M&S
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Marks and Spencer Group Plc
Full Year Results for 52 Weeks Ended 1 April 2023
"M&S DELIVERS STRONG RESULTS AS IT RESHAPES FOR GROWTH"

Strong trading results

- Profit before tax & adjusting items of £482.0m (2021/22: £522.9m, including £59.8m UK business rates relief)
- Statutory profit before tax of £475.7m (2021/22: £391.7m)
- Clothing & Home sales[1] up 11.5% to £3.72bn; Store sales up 14.9%, online up 4.8%; Strong growth in Click & Collect
- Clothing & Home adjusted operating profit £323.8m (2021/22: £330.7m, including £35.2m rates relief)
- Food sales up 8.7% to £7.22bn. Strong growth across core categories, hospitality and franchise
- Food adjusted operating profit £248.0m (2021/22: £277.8m, including £24.6m rates relief)
- Ocado Retail share of loss £29.5m (2021/22: share of profit £13.9m); capacity for future growth
- International constant currency sales up 11.2%; adjusted operating profit £84.8m (2021/22: £73.6m)

Reshaping M&S to deliver long term growth

- Clothing & Home delivering improved style perceptions and a sustained leading value position
- Food volume outperforms market; reflecting product innovation and value investment
- Ocado Retail reset underway; restoring leading service credentials and deeper collaboration with M&S
- Structural cost reduction programme delivering; over £150m of savings planned for FY24
- Accelerating store rotation; 8 full-line and 10 Food stores opening in FY24
- Progress on supply chain modernisation; Gist acquisition completed, integration on track
- Robust balance sheet and cashflow; maintained investment grade metrics; further bond repurchase announced
- Plan to restore dividend in FY24

Stuart Machin, Chief Executive said:

"One year in, our strategy to reshape M&S for growth has driven sustained trading momentum, with both businesses continuing to grow sales and market share. Our Food and Clothing & Home businesses invested in value to protect customers from the full force of inflation which, whilst impacting margin, was the right thing to do, as serving our customers well is the only route to delivering for our shareholders.

Food outperformed the market, with customer perception for quality and value the highest in six years. The benefits of the Gist acquisition and operational efficiencies also supported an improved performance in the second half. Clothing & Home retained market-leading value perception, and its style credentials continue to improve. Sales were up in store and online, supported by growth in Click and Collect sales, active App users and Sparks loyalty membership; demonstrating the emerging power of our omni-channel model. The store rotation and renewal programme delivered strong sales uplifts and will accelerate this year, including the opening of five brand defining full-line stores in major cities. Our disciplined approach to capital allocation means we can invest for growth, while further reducing net debt and maintaining investment grade credit metrics, and we plan to resume dividend payments at our interim results.

M&S is such a special business with so much potential, and I want to thank all of my colleagues for their contribution to these results. Delivering performance and driving change is everyone's responsibility at M&S, and they have done a remarkable job. Despite facing significant headwinds, I am encouraged by the strong foundations established last year and excited about what we can achieve in the year ahead."

Group Results (52 weeks ended)	1 April 23	2 April 22	Change (%)
Statutory revenue	£11,931.3m	£10,885.1m	9.6
Sales[1]	£11,988.0m	£10,909.0m	9.9
Operating profit before adjusting items	£626.6m	£709.0m	-11.6
Profit before tax and adjusting items	£482.0m	£522.9m	-7.8
Adjusting items	£(6.3)m	£(131.2)m	-95.2
Profit before tax	£475.7m	£391.7m	21.4
Profit after tax	£364.5m	£309.0m	18.0
Basic earnings per share	18.5p	15.7p	17.8
Adjusted basic earnings per share	18.1p	21.7p	-16.6
Free cash flow from operations	£170.4m	£739.6m	
Net debt	£2.64bn	£2.70bn	
Net debt excluding lease liabilities	£355.6m	£420.1m	

Non-GAAP measures and alternative profit measures (APMs) are discussed within this release. A glossary and reconciliation to statutory measures is provided at the end. Adjusted results are consistent with how business performance is measured internally and presented to aid comparability. Refer to adjusting items table below for further details. [1] References to 'sales' throughout this announcement are statutory revenue plus the gross value of consignment sales ex. VAT.

STRONG TRADING RESULTS

M&S delivered strong results in 2022/23 despite significant inflationary cost headwinds impacting margins, reflecting the benefits of its programme to reshape for growth. Profit before tax and adjusting items for the period was £482.0m (2021/22: £522.9m). Statutory profit before tax was £475.7m (2021/22 £391.7m). Prior year results included £59.8m of UK business rates relief and a net rates charge of £139.7m compared with a net rates charge of £186.6m in 2022/23.

- Clothing & Home grew sales 11.5% with LFL sales up 11.2% driven by a more confident approach to buying and a focus on the modern mainstream customer, which is starting to drive better style perceptions. While store sales outperformed, online sales were also up, with growth in Click and Collect sales, active App users and Sparks loyalty membership. Volume and value market shares increased.
- Food grew sales 8.7% with LFL sales up 5.4%, outperforming the market in volume and value terms with broadened appeal, through focused product development and investment in trusted value. While investment in value reduced margin, the positive customer response supported the delivery of improved trading performance in the second half. Margin in the second half also benefitted from the acquisition of Gist.
- International sales were up 11.2% at constant currency, driven by demand for clothing from global partners. As a result, profits recovered despite the combined impacts of the exit from Russia and on-going EU border related costs.
- Ocado Retail sales were down 1.2%. While active customers grew, revenues reflected reduced volumes as a result of lower shopping frequency post-pandemic. Profitability was impacted by the effects of higher fixed costs from under-utilised capacity, the impact of which we are working together to reduce, as we build customer numbers over time.

RESHAPING M&S TO DELIVER LONG TERM GROWTH

M&S has a heritage of quality, style, innovation and value for money, recently resulting in it being voted the UK's most trusted brand (*source: YouGov*). After a number of years of substantial change and investment, a strengthening omni-channel position in Clothing & Home and the broader reach of Food including through the Ocado Retail joint venture, provide opportunities for profitable growth.

During the year, the new leadership team, Stuart Machin, CEO, supported by Katie Bickerstaffe as his Co-CEO, set out their priorities to deliver sustainable growth. To support implementation of the plan, Stuart appointed Jeremy Townsend to the team as CFO in January 2023, and he will remain with the business until May 2025.

This statement reports delivery against this plan, setting out how these priorities will deliver profitable sales growth, improve operating margins, provide investment choices and drive shareholder returns. The nine priorities are set out in more detail below.

1. Developing exceptional product worthy of a trusted brand, through investment in great tasting, value for money, quality Food, and developing stylish, great value, quality Clothing and Home ranges.

2. Driving omni-channel growth. Increasing the participation of Clothing & Home online sales, through leveraging the national store and distribution network, to offer a convenient and consistent service however and wherever customers choose to shop. And growing utilisation of Ocado Retail's capacity, by providing superior service, market-leading choice and M&S products.

3. Capitalising on the strength of the M&S brand to grow global sales through capital light partnerships and the development of a multi-platform online business.

4. Making £400m of structural cost savings over five years, reducing cost to serve, and growing our margins through technology improvements to increase retail and supply chain efficiency and simplified and streamlined digital, technology and support centre functions.

5. Creating a high-performance culture. A simpler, faster, delivery focused business which is passionate about M&S products, puts the customer first and has the digital skill set to make fast, informed decisions.

6. Accelerating store rotation and renewal to create a more productive estate of c.180 full-line stores and opening more than 100 new Food stores positioned in growth locations, which support omni-channel retailing.

7. Modernising the supply chain to improve availability and customer service, while reducing costs and working capital.

8. Creating a more engaging and connected customer experience to drive omni-channel growth. This brings together the Sparks loyalty programme and payment options, supported by an effective and more efficient technology infrastructure.

9. Disciplined capital allocation, to strengthen the balance sheet, reinstate an investment grade rating for our debt and restore dividends. Robust liquidity and balance sheet metrics allow for a further bond repurchase exercise of c.£225m in respect of our medium-term maturities, also announced today.

OUTLOOK AND GUIDANCE

M&S has had a good start to the new financial year, with both Food and Clothing & Home growing sales. While the economic outlook for consumer spending is uncertain, cost inflation remains high, and market conditions are expected to become more challenging, the strategy is beginning to deliver improved performance and there remains much within the Group's control.

In FY24, modest growth is expected in revenues, driven by omni-channel as well as from the benefits of the accelerating store rotation plan. Further investment in quality and trusted value will be partly offset by actions to mitigate sourcing cost pressures and to reduce waste and stock loss.

Cost inflation includes over £50m of energy costs as well as colleague pay increases of more than £100m, which are expected to be offset by the delivery of over £150m of in-year savings from the structural cost reduction programme. This gives scope to invest in customer service and digital development, while controlling costs.

Despite facing significant headwinds, we are encouraged by the strong foundations established last year.

DIVIDEND

The Group suspended dividend payments at the start of the pandemic to protect the balance sheet. This enabled it to invest in its transformation priorities and trusted value. With the business generating an improved operating performance and having a strengthened balance sheet with credit metrics consistent with investment grade, the Board plans to restore a modest annual dividend to shareholders, starting with an interim dividend at the results in November.

DELIVERING PROFITABLE SALES GROWTH

M&S' goal is to deliver profitable long-term sales growth through developing exceptional product and a trusted brand, offering a leading omni-channel retail experience including through Ocado Retail and expanding the global reach of the business.

FOOD OUTPERFORMS DUE TO INVESTMENT IN INNOVATION AND TRUSTED VALUE

The objective for Food is to achieve 1% growth in market share and an adjusted operating margin of c.4% over the next five years. This will be delivered through 'protecting the M&S magic' of trusted value and innovation in fresh, easy-to-cook food, while fixing the backbone processes of the supply chain and driving growth in the store estate.

Food grew sales 8.7% to £7.22bn with LFL sales up 5.4%, with particularly good growth in hospitality and franchise. Sales in core categories were up c.5.0% and well ahead of pre-Covid levels, reflecting the strategy to broaden appeal. Grocery market share increased 20bps to 3.6%, with M&S outperforming all major full-line supermarkets. *(source: Kantar 52 w/e 19 March 2023).*

Operating profit before adjusting items of £248.0m compared with £277.8m in the prior year (which included £24.6m of business rates relief), resulting in a net adjusted operating margin of 3.4%.

