Scheme is included within the UK DB pension scheme assets valued at £194.2m (last half year: £141.5m; last full year: £142.5m).

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

11 Financial Instruments

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 which 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:

				(Unaudited) As at 2 Oct 2021				(Audited) As at 3 April 2021
	Level 1 £m	Level 2 £m	Level 3 £m	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	**Total £m**
Assets measured at fair value								
Financial assets at fair value through profit or loss ("FVTPL")								
- derivatives held at FVTPL	-	0.6	-	**0.6**	-	0.7	-	**0.7**
Derivatives used for hedging	-	43.3	-	**43.3**	-	32.4	-	**32.4**
Short term investments	-	24.0	-	**24.0**	-	18.4	-	**18.4**
Unlisted investments[1]	-	-	10.7	**10.7**	-	-	9.7	**9.7**
Liabilities measured at fair value								
Financial liabilities at fair value through profit and loss								
- derivatives held at FVTPL	-	(0.7)	-	**(0.7)**	-	(12.1)	-	**(12.1)**
- contingent consideration[2]	-	-	(196.1)	**(196.1)**	-	-	(212.0)	**(212.0)**
Derivatives used for hedging	-	(20.3)	-	**(20.3)**	-	(94.6)	-	**(94.6)**

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

[1] The Group holds £10.7m in unlisted equity securities measured at fair value through other comprehensive income (last half year: £9.7m; last full year: £9.7m) which are level 3 instruments. The fair value of these investments is determined with reference to the net asset value of the entity in which the investment is held, which in turn derive the majority of their net asset value through a third-party property valuation or underlying investment valuation.

[2] As part of the investment in Ocado Retail Limited, a contingent consideration arrangement was agreed. The arrangement comprises three separate elements which only become payable on the achievement of three separate financial and operational performance targets. On 15 June 2021, £16.8m was settled, relating to the first of the three targets. On 8 October 2021, subsequent to the reporting period, £17.0m was settled, relating to the second target. The final target relates to Ocado Retail Limited achieving a specified target level of earnings in the financial year ending November 2023.

The fair value of the contingent consideration was estimated by applying an appropriate discount rate to the expected future payments. The key assumptions take into consideration the probability of meeting the performance target and the discount factor. The performance target is binary and, based on the latest five-year plan of Ocado Retail Limited, is expected to be met and therefore the fair value reflects the full, discounted, amount. A discount rate of 2.2% was used and a 1.0% change in the discount rate would result in a change in fair value of £5.1m.

During the period, £16.8m of contingent consideration was settled and a charge of £0.9m recognised in profit or loss in relation to the remeasurement (see note 3).

Fair value of financial instruments

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

The carrying value of the Group's fixed rate bond debt (Level 1 equivalent) was £1,680.6m (last half year: £1,531.1m; last full year: £1,682.1m); the fair value of this debt was £1,820.0m (last half year: £1,600.7m; last full year: £1,807.6m) which has been calculated using quoted market prices and includes accrued interest.

The carrying value of the Partnership liability to the Marks & Spencer UK Pension scheme is £189.6m (last half year: £190.9m; last full year: £193.5m) and the fair value of this liability, which represents only the principal value excluding accrued interest is £187.9m (last half year: £185.5m; last full year: £185.5m).

Lease liabilities

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 £2,330.2m of lease liabilities held on the balance sheet.

Total undiscounted lease payments of £723.7m 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.

Cash flow hedge accounting

The Group hedges its exposure to foreign currency risk using forward foreign exchange contracts and hedge accounting is applied when the requirements of IFRS 9 are met, including that forecast transactions are "highly probable". The Group has continued to apply judgment in assessing whether forecast purchases remain "highly probable". There have been no de-designated hedges or realised ineffectiveness in the foreign exchange forward contracts in the period and as at 2 October 2021, all forecast purchases qualify for hedge accounting.