While investment in value reduced margin in the first half, as we did not pass through the full impact of cost inflation to customers, the resulting positive effect on customer volumes drove sales. Combined with an in-year contribution to operating profit from the Gist acquisition of £27m, this enabled an increase in second half adjusted operating margin to 4.5%, compared with 3.8% last year.

Growth underpinned by investment in trusted value: In recent years, Food has shifted to trusted value to broaden appeal, reducing the volume of promotions and become competitive at opening price points. At a time when customers' focus is on the cost of living, further investment was made early in the year, which meant that the business did not pass through the full impact of cost inflation on its margins. This included:

- Sharpening the prices of over 100 'Remarksable value' lines which offer M&S quality at everyday prices, implementing 'locked prices' across a range of c.150 everyday family favourites and moving the iconic 'Dine-In' offer to 'Always On' – offering an affordable, restaurant-quality alternative to eating out; and
- As a result, the mix of value lines increased. For instance, Remarksable sales were up 40%, and featured in over c.20% of customer baskets. Dine-In launches such as 'steak and chips' also drove substantial sales growth in the offer.

Performance fuelled by innovation and investment in basket building categories: The innovation pipeline helped to increase sales of fresh categories across the year and ambient products over Christmas, Valentine's and Mother's Day when event sales grew by an estimated 20%. Product launches included:

- A programme of quality upgrades with M&S winning c.200 'tried and tested' awards from titles such as Good Housekeeping. For instance, the introduction of Oakham™ Gold chicken means that all the fresh chicken sold is now slower-reared, British and RSPCA Assured;
- Strong seasonal launches such as the 'master grill' range for summer barbeques and Limited Editions for key events; and
- Reset and relaunched ranges aimed at driving market share in larger baskets including soft drinks, household cleaning, frozen desserts, and cereals.

Quality and value perceptions highest in six years: M&S continues to generate market-leading quality and sustainability perceptions in Food, while the continued strategy of investment in trusted value has driven improved perceptions of value.

CLOTHING & HOME DELIVERING IMPROVED STYLE PERCEPTIONS AND SUSTAINING LEADING VALUE POSITION

The objective for Clothing & Home is to deliver a 1% increase in market share and an adjusted operating margin of c.10% over the next five years, by driving omni-channel growth of a stylish, quality, value for money M&S range, alongside a family of partner brands.

Clothing & Home grew sales 11.5% to £3.72bn with LFL sales up 11.2%. Full price sell-through at 88% was level with last year and well above historical levels. Clothing & Footwear market share increased 30bps to 9.3%. *(source: Kantar 52 w/e 2 April 2023)*

Store sales increased 14.9% to £2.5bn with strength in city centre and shopping centre locations. Online grew 4.8% to £1.2bn, with strong growth in Click and Collect sales, which were up c.20%, with more than one third of orders now generated through the M&S App.

Operating profit before adjusting items of £323.8m compared with £330.7m in the prior year (which included £35.2m of business rates relief), an increase of 9.6% excluding the impact of business rates. Adjusted operating margin of 8.7% is now c.170bps above 2019/20. Overall results reflected the leverage from sales growth offsetting cost pressures, particularly from sourcing and currency as we did not pass through the full impact of cost inflation to customers and from planned digital investments.

Style credentials improving with more confident buying: A more confident approach to buying, and focus on the modern mainstream customer, is starting to deliver increased value for money and style perceptions.

- Clothing & Home has focused on buying more deeply into core lines, and offering clearer price points and better availability. For instance, women's denim sales have grown over several years, cementing M&S' leading market share in the category, which has increased to 13% from less than 10% two years ago.
- Greater investment has been made into categories which drive style perception. For example, casual dress sales grew 40% in 2022/23. As the strength of demand became apparent, increased purchases of popular lines were made using short lead-time supply routes, meeting demand while managing markdown risk.
- The improved range is supported by digital analytics to assess profitability per option more accurately. In addition, availability is being measured and stock is being allocated on a demand weighted basis.

Strong performance of event related categories: In a year when customers were making the most of the return of events, weddings and holidays, growth was generated in top end 'Autograph' sales while making further progress in casual wear.

- Men's 'Autograph' sales increased c.60% while chino sales increased c.25%, reflecting the strategy to build a "smart separates" business for workwear. A focus in the current year is on the introduction of more regular newness.
- Kidswear and Home offer important potential for improvement in market share. However, growth in the year was modest, in a more difficult market, against pandemic related comparatives. Having established a stronger value position, the aim is to build increased awareness and appeal of the range. For instance, partnerships such as Fired Earth are being expanded across more categories.

Sustained, market leading value perception: As a result of improvements to the range, and investment in trusted value, we have held leading value perception ratings in recent years, alongside Clothing & Home's lead for quality and sustainability. Encouragingly, style perception is also now improving.

LEVERAGING OUR OMNI-CHANNEL ADVANTAGE

Omni-channel development, supporting growth in Clothing & Home online

Clothing & Home's objective is to increase online sales participation and achieve a better margin for online sales. We aim to drive online growth through increased frequency and spend and using the national store and distribution network to offer a convenient and consistent service.

Online sales grew 4.8%, driven by an improved omni-channel proposition, with strong growth in Click and Collect sales which were up 20%. Customer orders grew 12.6%, despite the effects of courier capacity constraints over peak trading. This was partly offset by the normalisation of returns rates post-pandemic. As expected, online adjusted operating profit margin reduced to 5.0% from 9.1%, this was due to sourcing cost pressures which reduced gross margin and planned investments in digital and omni-channel improvements to drive future growth.

Acquiring, converting, and retaining customers: Customers who move from shopping in one channel to multiple channels and products typically spend more. An effective and profitable way to serve these omni-channel customers is through the M&S App.

- Use of the M&S App and associated Sparks memberships continued to grow with average active App users increasing by c.40% to 4.3m supported by sign up campaigns such as the '12 days of Sparks' in December when users could gain access to exclusive offers and rewards.
- The aim is that the App should provide a personalised 'shop front' to the M&S brand and Sparks loyalty membership and connect the store and online worlds through services such as easy collection & returns and 'scan and shop'.
- Upgrades to the online experience have included, 'one click' checkout with digital receipts, and improved functionality in the App. At the same time, development of automation has driven further growth in the volume of personalised interactions.

Creating a convenient and consistent service across channels: The national store and distribution network provides an important customer service advantage with over 60% of orders collected at store and more than three quarters of online returns processed through the store network.

- Digital Click and Collect is being rolled out to the estate enabling rapid collection and we have implemented self-service returns, reducing the cost of processing and turnaround time for resale.
- Using in-store fulfillment to expand capacity allowed 9% of items ordered online to be filled from store stock. We are also trialling the resale of Clothing & Home returns made to Simply Food stores through local hubs.
- A key goal over the next three years is to leverage the omni-channel store and warehouse network, further reducing costs and creating additional capacity.

Early stage growth of third-party brands: M&S now trades with over 140 partners, strengthening the customer offer where brands are important such as dresses, sports, home and beauty. Third party brands help attract new shoppers, who also buy M&S products.

Total sales of Clothing, Beauty and Home brands increased 67% to £158m. Online brands sales now represent c.8% of total online sales

- Launches during the year included Clinique and Benefit in beauty and an extended sports offer through The Sports Edit at M&S.com.
- Having grown rapidly from a standing start, investment is being made to simplify on-boarding for partners, to introduce 'drop ship' capability to enable fulfilment from partner stock and to reduce the volume of split shipments, thereby lowering costs.

Ocado Retail Reset Underway

The Ocado Retail joint venture combines the strength of M&S' brand, food quality and innovation with unique and proprietary technology to create a compelling offer. It has already generated significant volume growth and buying benefits for M&S Food with over £600m of M&S product sales through Ocado.com last year. During the year, new leadership was appointed, with Hannah Gibson taking the role of CEO.

Ocado Retail generated total revenue of £2.22bn, down 1.2%. While active customers grew, revenues reflected reduced volumes due to lower shopping frequency as a result of pandemic reversion and the impact of cost inflation on customers. The M&S share of Ocado Retail net loss was £29.5m compared with a net profit of £13.9m in 2021/22. The reduction was driven by the effects of higher fixed costs from new and underutilised capacity, increased marketing to drive new customer growth and energy related cost pressures.

Resetting the customer proposition: The team's focus is on improving customer experience including re-engaging lapsed and occasional customers with improved service including 'kitchen table' deliveries and investing in value to broaden appeal, through the Ocado Price Promise.

Improving operating costs: Alongside this, steps to reduce costs are underway. These include network optimisation, with the proposal to cease operations at the Hatfield site, shifting volume to more efficient CFCs including Luton; the first site with on-grid robotic pick, as well as marketing efficiencies and overhead reductions.

Deepening collaboration between Ocado Retail and M&S: The M&S core range available on Ocado.com has been increased by more than 300 lines to c.5,700, and we are starting to leverage the potential of the M&S customer base more broadly. Efficiencies are also being scoped from joint sourcing and logistics.

Substantial growth and profit potential: Ocado Retail has grown revenue by 40% since 2019 and has a large, addressable market and substantial invested capacity to grow sales and to recover profitability in the medium term.

EXPANDING GLOBAL REACH THROUGH STRONG PARTNERSHIPS

M&S' objective is to grow International retail sales through leveraging its brand through capital light partnerships and a multi-platform online business with global reach.

International sales increased 11.2% at constant currency to £1.06bn, with partner retail sales growth of 8% driven by Clothing & Home. Sales were adversely impacted by c.5% by the exit from markets including Russia during the year.

Online sales were up 5% and are more than double pre-Covid levels now accounting for 22% of International Clothing & Home sales. Operating profit before adjusting items of £84.8m compared with £73.6m in 2021/22, which included a contribution in the prior year of £5.5m from Russia. Excluding the Republic of Ireland, operating profit was £67.9m compared with £58.2m in the prior year.

Demand recovery across partner markets: In franchise and partner markets, demand was robust as partners re-stocked as footfall increased following emergence from Covid, with particular strength in India and the Middle East.