Trade receivables

Included within trade and other receivables is £4.1m which, due to non-recourse factoring arrangements in place, are held within a 'hold to collect and sell' business model and are measured at fair value through other comprehensive income ("FVOCI").

12 Capital expenditure and commitments

Capital expenditure

Additions to the cost of property, plant and equipment, investment property and intangible assets, excluding right of use assets are £120.4m (last half year: £62.2m) and for the year ended 3 April 2021 were £162.3m. Disposals in net book value of property, plant and equipment, investment property and intangible assets, excluding right of use assets are £nil (last half year: £nil) and for the year ended 3 April 2021 were £nil.

Capital commitments

	As at 2 Oct 2021 (Unaudited) £m	As at 26 Sep 2020 (Unaudited) £m	As at 3 Apr 2021 (Audited) £m
Commitments in respect of properties in the course of construction	113.5	75.3	88.3
IT capital commitments	18.3	4.1	10.6
	131.8	79.4	98.9

At 2 October 2021, the Group had committed to invest up to £25.0m, over a three-year period to 2024/25, in an innovation and consumer growth fund managed by True Capital Limited. The fund can drawdown amounts at any time over the three-year period to make specific investments. During the period, the Group invested £1.0m of this commitment, which is held as an unlisted investment and measured at fair value (see note 11).

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

	26 weeks ended		53 weeks ended
	2 Oct 2021 (Unaudited)	26 Sep 2020 (Unaudited) (Restated)[1]	3 April 2021 (Audited)
	£m	£m	£m
Profit/(loss) on ordinary activities after taxation	**159.9**	(71.6)	(201.2)
Income tax expense/(credit)	27.4	(16.0)	(8.2)
Finance costs	110.7	106.5	236.1
Finance income	(16.0)	(28.3)	(57.4)
Operating profit/(loss)	**282.0**	**(9.4)**	**(30.7)**
Share of results of Ocado Retail Limited	(28.1)	(38.8)	(78.4)
(Increase)/decrease in inventories	(94.8)	8.2	41.2
(Increase)/decrease in receivables	(46.1)	28.1	67.4
Increase/(decrease) in payables	252.4	49.2	159.5
Depreciation, amortisation and write-offs	253.9	306.1	603.1
Non-cash share-based payment expense	18.7	7.7	19.3
Defined benefit pension funding	(36.3)	(36.2)	(37.1)
Adjusting items net cash outflows[2,3]	(25.3)	(17.4)	(118.1)
Adjusting items M&S Bank[4]	(1.0)	(1.4)	(2.4)
Adjusting operating profit items	81.2	71.2	252.9
Cash generated from operations	**656.6**	**367.3**	**876.7**

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

[2]Excludes £0.7m (last half year: £12.4m; last year end: £12.4m) of surrender payments included within repayment of lease liabilities in the consolidated statement of cashflows 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, utilisation of the provisions for International store closures and impairments, and gains directly attributable to the Covid-19 pandemic.

[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.

14 Analysis of net debt

Reconciliation of net cash flow to movement in net debt

	26 weeks ended		53 weeks ended
	2 Oct 2021 (Unaudited)	26 Sep 2020 (Unaudited) (Restated)[1]	3 April 2021 (Audited)
	£m	£m	£m
Opening net debt	**(3,515.9)**	**(3,950.6)**	**(3,950.6)**
Net cash inflow from activities	282.0	69.2	434.3
Increase in current financial assets	5.6	1.7	6.7
Decrease in debt financing	107.9	94.7	25.8
New lease commitments	(38.2)	(11.5)	(48.3)
Exchange and other non-cash movements	4.4	(25.1)	16.2
Movement in net debt	**361.7**	**129.0**	**434.7**
Closing net debt	**(3,154.2)**	**(3,821.6)**	**(3,515.9)**