Investing in European operations: European online sales have grown rapidly in the past three years, and investment is being made to improve customer service and reduce cost to serve, including opening a new logistics hub in Croatia enabling the direct import of stock destined for EU markets.

Working to improve Food profitability in the Republic of Ireland: In the Republic of Ireland, while performance in Clothing & Home was robust, the Food business continues to be impacted by Brexit related costs. Steps include cost restructuring, increasing the proportion of locally sourced supply and assessing new routes to market, with a franchise store trial underway with roadside retailer Applegreen.

IMPROVING OPERATING MARGINS

IMPLEMENTING A PROGRAMME TO STRUCTURALLY REDUCE COSTS

In 2022/23, adjusted operating margins were 8.7% in Clothing & Home and 3.4% in Food, against a medium-term objective of improving these to c.10% and c.4% respectively. The purpose of the cost reduction programme is structurally to reduce costs by more than £400m over the next five years. Accelerated store rotation and driving profitable online growth will be an important driver to improving margins. At the same time, we aim to offset annual inflation with productivity improvements.

To deliver this, investment is being made in technology to increase retail efficiency and reduce energy costs, embarking on a multi-year programme in the supply chain and simplifying and streamlining digital, technology and support centre functions. Examples of programmes include:

- The roll out of a further c.800 self-checkout tills (including within Clothing & Home) and further developments to scan and pay. As a result, in these stores over 70% of Food transactions are now self-serve. Alongside the effects of sales leverage, this has enabled the business to reach its target of 10% retail staff costs as a percentage of sales, ahead of plan;
- Warehouse rationalisation and investment in automation at the Bradford warehouse in Clothing & Home, alongside changes to returns processing; and
- Simplified structures within the support centre, which in 2022/23 included bringing together the digital and technology teams in data science, digital product development and enterprise systems.

In the year ahead, inflation from colleague pay of more than £100m and c.£50m in additional energy costs are expected. Investments are planned in store service, accelerating store rotation and new technology such as the Clothing & Home order planning system and the roll out of a new Food forecasting and ordering system. These headwinds will be partly offset by cost savings of over £150m, resulting overall in a slight increase in costs.

CREATING A CULTURE OF DELIVERY

A key element of the plan to reshape M&S is the creation of a high-performance culture. The aim is to raise the 'bench strength' of M&S talent and create a simpler, faster, digitally enabled organisation. This requires a culture that is closer to colleagues, closer to customers, and a place where everyone can be themselves and be their best. Key elements of the programme include:

- **Building a simpler, faster, digitally enabled organisation;** For instance, digital leadership has been reset, including the introduction of a new online and omni-channel director role. The technology, digital product and data teams have been brought together as one function and M&S Connect created, putting M&S Bank & Services and Sparks under one leadership;

- **Creating a culture that is closer to colleagues and closer to customers**; During the year this included a substantial investment in colleague pay and reward and the requirement for support centre colleagues to spend seven days per year working in store, bringing them close to the front-line;

- **Raising the bar on talent**; with fast-track learning and future leaders' programmes introduced developing skills sets at all levels. At the same time, robust goals linked to delivery of the nine priorities have been implemented; and

- **Building the skills for tomorrow;** The data science and AI apprenticeship group has expanded to over 200 colleagues and the M&S BEAM Academy, which develops technical skills sets, continues to grow. Alongside this the Product Academy has equipped over 25,000 colleagues with selling and service skills for modern omni-channel retailing.

This is supported by a set of core expectations and behaviours of how the business operates from day to day.

MAKING DISCIPLINED INVESTMENT CHOICES

M&S' capital investment programme is focused on increasing volume in growth channels and on structural reductions of the cost base. Appraisal of investments applies hurdle rates commensurate with risk, with a primary focus on cash payback on store investments.

Total investment during the year was over £500m, up from £300m in 2021/22. This included the £103m net initial payment for the acquisition of Gist and just over £400m of capital expenditure. The increase in capex largely related to store renewals, the resumption of property asset replacement following the pandemic and improvements to the technology infrastructure. In the coming year, we expect to maintain a similar level of capital expenditure.

Capital expenditure is focused on three programmes.

1. **Accelerating store rotation and renewal** to create a high productivity brand defining estate of c.180 full-line and c.400 Food stores positioned in growth locations. Over five years this is expected to reduce Clothing & Home selling space by c.20% and increase Food space by c.10-15%.

    - In 2022/23, the full-line estate reduced by three stores, while the owned Simply Food estate increased by five. In some cases, we are on track to double sales and pay back the capital invested in c.3-4 years, including closure costs for relocations. A good example of this is the Chesterfield High Street store, which was closed and the business relocated to the nearby retail park.
    - This year the plan is to open 8 full-line and 10 Food stores while closing c.20, of which 10 will be closed for relocation. The relocations include opening five new 'flagship' properties in Liverpool, Leeds, Manchester, Birmingham and Thurrock.
    - Over 80 stores are now in a renewal format including a new full-line store at Stevenage. In full Food renewals these add capacity in areas catering to the larger family shop. Paybacks currently average c. four years and in the next phase the plan is to refine space allocation, range and service to further increase returns.

2. **Modernising the Clothing & Home and Food supply chains** to create a lower cost network which prioritises the timely flow of products over storage and stock holding.

    Clothing & Home is planning a five-year programme of investment which includes:

    - Consolidation, to focus on fewer, more strategic clothing and fabric suppliers;
    - Systems upgrades to create greater visibility, improve replenishment and reduce excess stock commitment and storage; and
    - Creating a logistics network to support the omni-channel offering, largely using existing assets, and investing in automation and new capacity to improve availability and speed up delivery and returns.

    In Food last year the acquisition of Gist was completed, taking control of the logistics network:

    - The H2 contribution from the acquisition was c.£27m, from the elimination of management fees, operational savings and improved service over peak;
    - There is the potential to drive productivity improvements from shared transport across Clothing & Home and Food and a plan for network modernisation is being developed; and
    - A new forecasting, ordering and allocation system is being implemented, with the planned benefit of helping to reduce waste.

3. **Creating a more engaging digital customer experience** which brings together loyalty and payment, supported by an effective technology infrastructure.

In 2022/23, the teams working on omni-channel & Sparks were combined with those responsible for commercial and enterprise planning systems to optimise use of technology resources across the Group.

- Investment in year included technology improvements in stores and the initial implementation of the food forecasting and ordering system, personalisation developments and the trial of Sparks Pay;
- Steps are being taken to upgrade core systems, including enterprise resource and new payroll applications and the supply chain improvements outlined above; and
- The opportunity to create a more effective payment and loyalty proposition through a unified single sign on across all M&S products is also being evaluated.

The Group's ability to invest is driven by its capital allocation framework, which focuses on the generation of free cashflow from operations. In 2022/23, this was £170m and after the initial consideration for the acquisition of Gist, net debt excluding lease liabilities reduced by a further c.£64m to £356m, with the group continuing to have substantial cash balances of £1,068m. After recent improvements to the balance sheet, ratios of debt to EBITDA and cashflow to net debt are now at levels consistent with an investment grade credit rating which balances the needs of shareholders and creditors while providing a robust 'sponsor covenant' to pension trustees. In 2023/24, we will continue to focus on free cashflow, prioritised investment and look to achieve an investment grade credit rating during the year.

DRIVING SHAREHOLDER RETURNS, RESTORING THE DIVIDEND

With the business generating an improved operating performance and having a strengthened balance sheet with credit metrics consistent with investment grade, the Board plans to restore a modest annual dividend to shareholders starting with an interim dividend with the results in November.

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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 here from 7:30am on 24 May 2023.

Stuart Machin, Katie Bickerstaffe and Jeremy Townsend will host a Q&A session at 9.30am on 24 May 2023:

For the quickest joining experience, **please register prior to attending the call** here. After registering, you will be given unique dial in details to join the call.

Alternatively, you can use the below details to join the call but please join 5-10 minutes before the start time in order to register your details with the operator.
Dial in: +44 (0) 33 0551 0200
Passcode: Quote Analyst Q&A call when prompted by the operator
Replay: A recording will be available for 48 hours after the call here

Fixed Income Investor Conference Call:
This will be hosted by Jeremy Townsend, Chief Financial Officer, at 2pm on 24 May 2023:
For the quickest joining experience, **please register prior to attending the call** here. After registering, you will be given unique dial in details to join the call.

Alternatively, you can use the below details to join the call but please join 5-10 minutes before the start time in order to register your details with the operator.
Dial in: +44 (0) 33 0551 0200
Passcode: Quote Fixed Income Investor call when prompted by the operator
Replay: A recording will be available for 48 hours after the call here

Important Notice:

The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the UK version of the Market Abuse Regulation (EU) No. 596/2014 as it forms part of UK law by virtue of the European Union (Withdrawal) Act 2018. Upon the publication of this announcement, this inside information is now considered to be in the public domain.

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 2023 Annual Report (pages 56-65).
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.

FULL YEAR FINANCIAL REVIEW

Financial Summary

52 weeks ended	1 Apr 23 £m	2 Apr 22 £m	Change vs 21/22 %
Group statutory revenue	**11,931.3**	**10,885.1**	**9.6**
Group sales	**11,988.0**	**10,909.0**	**9.9**
UK Food	7,218.0	6,639.6	8.7
UK Clothing & Home	3,715.0	3,332.2	11.5
International	1,055.0	937.2	12.6
Group operating profit before adjusting items	**626.6**	**709.0**	**-11.6**
UK Food	248.0	277.8	-10.7
UK Clothing & Home	323.8	330.7	-2.1
International	84.8	73.6	15.2
M&S Bank and Services	(0.5)	13.0	-103.8
Share of result in associates and joint ventures	(29.5)	13.9	-312.2
Interest payable on lease liabilities	(111.1)	(115.6)	-3.9
Net financial interest	(33.5)	(70.5)	-52.5
Profit before tax & adjusting items	**482.0**	**522.9**	**-7.8**
Adjusting items	(6.3)	(131.2)	-95.2
Profit before tax	**475.7**	**391.7**	**21.4**
Profit after tax	**364.5**	**309.0**	**18.0**
Basic earnings per share	18.5p	15.7p	17.8
Adjusted basic earnings per share	18.1p	21.7p	-16.6
Net debt	**2.64bn**	**2.70bn**	**-2.2**
Group capex and disposals	**409.2**	**213.5**	**91.7**
Free cash flow from operations	**170.4**	**739.6**	**-77.0**

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.