Reconciliation of net debt to statement of financial position

	As at 2 Oct 2021 (Unaudited)	As at 26 Sep 2020 (Unaudited) (Restated)[1]	As at 3 April 2021 (Audited)
	£m	£m	£m
Statement of financial position and related notes			
Cash and cash equivalents	951.9	308.8	674.4
Current other financial assets	24.0	13.2	18.4
Bank loans and overdrafts	-	(1.2)	(4.7)
Medium term notes - net of foreign exchange revaluation	(1,652.1)	(1,486.1)	(1,657.9)
Lease liabilities	(2,330.2)	(2,507.9)	(2,405.9)
Partnership liability to the Marks & Spencer UK Pension Scheme (note 10)	(189.6)	(190.9)	(193.5)
	(3,196.0)	**(3,864.1)**	**(3,569.2)**
Interest payable included within related borrowing and the partnership liability to the Marks & Spencer UK Pension Scheme	41.8	42.5	53.3
Total net debt	**(3,154.2)**	**(3,821.6)**	**(3,515.9)**

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

15 Government support

The Group has not benefitted from government grant income in the period. Last year, the Group recognised £97.6m at H1 2020/21 and £131.5m at FY 2020/21 in relation to furlough programmes, such as the Coronavirus Job Retention Scheme (CJRS) in the UK, and its equivalents in other countries. This income was recognised as a deduction against the related expense.

The Group benefited from business rates relief of £49.9m in the period (last half year: £83.7m; last full year: £174.6m).

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

16 Related party transactions

The Group's related party transactions are disclosed in the Group's 2021 Annual Report. There have been no material changes in the related party transactions described in the last annual report.

Associate

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

Sales and purchases of goods and services:

	26 weeks ended		53 weeks ended
	2 Oct 2021 (Unaudited) £m	26 Sep 2020 (Unaudited) £m	3 April 2021 (Audited) £m
Sales of goods and services	16.7	5.8	28.5
Purchases of goods and services	0.2	0.1	-

Included within trade and other receivables is a balance of £2.8m (last half year: £3.3m; last full year: £2.3m) owed by Ocado Retail Limited.

Key management compensation

Transactions between the Group and key management personnel in the period relate only to remuneration consistent with the policy set out in the Directors' Remuneration Report within the Group's 2021 Annual Report.

There have been no other material changes to the arrangements between the Group and key management personnel in the period.

17 Contingent Assets

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

18 Subsequent events

Subsequent to the balance sheet date, the Group has monitored trade performance, internal actions, as well as other relevant external factors. No material changes in key estimates and judgements have been identified as adjusting post balance sheet events. There have been no material non-adjusting events since 2 October 2021.

Glossary

<table>
<tr><th>Alternative performance measure</th><th>Closest equivalent statutory measure</th><th>Reconciling items to statutory measure</th><th>Definition and purpose</th></tr>
<tr><td colspan="4">Income Statement Measures</td></tr>
<tr><td>Sales

Clothing & Home store / Clothing & Home online sales</td><td>Revenue

None</td><td>Consignment sales

Not applicable</td><td>Sales includes the gross value of consignment sales (excluding VAT) before the impact of adjusting items. Where third-party branded goods are sold on a consignment basis, only the commission receivable is included in statutory revenue. This measure has been introduced given the Group's focus on launching and growing third-party brands and is consistent with how the business performance is reported and assessed by the Board and the Executive Committee.

The growth in revenues on a year-on-year basis is a good indicator of the performance of the stores and online channels.
<table>
<tr><th></th><th>HY 21/22 £m</th><th>HY 20/21 £m</th><th>%</th></tr>
<tr><td>UK Clothing & Home</td><td></td><td></td><td></td></tr>
<tr><td>Store sales[1]</td><td>1,006.2</td><td>475.8</td><td>111.5</td></tr>
<tr><td>Consignment sales</td><td>(2.1)</td><td>-</td><td></td></tr>
<tr><td>Store revenue</td><td>1,004.1</td><td>475.8</td><td>111.0</td></tr>
<tr><td>Online sales[1]</td><td>528.4</td><td>441.4</td><td>19.7</td></tr>
<tr><td>Consignment sales</td><td>(5.5)</td><td>-</td><td></td></tr>
<tr><td>Online revenue</td><td>522.9</td><td>441.4</td><td>18.5</td></tr>
<tr><td>UK Clothing & Home sales[1]</td><td>1,534.6</td><td>917.2</td><td>67.3</td></tr>
<tr><td>Consignment sales</td><td>(7.6)</td><td>-</td><td></td></tr>
<tr><td>Total UK Clothing & Home revenue</td><td>1,527.0</td><td>917.2</td><td>66.5</td></tr>
</table>
[1] UK Clothing & Home store sales excludes revenue from 'shop your way' and click & collect, which are included in UK Clothing & Home online sales.

There is no material difference between sales and revenue for UK Food and International.</td></tr>
<tr><td>Like-for-like revenue growth</td><td>Movement in revenue per the income statement</td><td>Sales from non like-for-like stores</td><td>The period-on-period change in revenue (excluding VAT) from stores which have been trading and where there has been no significant change (greater than 10%) in footage for at least 52 weeks and online sales. The measure is used widely in the retail industry as an indicator of sales performance. It excludes the impact of new stores, closed stores or stores with significant footage change.
<table>
<tr><th></th><th>HY 21/22 £m</th><th>HY 20/21 £m</th><th>%</th></tr>
<tr><td>UK Food</td><td></td><td></td><td></td></tr>
<tr><td>Like-for-like</td><td>3,029.2</td><td>2,795.2</td><td>8.4</td></tr>
<tr><td>Net new space[1]</td><td>113.8</td><td>43.4</td><td></td></tr>
<tr><td>Total UK Food revenue</td><td>3,143.0</td><td>2,838.6</td><td>10.7</td></tr>
<tr><td>UK Clothing & Home</td><td></td><td></td><td></td></tr>
<tr><td>Like-for-like</td><td>1,488.2</td><td>906.7</td><td>64.1</td></tr>
<tr><td>Net new space</td><td>46.4</td><td>10.5</td><td></td></tr>
<tr><td>Total UK Clothing & Home sales</td><td>1,534.6</td><td>917.2</td><td>67.3</td></tr>
</table>
[1] UK Food net new space includes sales to Ocado Retail Limited.</td></tr>
</table>