Group results

Group sales were £11,988.0m. This was an increase of 9.9% versus 2021/22, driven by Clothing & Home sales up 11.5%, Food sales up 8.7% and International sales up 12.6%. UK Food sales growth also reflects the impact of third party sales by Gist Limited of £84.2m following its acquisition, which had a positive effect of c.1.3% in the year. Like for like sales were unaffected by the acquisition of Gist.

Statutory revenue in the period was £11,931.3m, an increase of 9.6% versus 2021/22.

The Group generated profit before tax and adjusting items of £482.0m, compared with £522.9m in the prior year.

The Group benefited from Covid-related UK business rates relief of £59.8m in 2021/22, which was not repeated in 2022/23.

Adjusting items were a net charge of £6.3m, compared with a charge of £131.2m in the prior year. The reduction was largely a result of a credit of £108.0m representing the revaluation of the contingent consideration payable for the investment in Ocado Retail Limited.

As a result the Group generated a statutory profit before tax of £475.7m, compared with £391.7m in the prior year.

Adjusted basic EPS was 18.1 pence, down 16.6% on 2021/22 reflecting business rates relief in the prior year. Basic EPS was 18.5 pence, up 17.8% on 2021/22, reflecting the reduced net charge for adjusting items.

For full details on adjusting items and the Group’s related policy, read more on notes 1 and 3 to the financial information.

UK: Food

UK Food sales increased 8.7%, with like-for-like sales up 5.4%, underpinned by strong performance of hospitality and franchise sales, following Covid restrictions in the prior year.

Change vs 21/22 %	Q1	Q2	Q3	Q4	FY
Food[1]	6.6	4.5	10.2	13.2	8.7
Food like-for-like sales	3.4	2.5	6.3	9.2	5.4

[1] UK Food sales growth in Q3 and Q4 reflect the impact of third party sales by Gist Limited, which had a positive effect in the FY of c.1.3%. UK Food sales are equal to statutory revenue.

M&S Food has an online grocery presence with Ocado Retail and these sales are reported through Ocado Retail and are not contained within these numbers.

52 weeks ended	1 Apr 23	2 Apr 22	Change vs 21/22 %
Footfall, m (average/week)	10.5	10.2	2.9
Transactions, m (average/week)	9.0	8.0	12.5
Basket value inc VAT (£)	15.2	15.9	-4.4
Total sales ex VAT £m[1]	**7,218.0**	**6,639.6**	**8.7**

[1] *Includes M&S.com*

Transactions increased, driven by the growth in hospitality and franchise sales which are typically smaller value and which were reflected in a reduction in overall basket value. However, larger basket transactions continued to grow.

52 weeks ended	1 Apr 23 £m	2 Apr 22 £m	Change vs 21/22 %
Sales	7,218.0	6,639.6	8.7
Operating profit before adjusting items	**248.0**	**277.8**	**-10.7**
Adjusted operating margin	*3.4%*	*4.2%*	*-80bps*

Operating profit before adjusting items was £248.0m compared with £277.8m in 2021/22, with last year's result benefiting from £24.6m of UK business rates relief.

The overall Food adjusted operating margin decreased by 80bps (40bps excluding rates relief). Within this, gross margin declined 110bps, largely as a result of investment in trusted value, while operating costs improved 70bps as sales grew faster than costs.

Total adjusted operating costs grew c.7%, with growth of c.4% excluding business rates relief and the acquisition of the Gist third-party business. This included pay and inflation related cost increases such as energy of c.7%, new space and volume of c.1.5%, and investments such as in-store technology improvements. However, this was partly offset by efficiencies of c.6%, predominantly in store staffing and benefits from the Gist management fee saving, following acquisition.

The table below sets out the resulting movement in Food adjusted operating margin by key cost driver:

- Store staffing costs decreased 50bps. Colleague pay increases were largely offset by retail efficiencies and sales growth.
- Other store costs increased 10bps, with a 40bps adverse impact from the receipt of business rates relief in the prior year, and additional energy cost headwinds.
- Distribution and warehousing costs increased 10 bps. The increase largely reflects pay and inflation increasing faster than sales, although these were partly offset by Gist management fee savings in H2.
- Central costs decreased 10bps due to sales leverage, despite additional technology investments in store and trials of the new forecasting, ordering and allocation system.

Operating profit margin before adjusting items	%
2021/22	**4.2**
Gross margin	(1.1)
Store staffing	0.5
Other store costs	(0.1)
Distribution and warehousing	(0.1)
Central Food costs	0.1
2022/23	**3.4**

UK: Clothing & Home

Clothing & Home sales increased 11.5% with continued recovery of store sales, which are now above pre-Covid levels, and a robust performance by the online business.

Change vs 21/22 %	Q1	Q2	Q3	Q4	FY
Clothing & Home sales	18.2	10.3	8.8	10.2	11.5
Clothing & Home like-for-like sales	17.6	10.2	8.6	9.6	11.2
Clothing & Home stores sales	24.3	14.0	12.8	9.8	14.9
Clothing & Home online sales	7.0	2.9	0.7	11.1	4.8
Clothing & Home statutory revenue	*16.7*	*9.6*	*7.1*	*10.8*	*10.6*

To enable greater insight into these movements, further detail is provided on the performance of each channel.

Online

52 weeks ended	1 Apr 23	2 Apr 22	Change vs 21/22 %
Traffic (m)[1]	446.5	405.7	10.1
Conversion (%)[2]	6.7	7.0	-30bps
Average order value incl. VAT pre returns (£)	58.6	55.4	5.8
Returns rate (%)[3]	29.5	25.6	390bps
Sales ex VAT £m	**1,176.4**	**1,122.7**	**4.8**

[1] *Traffic: the number of site visits to M&S.com and the app.*
[2] *Conversion: the number of orders as a % of the number of site visits.*
[3] *Prior year number restated due to basis of calculation. Returns rate represents returns on despatch sales.*

Following strong performance last year, online sales remained solid with growth throughout the year despite a tough market backdrop. Average order value grew almost 6% reflecting higher average selling prices, partly driven by mix.

The online returns rate increased year-on-year due to the growth of third-party brands which have a higher returns rate and a reversion in product mix and customer behaviour. Store returns rates reduced, with fitting rooms now reopened post pandemic.

Stores

52 weeks ended	1 Apr 23	2 Apr 22	Change vs 21/22 %
Footfall, m (average/week)	4.5	4.0	12.5
Transactions, m (average/week)	1.8	1.7	5.9
Average basket value inc VAT pre returns (£)	37.4	34.9	7.2
Sales ex VAT £m	**2,538.6**	**2,209.5**	**14.9**

UK Clothing & Home store sales increased 14.9%, with all clothing store formats seeing an improvement in sales year-on-year, also supported by higher average selling prices and mix. Average weekly footfall was up 12.5% following Covid restrictions lifting during Q1 last year, contributing to an increase in transactions.

Total Clothing & Home

Operating profit before adjusting items was £323.8m compared with £330.7m in 2021/22, with last year's result benefitting from £35.2m of UK business rates relief.

52 weeks ended	1 Apr 23 £m	2 Apr 22 £m	Change vs 21/22 %
Statutory revenue	3,658.3	3,308.3	10.6
Sales	3,715.0	3,332.2	11.5
Operating profit before adjusting items	**323.8**	**330.7**	**-2.1**
Adjusted operating margin	*8.7%*	*9.9%*	*-120bps*

The overall Clothing & Home adjusted operating margin decreased by c.120bps (20bps excluding rates relief). Within this, gross margin decreased 290bps, although this was partly offset by lower operating costs as a percent of sales, as sales grew faster than costs.

Within gross margin, bought-in margin declined c.200bps. Sourcing, freight and in-year currency related cost pressures, particularly in H2, were not fully offset by pricing activity. In addition, as expected, promotional mix normalised and, third-party brands grew, diluting margin by c.30bps.

Total adjusted operating costs increased 7.6%, with growth of 5.2% adjusted for business rates relief. Pay and inflation related costs such as energy contributed 4% to cost growth, while space, volume and channel mix contributed 3% and investments were made in digital development, the growth of third-party brands and marketing. These were partly offset by efficiencies of c.3%, including store staffing.

The table below sets out the drivers of the movement in Clothing & Home operating profit before adjusting items for the total segment and by channel.

- Store staffing costs decreased 60bps. Colleague pay increases were more than offset by retail efficiencies and sales growth.
- Other store costs were level. There was a 100bps adverse impact from the receipt of business rates relief in the prior year, which was offset by the effects of sales growth.
- Distribution and warehousing costs improved 110bps due to sales growth and channel mix, which more than offset pay inflation.
- Central costs were level as a percentage of sales despite significant additional digital investments including website front end development and increased personalisation.

Operating profit margin before adjusting items	Total %	Stores %	Online %
2021/22	**9.9**	**10.3**	**9.1**
Gross margin	(2.9)	(2.1)	(4.5)
Store staffing	0.6	0.9	0.4
Other store costs	0.0	0.4	0.1
Distribution and warehousing	1.1	0.8	0.9
Central Clothing & Home costs	0.0	0.1	(0.9)
2022/23	**8.7**	**10.4**	**5.0**

As outlined above, store margin increased, largely due to strong sales growth. Online margin was adversely impacted due to slower sales growth, product mix and digital investments.

International

Total International sales increased 11.2% at constant currency. Store sales grew 14% as the business recovered from lockdown in several markets in Q1 of the prior year. Online sales were up 5% led by India and growth through European marketplaces in H2.

Sales excluding the Republic of Ireland were up 15.1% at constant currency, driven by Clothing & Home sales in India and continued robust demand from partners in the Middle East. Trading in Europe was adversely impacted by the closure of operations in Russia and France. Sales growth in the Republic of Ireland was robust despite continuing EU border related headwinds in Food.

52 weeks ended	1 Apr 23 £m	2 Apr 22 £m	Change vs 21/22 %	Change vs 21/22 CC %
Total sales	1,055.0	937.2	12.6	11.2
Memo: Sales excl. Republic of Ireland	*741.0*	*637.8*	*16.2*	*15.1*
Operating profit before adjusting items	84.8	73.6	15.2	16.2
Adjusted operating margin	*8.0%*	*7.9%*	*10bps*	*30bps*
Memo: Operating profit before adjusting items excl. Republic of Ireland	*67.9*	*58.2*	*16.7*	*18.6*

Total International operating profit before adjusting items was up 15.2% to £84.8m, with adjusted operating margin up 10bps to 8.0%. This was largely driven by growth in markets excluding the Republic of Ireland.

Gross margin decreased by 20bps, driven by a reduced Clothing & Home gross margin in the Republic of Ireland. Operating costs increased 11.6% but reduced as a percent of sales. The increase in operating costs was largely driven by the business returning to a fully operational state following Covid related lockdowns in Q1 last year. In addition, pay and energy related cost inflation was absorbed in owned markets.

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"). Full Year Results are consistent with the quarterly results reported by Ocado Group on behalf of Ocado Retail for the quarterly periods ended 29 May 2022, 28 August 2022, 27 November 2022 and 26 February 2023.

	Q1	Q2	Q3	Q4	FY
Revenue growth (%)	-9.8	2.6	0.3	3.4	-1.2
Active customers (k)	867	947	942	957	957
Average orders per week (k)	385	374	382	381	380

Notes: Retail revenue comprises revenues from Ocado.com and Ocado Zoom. Average orders per week refers to results of Ocado.com

Revenue declined 1.2% over the 52 weeks to 26 February 2023. While active customers grew 14.6% and order numbers increased 3.9%, basket sizes have continued to decline due to the near-term pressures of the pandemic unwind and cost-of-living crisis. Revenue performance in the last three quarters was ahead of last year.

52 weeks ended	26 Feb 23 £m	27 Feb 22 £m	Change %
Revenue	2,222.0	2,248.8	-1.2
EBITDA before exceptional items	(15.1)	104.8	-114.4
Exceptional items[1]	21.2	(14.4)	247.2
Depreciation and amortisation	(69.4)	(41.3)	68.0
Operating (loss)/profit	**(63.3)**	**49.1**	**-228.9**
Net interest charge	(14.3)	(16.4)	-12.8
Taxation	18.6	(4.9)	479.6
(Loss)/profit after tax	**(59.0)**	**27.8**	**-312.2**
M&S 50% share of (loss)/profit after tax	**(29.5)**	**13.9**	**-312.2**

[1]*Exceptional items are defined within the* Ocado Group plc Annual Report and Accounts 2022.

Ocado Retail EBITDA before exceptional items was down, reflecting smaller baskets, lower gross margins, under-utilised CFC capacity and higher fulfilment and delivery costs.

Ocado Retail recognised £21.2m of exceptional income before tax, predominantly relating to the insurance income for Andover and Erith CFCs, offset by costs relating to the development and introduction of new IT systems as Ocado Retail transition away from Ocado Group IT services, tools and support.

As a result of lower EBITDA, partly offset by exceptional profits, M&S Group share of Ocado Retail loss after tax was £29.5m.

M&S Bank and Services

M&S Bank and Services generated a loss before adjusting items of £0.5m, as compared with profit of £13.0m in 2021/22. Deterioration of the forward macro-economic environment guidance drove the need for higher bad debt provision resulting in insufficient profits to generate a profit share payment.

Net finance cost

52 weeks ended	1 Apr 23 £m	2 Apr 22 £m	Change vs 21/22 £m
Interest payable	(76.3)	(85.1)	8.8
Interest income	23.8	9.6	14.2
Net interest payable	**(52.5)**	**(75.5)**	**23.0**
Pension net finance income	28.7	13.2	15.5
Unwind of discount on Scottish Limited Partnership liability	(4.3)	(4.4)	0.1
Unwind of discount on provisions	(5.4)	(3.8)	(1.6)
Net financial interest	**(33.5)**	**(70.5)**	**37.0**
Net interest payable on lease liabilities	**(111.1)**	**(115.6)**	4.5
Net finance costs before adjusting items	**(144.6)**	**(186.1)**	**41.5**
Adjusting items included in net finance costs	105.2	5.6	99.6
Net finance costs	**(39.4)**	**(180.5)**	**141.1**

Net finance costs before adjusting items decreased £41.5m to £144.6m. This was driven by higher average interest rates on cash balances and higher pension finance income from a larger opening pension surplus balance. In addition, interest expense reduced as a result of the partial buy-back of 2023 and 2025 bonds.

Adjusting items within net finance costs reflect a credit relating to the remeasurement of Ocado Retail contingent consideration of £108m and a charge of £2.8m reflecting the discount unwind on deferred consideration and revaluation of contingent consideration on the acquisition of Gist Limited.

Group profit before tax and adjusting items

Group profit before tax and adjusting items was £482.0m, down 7.8% on 2021/22. The profit decrease was largely due to declines in Food, Clothing and Home and Ocado Retail, offset by an increase in International operating profit and reduced interest. UK profits in the prior year benefitted from £59.8m business rates relief.

Group profit before tax

Group profit before tax was £475.7m, up 21.4% on 2021/22.

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. These (charges)/gains are reported as adjusting items on the basis that they are significant in quantum in current or future years and to aid comparability from one period to the next.

52 weeks ended	1 Apr 23 £m	2 Apr 22 £m	Change vs 21/22 £m
Strategic programmes – UK store estate	(51.3)	(161.4)	110.1
Strategic programmes – Structural simplification	(16.4)	-	(16.4)
Strategic programmes – Organisation	(10.7)	14.3	(25.0)
Strategic programmes – UK logistics	(10.5)	21.9	(32.4)
Strategic programmes – International store closures and impairments	-	0.4	(0.4)
Store impairments, reversals and other property charges	15.1	60.0	(44.9)
Acquisition of Gist Limited	(22.1)	-	(22.1)
Amortisation and fair value adjustments arising as part of the investment in Ocado Retail Limited	(14.0)	(32.5)	18.5
M&S Bank charges incurred in relation to the insurance mis-selling provisions	(2.0)	(16.0)	14.0
Franchise restructure	0.4	(41.3)	41.7
Directly attributable gains resulting from the Covid-19 pandemic	-	17.8	(17.8)
	(111.5)	**(136.8)**	**25.3**
Included in net finance income/(costs)			
Remeasurement of Ocado Retail Limited contingent consideration	108.0	5.6	102.4
Net finance costs incurred in relation to Gist Limited deferred and contingent consideration	(2.8)	-	(2.8)
	105.2	**5.6**	**99.6**
Adjustments to profit before tax	**(6.3)**	**(131.2)**	**124.9**

Adjusting items recognised were a net charge of £6.3m. These include:

A charge of £51.3m in relation to UK store estate rotation plans. This reflects a revised view of latest store exit routes, assumptions, estimated closure costs, charges relating to the impairment of buildings, fixtures and fittings, and accelerated depreciation.

A non-cash charge of £10.7m within organisation relating to updated assumptions regarding the sub-let of previously closed Merchant Square offices.

A charge of £16.4m for structural simplification of the organisation, which has resulted in a reduction of c.700 roles across support centres, management and stores, with the charge reflecting the associated redundancy and exit costs.

A net charge of £10.5m for UK logistics, reflecting estimated costs of closure relating to the announced closure of a further distribution centre in 2023/24, as part of the previously announced programme to transition to a single-tier UK distribution network.

A non-cash net credit of £15.1m in relation to UK and International store impairments, driven by revised future cash flow projections in relation to the carrying value of stores.

A charge of £22.1m relating to the acquisition of Gist to transform the supply chain. Within this, £18.2m of charges relate to the settlement of our pre-existing relationship with Gist Limited.

A non-cash charge of £14.0m with respect to the amortisation of intangible assets acquired on the purchase of our share in Ocado Retail partly offset by the related deferred tax credit.

Charges of £2.0m have been incurred relating to M&S Bank, primarily due to the insurance mis-selling provision.

In 2021/22, the Group announced the restructure of its franchise operations in France. Following finalisation of costs, £0.4m of the provision has been released, with no future costs currently expected.

A credit of £108m representing the revaluation of the contingent consideration payable for the investment in Ocado Retail Limited to £64.7m.

Taxation

The effective tax rate on profit before tax and adjusting items was 25.9% (2021/22: 18.2%). This was higher than the UK statutory tax rate primarily due to the impact of the recapture of tax relief on distributions to the Scottish Limited Partnership (SLP), which have resumed in the year, and non-taxable Ocado Retail losses.

The effective tax rate on statutory profit before tax was 23.4% (2021/22: 21.1%). This is lower than the effective tax rate on profit before adjusting items due to the impact of non-taxable adjusting items.

In 2023/24 we expect the effective tax rate on profit before tax and adjusting items to increase to c.31-32%, largely as a result of the increase in the UK corporation tax rate.

Earnings per share

Basic earnings per share was 18.5p (2021/22: 15.7p), due to the increase in profit year-on-year. The weighted average number of shares in issue during the period was 1,963.5m (2021/22: 1,958.1m).

Adjusted basic earnings per share was 18.1p (2021/22: 21.7p) due to lower adjusted profit year-on-year.