<table>
<tr><th>Alternative performance measure</th><th>Closest equivalent statutory measure</th><th>Reconciling items to statutory measure</th><th>Definition and purpose</th></tr>
<tr><td>Food ex hospitality and franchise</td><td>Movement in revenue per the income statement</td><td>Sales from hospitality and franchise categories and sales to Ocado Retail Limited</td><td>The period-on-period change in Food revenue (before sales to Ocado Retail Limited) excluding the hospitality and franchise categories' revenue (excluding VAT). The hospitality category includes cafés, counters and marketplace. This measure is based on Food total revenue rather than like-for-like revenue which was presented in the FY20/21 annual report. This measure is used to provide consistency with other measures provided within this report.
<table>
<tr><th></th><th>HY 21/22
£m</th><th>HY 20/21
£m</th><th>%</th></tr>
<tr><td>UK Food</td><td></td><td></td><td></td></tr>
<tr><td>Revenue</td><td>3,143.0</td><td>2,838.6</td><td>10.7</td></tr>
<tr><td>Sales to Ocado Retail</td><td>(14.4)</td><td>(4.9)</td><td></td></tr>
<tr><td>Hospitality</td><td>(67.0)</td><td>(26.0)</td><td></td></tr>
<tr><td>Franchise</td><td>(289.9)</td><td>(226.5)</td><td></td></tr>
<tr><td>Food ex hospitality and franchise</td><td>2,771.7</td><td>2,581.2</td><td>7.4</td></tr>
</table></td></tr>
<tr><td>M&S.com revenue / Online revenue</td><td>None</td><td>Not applicable</td><td>Total revenue through the Group's online platforms. These revenues are reported within the relevant UK Clothing & Home, UK Food and International segment results. The growth in revenues on a year-on-year basis is a good indicator of the performance of the online channel and is a measure used within the Group's incentive plans. Refer to the Remuneration Report in the FY20/21 annual report for explanation of why this measure is used within incentive plans.</td></tr>
<tr><td>International online</td><td>None</td><td>Not applicable</td><td>International revenue through International online platforms. These revenues are reported within the International segment results. The growth in revenues on a year-on-year basis is a good indicator of the performance of the online channel.
<table>
<tr><th></th><th>HY 21/22
£m</th><th>HY 20/21
£m</th><th>%</th></tr>
<tr><td>International Revenue</td><td></td><td></td><td></td></tr>
<tr><td>Stores</td><td>350.7</td><td>283.6</td><td>23.7</td></tr>
<tr><td>Online</td><td>84.6</td><td>62.7</td><td>34.9</td></tr>
<tr><td>At reported currency</td><td>435.3</td><td>346.3</td><td>25.7</td></tr>
</table></td></tr>
<tr><td>Revenue growth at constant currency</td><td>None</td><td>Not applicable</td><td>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.
<table>
<tr><th></th><th>HY 21/22
£m</th><th>HY 20/21
£m</th><th>%</th></tr>
<tr><td>International Revenue</td><td></td><td></td><td></td></tr>
<tr><td>At constant currency</td><td>435.3</td><td>339.0</td><td>28.4</td></tr>
<tr><td>Impact of FX retranslation</td><td>-</td><td>7.3</td><td></td></tr>
<tr><td>At reported currency</td><td>435.3</td><td>346.3</td><td>25.7</td></tr>
</table></td></tr>
</table>

Alternative performance measure	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Adjusting items	None	Not applicable	Those items which the Group excludes from its adjusted profit metrics in order to present a further measure of the Group's performance. Each of these items, costs or incomes, is considered to be significant in nature and/or quantum or are consistent with items treated as adjusting in prior periods. Excluding these items from profit metrics provides readers with helpful additional information on the performance of the business across periods because it is consistent with how the business performance is planned by, and reported to, the Board and the Executive Committee.
Revenue before adjusting items	Revenue	Adjusting items (See note 3)	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.
Operating profit/(loss) before adjusting items	Operating profit/(loss)	Adjusting items (See note 3)	Operating profit/(loss) before the impact of adjusting items. The Group considers this to be an important measure of Group performance and is consistent with how the business performance is reported and assessed by the Board and the Executive Committee.
Finance income before adjusting items	Finance income	Adjusting items (See note 3)	Finance income before the impact of adjusting items. The Group considers this to be an important measure of Group performance and is consistent with how the business performance is reported and assessed by the Board and the Executive Committee.
Finance costs before adjusting items	Finance costs	Adjusting items (See note 3)	Finance costs before the impact of adjusting items. The Group considers this to be an important measure of Group performance and is consistent with how the business performance is reported and assessed by the Board and the Executive Committee.
Net interest payable on lease liabilities	Finance income/costs	Finance income/ costs (See note 4)	The net of interest income on subleases and interest payable on lease liabilities. The measure 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 4)	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 3)	Calculated as profit before the impact of adjusting items, net finance costs and tax as disclosed on the face of the consolidated income statement. This measure is used in calculating the return on capital employed for the Group.
Ocado Retail Limited EBITDA	EBIT[1]	Not applicable	Calculated as Ocado Retail Limited earnings before interest, tax, depreciation, amortisation, impairment and exceptional items.
Profit/(loss) before tax and adjusting items	Profit/(loss) before tax	Adjusting items (See note 3)	Profit/(loss) before the impact of adjusting items and tax. The Group considers this to be an important measure of Group performance and is consistent with how the business performance is reported and assessed by the Board and the Executive Committee. This is a measure used within the Group's incentive plans. Refer to the Remuneration Report in the FY20/21 annual report for explanation of why this measure is used within incentive plans.