Cash flow

52 weeks ended	1 Apr 23 £m	2 Apr 22 £m	Change vs 21/22 £m
Operating profit	**515.1**	**572.2**	**(57.1)**
Adjusting items within operating profit	111.5	136.8	(25.3)
Operating profit before adjusting items	**626.6**	**709.0**	**(82.4)**
Depreciation and amortisation before adjusting items	523.2	510.7	12.5
Cash lease payments	(353.8)	(344.3)	(9.5)
Working capital	(10.1)	239.7	(249.8)
Defined benefit scheme pension funding	(36.8)	(36.8)	-
Capex and disposals	(409.2)	(213.5)	(195.7)
Financial interest	(66.5)	(79.9)	13.4
Taxation	(70.6)	(7.7)	(62.9)
Employee-related share transactions	37.9	39.1	(1.2)
Share of loss/(profit) from associate	29.5	(13.9)	43.4
Adjusting items in cashflow	(69.9)	(61.8)	(8.1)
Loans to associates	(30.0)	(1.0)	(29.0)
Free cash flow from operations	**170.4**	**739.6**	**(569.2)**
Acquisitions, investments, and divestments	(106.8)	(40.4)	(66.4)
Free cash flow	**63.6**	**699.2**	**(635.6)**
Dividends paid	-	-	-
Free cash flow after shareholder returns	**63.6**	**699.2**	**(635.6)**
Opening net debt excluding lease liabilities	**(420.1)**	**(1,110.0)**	**689.9**
Free cash flow after shareholder returns	63.6	699.2	(635.6)
Exchange and other non-cash movements excluding leases	0.9	(9.3)	10.2
Closing net debt excluding lease liabilities	**(355.6)**	**(420.1)**	**64.5**
Opening net debt	**(2,698.8)**	**(3,515.9)**	**817.1**
Free cash flow after shareholder returns	63.6	699.2	(635.6)
Decrease in lease obligations	231.8	216.0	15.8
New lease commitments and remeasurements	(249.4)	(100.6)	(148.8)
New leases from acquisitions	(21.3)	-	(21.3)
Exchange and other non-cash movements	36.9	2.5	34.4
Closing net debt	**(2,637.2)**	**(2,698.8)**	**61.6**

The business generated free cashflow from operations of £170.4m, reducing year on year. This was driven by lower operating profit as a result of business rates relief in 2021/22, prior year working capital inflows, increased capital expenditure (detailed below), and tax payments.

Prior year working capital inflows were partly a result of changes to payment terms for Clothing & Home suppliers during the pandemic, which are partially reversing as Clothing & Home shifts back towards pre-Covid terms. The outflow was lower than anticipated due to the phasing of payables over year end.

Defined benefit scheme pension funding of £36.8m reflects the agreed SLP interest distribution to the pension scheme.

Increased taxation was principally due to the resumption of UK corporation tax payments in the period.

Adjusting items in cashflow includes £26.4m relating to the exit of the Russian franchise business, £22.8m relating to the UK store estate strategy, £8.9m related to structural simplification, £6.7m for costs related to the Gist acquisition and £2.0m relating to the M&S Bank insurance mis-selling provisions.

Loans to associates reflects drawdown of the shareholder loan facility by Ocado Retail, with an outflow of up to £70m anticipated in 2023/24.

Acquisitions, investments and divestments were driven principally by the payment of £102.8m relating to the acquisition of Gist, net of cash received.

The business generated free cashflow of £63.6m, resulting in a further reduction of net debt.

Capital expenditure

52 weeks ended	1 Apr 23 £m	2 Apr 22 £m	Change vs 21/22 £m
UK store remodelling	70.5	50.1	20.4
New UK stores	55.0	49.9	5.1
International	28.9	18.2	10.7
Supply chain	36.8	28.6	8.2
IT and M&S.com	109.5	68.2	41.3
Property asset replacement	102.1	85.2	16.9
Capital expenditure before property acquisitions and disposals	**402.8**	**300.2**	**102.6**
Property acquisitions and disposals	(1.1)	(43.9)	42.8
Capital expenditure	**401.7**	**256.3**	**145.4**
Movement in capital accruals and other items	7.5	(42.8)	50.3
Capex and disposals as per cash flow	**409.2**	**213.5**	**195.7**

Group capital expenditure before property acquisitions and disposals increased £102.6m to £402.8m due to increased investment in technology, store remodelling and property asset replacement.

UK store remodelling costs reflects 31 Food renewals and upgrades to Clothing & Home space in several full line stores.

Spend on new UK stores primarily related to the opening of 3 full line and 6 Food stores and one Food extension.

Supply chain expenditure reflects investment in the underlying base food infrastructure together with spend on upgrading vehicles.

IT and M&S.com spend includes technology replacement and upgrades in stores, continued investment in website development and investment in food planning systems.

Property asset replacement has increased in the current year, primarily driven by the resumption of investment following the pandemic. This includes roof works and replacement of fridges, freezers, boilers, lifts and escalators.

Prior year disposals include receipts from the sale of two warehouses.

The movement in capital accruals and other items is driven by landlord contributions partially offset by an increase in capital accruals as capex spend normalises post pandemic.

Net debt

Group net debt decreased £61.6m driven by free cashflow from operations of £170.4m, and a net cash outflow of £102.8m relating to the acquisition of Gist.

New lease commitments, remeasurements (including from acquisitions) in the period were £270.7m, largely relating to 14 new UK leases, the consolidation of Gist Limited lease liabilities, lease additions in India, and UK property and logistics liability remeasurements. This was largely offset by £231.8m of capital lease repayments.

The composition of Group net debt is as follows:

52 weeks ended	1 Apr 23 £m	2 Apr 22 £m	Change vs 21/22 £m
Cash and cash equivalents	1,067.9	1,197.9	(130.0)
Medium Term Notes	(1,346.4)	(1,529.5)	183.1
Current financial assets and other	44.8	99.4	(54.6)
Partnership liability	(121.9)	(187.9)	66.0
Net debt excluding lease liabilities	**(355.6)**	**(420.1)**	**64.5**
Lease liabilities	(2,281.6)	(2,278.7)	(2.9)
- Full-line stores	(909.2)	(919.5)	10.3
- Simply Food stores	(673.1)	(712.8)	39.7
- Offices, warehouses and other	(494.6)	(449.5)	(45.1)
- International	(204.7)	(196.9)	(7.8)
Group net debt	**(2,637.2)**	**(2,698.8)**	**61.6**

The Medium Term Notes include five bonds, with maturities out to 2037, and the associated accrued interest. During the period part of the 2023 and 2025 bonds were repurchased, reducing near-term liquidity draws. The USD 300m 2037 bond is valued by reference to the embedded exchange rate in the associated cross currency swaps. During the year these swaps were reset and the embedded mark to market value realised resulting in an increased value of the debt. The full breakdown of maturities is as follows

Bond and maturity date	Value (£m)
Dec 2023, GBP	185.3
Jun 2025, GBP	330.0
May 2026, GBP	298.9
Jul 2027, GBP	248.6
Dec 2037, USD	251.8
Total principal value	**1,314.6**
Other	31.8
Total carrying value	**1,346.4**

Full-line store lease liabilities include £192.2m relating to stores identified as part of the UK store estate strategic programme. Of the remaining full-line stores lease liability, the liability-weighted average lease length to break is c.21 years. However, these average lease lengths are skewed by five particularly long leases on stores which are trading well in locations where the Group intends to remain. Excluding these five leases, the average term to break of leases outside the programme is c.16 years.

Simply Food store lease liabilities include £26.3m relating to stores identified as part of the UK store estate strategic programme. Of the remaining lease liability, the average lease length to break is c.10 years.

Within offices, warehouses and other lease liabilities, £143.0m relates to the sublet lease on the Merchant Square offices in central London, which is part of the strategic programme, organisation. Average lease length of all other offices and warehouses to break is c.8 years.

International leases relate primarily to India (c.£99m) and Ireland (c.£62m). Average lease length to break in India is close to nil, as the majority of these leases are past the break point, and so we have the flexibility to exit these at any time on several months' notice. Average length to lease break or expiry in Ireland is c.8 years.

Pension

At 1 April 2023, the IAS 19 net retirement benefit surplus was £477.4m (2021/22: £1,038.2m). There has been a decrease of £560.8m from the start of the year largely driven by an increase in gilt yields.

The pension scheme is fully hedged for movements in gilt yields. However, on an IAS 19 basis there is an inherent basis risk to the scheme valuation, with the pension assets moving with underlying movements in rates and scheme liabilities exposed to the movement in corporate bonds yields. In a normal period, this always results in some dislocation between movements in the scheme assets and liabilities. However, the increase in gilt yields in the year led to a larger dislocation. Nevertheless, there has been no material worsening of the scheme's overall funding position and the scheme remains fully funded on a technical provisions basis.

The most recent actuarial valuation of the Marks & Spencer UK Pension Scheme was carried out as at 31 March 2021 and showed a funding surplus of £687m. This is an improvement on the previous position at 31 March 2018 (funding surplus of £652m), primarily due to lower assumed life expectancy.

Marks and Spencer Scottish Limited Partnership

Marks and Spencer plc is a general partner of the Marks and Spencer Scottish Limited Partnership, with the UK defined benefit pension scheme, which is a limited partner. The Partnership holds £1.3bn (last year: £1.3bn) of properties at book value which have been leased back to Marks and Spencer plc. The first limited Partnership interest held by the scheme entitles it to receive £73.0m in 2023 and £54.4m in 2024 and is included as a financial liability in the financial statements as it is a transferable financial instrument. The second Partnership interest held by the scheme, entitles it to receive a further £36.4m annually from June 2017 until June 2031. It is not a transferable financial instrument, so 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.

Liquidity

At 1 April 2023, the Group held cash and cash equivalents of £1,067.9m (2021/22: £1,197.9m). In the period, as part of its approach to liability management, the Group bought back c.£190m of bonds due for maturity in 2023 and 2025.

The Group currently has an unused £850m revolving credit facility which is due to expire in June 2026 on terms linked to delivery of its net zero roadmap. With the facility undrawn, the Group has liquidity headroom of £1.9bn.

Dividend

With the business generating an improved operating performance and having a strengthened balance sheet with credit metrics consistent with investment grade, the Board plans to restore a modest annual dividend to shareholders starting with an interim dividend with the results in November.

Statement of financial position

Net assets were £2,814.9m at the period end, a decrease of 3.5% since the start of the year, largely due to the decrease in the IAS 19 pension surplus, partially offset by profits.

Consolidated income statement

	Notes	52 weeks ended 1 April 2023 Total £m	52 weeks ended 2 April 2022 Total £m
Revenue	2	11,931.3	10,885.1
Share of result in associate - Ocado Retail Limited	2, 3, 17	(43.5)	(18.6)
Operating profit	2, 3	515.1	572.2
Finance income	3, 4	166.1	33.9
Finance costs	3, 4	(205.5)	(214.4)
Profit before tax	3	475.7	391.7
Income tax expense	5	(111.2)	(82.7)
Profit for the year		364.5	309.0
Attributable to:			
Owners of the parent		363.4	306.6
Non-controlling interests		1.1	2.4
		364.5	309.0
Earnings per share			
Basic earnings per share	6	18.5p	15.7p
Diluted earnings per share	6	17.9p	15.1p
Reconciliation of profit before tax & adjusting items:			
Profit before tax		475.7	391.7
Adjusting items	3	6.3	131.2
Profit before tax & adjusting items - non-GAAP measure		482.0	522.9
Adjusted earnings per share - non-GAAP measure			
Adjusted basic earnings per share	6	18.1p	21.7p
Adjusted diluted earnings per share	6	17.5p	20.9p

Consolidated statement of comprehensive income

	Notes	52 weeks ended 1 April 2023 £m	52 weeks ended 2 April 2022 £m
Profit for the year		364.5	309.0
Other comprehensive (expense)/income:			
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of retirement benefit schemes	8	(622.8)	357.0
Tax credit/(charge) on retirement benefit schemes		158.0	(127.6)
Loss on disposal of investment held at fair value through other comprehensive income ("FVOCI")		-	(3.7)
		(464.8)	225.7
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation differences			
- movements recognised in other comprehensive income		4.3	(13.5)
- reclassified and reported in profit or loss		-	(0.5)
Cash flow hedges			
- fair value movements recognised in other comprehensive income		77.0	91.3
- reclassified and reported in profit or loss		(14.4)	(10.5)
Tax charge on cash flow hedges		(18.6)	(14.7)
		48.3	52.1
Other comprehensive (expense)/income for the year, net of tax		(416.5)	277.8
Total comprehensive (expense)/income for the year		(52.0)	586.8
Attributable to:			
Owners of the parent		(53.1)	584.4
Non-controlling interests		1.1	2.4
		(52.0)	586.8

Consolidated statement of financial position

	Notes	As at 1 April 2023 £m	As at 2 April 2022 £m
Assets			
Non-current assets			
Intangible assets	10	163.1	192.5
Property, plant and equipment	11	5,203.7	4,902.3
Investment property		11.8	15.0
Investments in joint ventures and associates	17	767.9	810.9
Other financial assets		7.9	4.5
Retirement benefit assets	8	482.0	1,043.9
Trade and other receivables		298.7	270.6
Derivative financial instruments		0.1	21.4
Deferred tax assets		7.6	-
		6,942.8	7,261.1
Current assets			
Inventories		764.4	706.1
Other financial assets		13.0	17.6
Trade and other receivables		280.6	217.1
Derivative financial instruments		22.6	43.6
Current tax assets		6.5	-
Cash and cash equivalents		1,067.9	1,197.9
		2,155.0	2,182.3
Total assets		9,097.8	9,443.4
Liabilities			
Current liabilities			
Trade and other payables		2,048.8	1,960.9
Partnership liability to the Marks & Spencer UK Pension Scheme	9	73.0	71.9
Borrowings and other financial liabilities		444.0	247.2
Derivative financial instruments		58.1	3.2
Provisions		44.0	53.6
Current tax liabilities		38.5	34.0
		2,706.4	2,370.8
Non-current liabilities			
Retirement benefit deficit	8	4.6	5.7
Trade and other payables		181.3	188.2
Partnership liability to the Marks & Spencer UK Pension Scheme	9	51.8	120.4
Borrowings and other financial liabilities		3,184.0	3,561.0
Derivative financial instruments		7.1	0.4
Provisions		75.4	91.8
Deferred tax liabilities		72.3	187.2
		3,576.5	4,154.7
Total liabilities		6,282.9	6,525.5
Net assets		2,814.9	2,917.9
Equity			
Issued share capital		19.8	19.7
Share premium account		910.7	910.6
Capital redemption reserve		2,680.4	2,680.4
Hedging reserve		(31.9)	17.6
Cost of hedging reserve		4.2	3.6
Other reserve		(6,542.2)	(6,542.2)
Foreign exchange reserve		(69.6)	(73.9)
Retained earnings		5,839.1	5,897.9
Equity attributable to owners of the parent		2,810.5	2,913.7
Non-controlling interests		4.4	4.2
Total equity		2,814.9	2,917.9

Consolidated statement of changes in equity

	Ordinary share capital	Share premium account	Capital redemption reserve	Hedging reserve	Cost of hedging	Other reserve[1]	Foreign exchange reserve	Retained earnings[2]	Total	Non-controlling interest	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
As at 4 April 2021	489.2	910.4	2,210.5	(54.8)	4.6	(6,542.2)	(59.9)	5,325.2	2,283.0	2.8	2,285.8
Profit for the year	-	-	-	-	-	-	-	306.6	306.6	2.4	309.0
Other comprehensive (expense)/income:											
Foreign currency translation											
- movements recognised in other comprehensive income	-	-	-	-	-	-	(13.5)	-	(13.5)	-	(13.5)
- reclassified and reported in profit or loss	-	-	-	-	-	-	(0.5)	-	(0.5)	-	(0.5)
Remeasurements of retirement benefit schemes	-	-	-	-	-	-	-	357.0	357.0	-	357.0
Tax charge on retirement benefit schemes	-	-	-	-	-	-	-	(127.6)	(127.6)	-	(127.6)
Disposal of investments held at FVOCI	-	-	-	-	-	-	-	(3.7)	(3.7)	-	(3.7)
Cash flow hedges											
- fair value movement in other comprehensive income	-	-	-	92.1	(0.8)	-	-	-	91.3	-	91.3
- reclassified and reported in profit or loss	-	-	-	(10.5)	-	-	-	-	(10.5)	-	(10.5)
Tax on cash flow hedges	-	-	-	(14.5)	(0.2)	-	-	-	(14.7)	-	(14.7)
Other comprehensive income/(expense)	-	-	-	67.1	(1.0)	-	(14.0)	225.7	277.8	-	277.8
Total comprehensive income/(expense)	-	-	-	67.1	(1.0)	-	(14.0)	532.3	584.4	2.4	586.8
Cash flow hedges recognised in inventories	-	-	-	6.5	-	-	-	-	6.5	-	6.5
Tax on cash flow hedges recognised in inventories	-	-	-	(1.2)	-	-	-	-	(1.2)	-	(1.2)
Transactions with owners:											
Transactions with non-controlling shareholders	-	-	-	-	-	-	-	(1.7)	(1.7)	(1.0)	(2.7)
Shares issued in respect of employee share options	0.4	0.2	-	-	-	-	-	(0.3)	0.3	-	0.3
Buy back and cancellation of own shares[3]	(469.9)	-	469.9	-	-	-	-	-	-	-	-
Credit for share-based payments	-	-	-	-	-	-	-	38.8	38.8	-	38.8
Deferred tax on share schemes	-	-	-	-	-	-	-	3.6	3.6	-	3.6
As at 2 April 2022	19.7	910.6	2,680.4	17.6	3.6	(6,542.2)	(73.9)	5,897.9	2,913.7	4.2	2,917.9
As at 3 April 2022	19.7	910.6	2,680.4	17.6	3.6	(6,542.2)	(73.9)	5,897.9	2,913.7	4.2	2,917.9
Profit for the year	-	-	-	-	-	-	-	363.4	363.4	1.1	364.5
Other comprehensive income/(expense):											
Foreign currency translation											
- movements recognised in other comprehensive income	-	-	-	-	-	-	4.3	-	4.3	-	4.3
Remeasurements of retirement benefit schemes	-	-	-	-	-	-	-	(622.8)	(622.8)	-	(622.8)
Tax charge on retirement benefit schemes	-	-	-	-	-	-	-	158.0	158.0	-	158.0
Cash flow hedges											
- fair value movement in other comprehensive income	-	-	-	76.2	0.8	-	-	-	77.0	-	77.0
- reclassified and reported in profit or loss	-	-	-	(14.4)	-	-	-	-	(14.4)	-	(14.4)
Tax on cash flow hedges	-	-	-	(18.4)	(0.2)	-	-	-	(18.6)	-	(18.6)
Other comprehensive income/(expense)	-	-	-	43.4	0.6	-	4.3	(464.8)	(416.5)	-	(416.5)
Total comprehensive income/(expense)	-	-	-	43.4	0.6	-	4.3	(101.4)	(53.1)	1.1	(52.0)
Cash flow hedges recognised in inventories	-	-	-	(123.9)	-	-	-	-	(123.9)	-	(123.9)
Tax on cash flow hedges recognised in inventories	-	-	-	31.0	-	-	-	-	31.0	-	31.0
Transactions with owners:											
Transactions with non-controlling shareholders	-	-	-	-	-	-	-	-	-	(0.9)	(0.9)
Shares issued in respect of employee share options	0.1	0.1	-	-	-	-	-	(0.1)	0.1	-	0.1
Purchase of shares held by employee trusts	-	-	-	-	-	-	-	(0.1)	(0.1)	-	(0.1)
Credit for share-based payments	-	-	-	-	-	-	-	38.0	38.0	-	38.0
Deferred tax on share schemes	-	-	-	-	-	-	-	4.8	4.8	-	4.8
As at 1 April 2023	19.8	910.7	2,680.4	(31.9)	4.2	(6,542.2)	(69.6)	5,839.1	2,810.5	4.4	2,814.9

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

Consolidated statement of cash flows

	Notes	52 weeks ended 1 April 2023 £m	52 weeks ended 2 April 2022 £m
Cash flows from operating activities			
Cash generated from operations	14	1,100.5	1,385.7
Income tax paid		(70.6)	(7.7)
Net cash inflow from operating activities		1,029.9	1,378.0
Cash flows from investing activities			
Proceeds on property disposals		1.1	43.9
Purchase of property, plant and equipment		(325.8)	(192.8)
Purchase of intangible assets		(84.5)	(64.6)
Sale of current financial assets		5.3	0.8
Purchase of non-current financial assets		(4.2)	(3.3)
Proceeds on disposal of non-current financial assets		0.2	5.2
Purchase of investments in associates and joint ventures[1]		-	(37.8)
Acquisition of subsidiary, net of cash acquired[2]	18	(102.8)	(4.5)
Loans to related parties	16	(30.0)	(1.0)
Interest received		24.1	8.4
Net cash used in investing activities		(516.6)	(245.7)
Cash flows from financing activities			
Interest paid[3]		(212.5)	(216.6)
Redemption of Medium Term Notes		(189.9)	(163.6)
Repayment of lease liabilities		(231.8)	(216.0)
Payment of liability to the Marks & Spencer UK Pension Scheme		(66.0)	-
Shares issued on exercise of employee share options		-	0.3
Purchase of own shares by employee trust		(0.1)	-
Cash received from settlement of derivatives		56.5	-
Net cash used in financing activities		(643.8)	(595.9)
Net cash (outflow)/inflow from activities		(130.5)	536.4
Effects of exchange rate changes		0.5	(8.2)
Opening net cash		1,197.9	669.7
Closing net cash	15	1,067.9	1,197.9

[1]Last year includes £33.8m outflow in relation to contingent consideration settled with Ocado Retail Limited and £4.0m outflow on the acquisition of 27% of the issued share capital of Nobody's Child Limited.