Alternative performance measure	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Adjusted basic earnings per share	Earnings per share	Adjusting items (See note 3)	Profit/(loss) after tax attributable to owners of the parent and before the impact of adjusting items, divided by the weighted average number of ordinary shares in issue during the financial year. This is a measure used within the Group's incentive plans. Refer to the Remuneration Report in the FY20/21 annual report for explanation of why this measure is used.
Adjusted diluted earnings per share	Diluted earnings per share	Adjusting items (See note 3)	Profit/(loss) after tax attributable to owners of the parent and before the impact of adjusting items, divided by the weighted average number of ordinary shares in issue during the financial year adjusted for the effects of any potentially dilutive options.
Effective tax rate before adjusting items	Effective tax rate	Adjusting items and their tax impact (See note 3)	Total income tax charge for the Group excluding the tax impact of adjusting items divided by the (loss)/profit before tax and adjusting items. This measure is an indicator of the ongoing tax rate for the Group.
Balance Sheet Measures			
Net debt	None	Reconciliation of net debt (see note 14)	Net debt comprises total borrowings (bank and bonds net of accrued interest and lease liabilities), net derivative financial instruments that hedge the debt and the Scottish Limited Partnership liability to the Marks and Spencer UK Pension Scheme less cash, cash equivalents and unlisted and short-term investments. Net debt does not include contingent consideration as it is conditional upon future events which are not yet certain at the balance sheet date. This measure is a good indication of the strength of the Group's balance sheet position and is widely used by credit rating agencies.
Net debt excluding lease liabilities	None	Reconciliation of net debt (see note 14) Lease liabilities (see note 14)	Calculated as net debt less lease liabilities. This measure is a good indication of the strength of the Group's balance sheet position and is widely used by credit rating agencies.
Cash Flow Measures			
Free cash flow after shareholder returns	Net cash inflow from operating activities	See Financial Review	The cash generated from the Group's operating activities less capital expenditure, cash lease payments and interest paid. This measure shows the cash retained by the Group in the year.
Free cash flow	Net cash inflow from operating activities	See Financial Review	Calculated as the cash generated from the Group's operating activities less capital expenditure and interest paid, excluding returns to shareholders (dividends and share buyback). This measure shows the cash generated by the Group during the year that is available for returning to shareholders and is used within the Group's incentive plans.
Other Measures			
Capital expenditure	None	Not applicable	Calculated as the purchase of property, plant and equipment, investment property and intangible assets during the year less proceeds of asset disposals excluding any assets acquired as part of a business combination or through an investment in an associate.

Alternative performance measure	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Covid-19 scenario	None	Not applicable	As part of the Group's normal financial planning process, the Board approved the 2020/21 budget and three-year plan. As a result of the UK government restrictions on trade that were announced in response to the Covid-19 pandemic, the Group revisited the 2020/21 budget and three-year plan to determine a downside scenario. The downside scenario assumed the government guidelines at the period end continued for a period of at least four months, resulting in a significant decline in sales for the remainder of 2020/21, as outlined in the basis of preparation in the Group's 2020 Annual Report and Financial Statements. This downside scenario was approved by the directors and is defined as the Covid-19 scenario.

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

INDEPENDENT REVIEW REPORT TO MARKS AND SPENCER GROUP PLC

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 2 October 2021 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in equity, the condensed consolidated statement of cash flows and related notes 1 to 18. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the group will be prepared in accordance with United Kingdom adopted international accounting standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with United Kingdom adopted International Accounting Standard 34, "Interim Financial Reporting".

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 2 October 2021 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Use of our report

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP
Statutory Auditor
London, United Kingdom
9 November 2021