[2]Current year includes £102.8m on the acquisition of Gist Limited, being consideration of £170.6m net of cash acquired of £67.8m. Last year includes £4.5m outflow on the acquisition of 77.7% of the issued share capital of The Sports Edit Limited.

[3] Includes interest paid on the Partnership liability to the Marks & Spencer UK Pension Scheme of £5.9m (last year: £nil), interest paid on lease liabilities of £121.9m (last year: £128.3m), and interest paid of £2.2m (last year: £nil) in relation to deferred consideration for the acquisition of Gist Limited.

1 Accounting Policies

General information

The financial information set out in the announcement does not constitute the company's statutory accounts for the years ended 1 April 2023 or 2 April 2022. The financial information for the year ended 2 April 2022 is derived from the statutory accounts for that year which have been delivered to the Registrar of Companies. The auditors reported on those accounts: their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under s498(2) or (3) of the Companies Act 2006. The statutory accounts for the year ended 1 April 2023 will be delivered to the Registrar of Companies following the company's annual general meeting.

Basis of preparation

Whilst the financial information included in this press release has been prepared in accordance with the recognition and measurement criteria of UK-adopted International Accounting Standards, this announcement does not itself contain sufficient information to comply with these standards. The financial information has been prepared using accounting policies and methods of computation consistent with those applied in the financial statements for the year ended 2 April 2022, with the exception of the change in accounting policy and new accounting standards adopted in the year set out below. The Company's full financial statements will be prepared in compliance with UK-adopted International Accounting Standards.

Going concern basis

The financial statements have been prepared on a going concern basis. In adopting the going concern basis, the Board has considered the business activities, the financial position of the Group, its cash flows, liquidity position and borrowing facilities, the Group's financial risk management objectives and exposures to liquidity and other financial risks as set out in note 12 and the principal risks and uncertainties.

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 1 April 2023, the Group had available liquidity of £1,942.9m (last year: £2,072.9m), comprising cash and cash equivalents of £1,067.9m, an undrawn committed syndicated bank revolving credit facility ("RCF") of £850.0m (set to mature in June 2026), and undrawn uncommitted facilities amounting to £25.0m.

In December 2022, the Group successfully extended its RCF, which now expires in June 2026. The facility contains a financial covenant, being the ratio of earnings before interest, tax, depreciation and amortisation; to net interest and depreciation on right-of-use assets under IFRS 16. The covenant is measured biannually.

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

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

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

- There will be a period of economic recession in the UK in 2023/24, resulting in a decline in sales of 2.0 – 2.5% and a decline in gross profit margin of 0.5 – 1.0% across both Food and Clothing & Home business units.
- A delay in transformation benefits results in incremental sales expected from the transformation declining by 7.5%, 15% and 30% respectively across the three-year period across all three business units.
- In addition, Ocado Retail Limited experiences limited customer demand, with no volume growth in 2023/24 and volumes remaining subdued in 2024/25 and 2025/26.

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

In addition, reverse stress testing has been applied to the model to determine the decline in sales that the Group could absorb before exhausting the Group's total liquidity. Such a scenario, and the sequence of events which could lead to it, are considered to be extremely remote.

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

New accounting standards adopted by the Group

The Group has applied the following new standards and interpretations for the first time for the annual reporting period commencing 3 April 2022:

- Amendments to IAS 37: Onerous Contracts – Cost of Fulfilling a Contract.
- Amendments to IFRS 3: Reference to the Conceptual Framework.
- Amendments to IAS 16: Property, Plant and Equipment – Proceeds before Intended Use.
- Annual Improvements to IFRS Standards 2018-2020 Cycle: Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases and IAS 41 Agriculture.

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

New accounting standards in issue but not yet effective

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

- IFRS 17 Insurance Contracts.
- Amendments to IAS 1: Classification of Liabilities as Current or Non-Current.
- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies.
- Amendments to IAS 8: Definition of Accounting Estimates.
- Amendments to IAS 12: Deferred Tax Related to Assets and Liabilities arising from a Single Transaction.
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.

The adoption of the above standards and interpretations is not expected to lead to any changes to the Group's accounting policies nor have any other material impact on the financial position or performance of the Group.

Alternative performance measures

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

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

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

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

The Group makes certain adjustments to the statutory profit measures in order to derive many of these APMs. The Group's policy is to exclude items that are considered significant in nature and/or quantum over the total expected life of the programme or are consistent with items that were treated as adjusting in prior periods. The Group's definition of adjusting items is consistent with prior periods. Adjusted results are consistent with how business performance is measured internally and presented to aid comparability of performance. On this basis, the following items were included within adjusting items for the 52-week period ended 1 April 2023:

- Net charges associated with the strategic programme in relation to the review of the UK store estate.
- Significant restructuring costs and other associated costs arising from strategy or operational changes that are not considered by the Group to be part of the normal operating costs of the business.
- Impairment charges and provisions that are considered to be significant in nature and/or value to the trading performance of the business.
- Charges and reversals of previous impairments arising from the write-off of assets and other property charges that are significant in nature and/or value. Impairment charges are recognised in adjusted operating profit where they relate to stores not previously impaired or do not otherwise meet the Group's adjusting items policy.

- 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 Ocado Retail Limited contingent consideration.
- Directly attributable gains and expenses resulting from the Covid-19 pandemic.
- Significant costs relating to the acquisition of Gist Limited.[1]
- Net finance costs incurred in relation to Gist Limited deferred and contingent consideration.[1]

  [1] As a result of the acquisition of Gist Limited during the year, these items have been included within adjusting items for the first time.

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

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, UK Food franchise operations and UK supply chain services, with the following five main categories: protein deli and dairy; produce; ambient and in-store bakery; meals, dessert and frozen; and hospitality and "Food on the Move"; and direct sales to Ocado Retail Limited.

• International – consists of Marks and Spencer owned businesses in Europe and Asia and the international franchise operations.

• Ocado – includes the Group's share of profits or losses from the investment in Ocado Retail Limited.

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

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

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

	52 weeks ended 1 April 2023						52 weeks ended 2 April 2022					
	UK Clothing & Home	UK Food	International	Ocado	All other segments	Group	UK Clothing & Home	UK Food	International	Ocado	All other segments	Group
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Sales[1]	3,715.0	7,218.0	1,055.0	-	-	11,988.0	3,332.2	6,639.6	937.2	-	-	10,909.0
Revenue	3,658.3	7,218.0	1,055.0	-	-	11,931.3	3,308.3	6,639.6	937.2	-	-	10,885.1
Adjusted operating profit/(loss)[2]	323.8	248.0	84.8	(29.5)	(0.5)	626.6	330.7	277.8	73.6	13.9	13.0	709.0
Finance income before adjusting items						58.1						28.3
Finance costs before adjusting items						(202.7)						(214.4)
Profit/(loss) before tax and adjusting items	323.8	248.0	84.8	(29.5)	(0.5)	482.0	330.7	277.8	73.6	13.9	13.0	522.9
Adjusting items						(6.3)						(131.2)
Profit/(loss) before tax	323.8	248.0	84.8	(29.5)	(0.5)	475.7	330.7	277.8	73.6	13.9	13.0	391.7

[1] Sales is revenue stated prior to adjustments for UK Clothing & Home brand consignment sales of £56.7m (last year: £23.9m).

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

Other segmental information

	52 weeks ended 1 April 2023						52 weeks ended 2 April 2022					
	UK Clothing & Home	UK Food	International	Ocado	All other segments	Group	UK Clothing & Home	UK Food	International	Ocado	All other segments	Group
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Additions to property, plant and equipment, and intangible assets (excluding goodwill and right-of-use assets)	170.4	221.1	29.9	-	-	421.4	139.2	163.7	18.5	-	-	321.4
Depreciation and amortisation[1,2]	(267.9)	(274.8)	(35.7)	-	-	(578.4)	(268.1)	(248.8)	(35.0)	-	-	(551.9)
Impairment charges, impairment reversals and asset write-offs[1]	10.2	6.1	(1.9)	-	-	14.4	(37.2)	10.7	(8.0)	-	-	(34.5)

[1] These costs are allocated to a reportable segment where they are directly attributable. Where costs are not directly attributable, a proportional allocation is made to each segment based on an appropriate cost driver.
[2] Includes £3.1m (last year: £0.2m) depreciation and impairments on Investment property.

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

3 Adjusting items

The total adjusting items reported for the 52-week period ended 1 April 2023 is a net charge of £6.3m (last year: £131.2m). The adjustments made to reported profit before tax to arrive at adjusted profit are:

		2023	2022
	Notes	£m	£m
Included in operating profit			
Strategic programmes – UK store estate	11	(51.3)	(161.4)
Strategic programmes – Structural simplification		(16.4)	-
Strategic programmes – Organisation		(10.7)	14.3
Strategic programmes – UK logistics		(10.5)	21.9
Strategic programmes – International store closures and impairments		-	0.4
Store impairments, impairment reversals and other property charges	11	15.1	60.0
Acquisition of Gist Limited		(22.1)	-
Amortisation and fair value adjustments arising as part of the investment in Ocado Retail Limited	17	(14.0)	(32.5)
M&S Bank charges incurred in relation to the insurance mis-selling provisions		(2.0)	(16.0)
Franchise restructure		0.4	(41.3)
Directly attributable gains resulting from the Covid-19 pandemic		-	17.8
		(111.5)	(136.8)
Included in net finance income/(costs)			
Remeasurement of Ocado Retail Limited contingent consideration		108.0	5.6
Net finance costs incurred in relation to Gist Limited deferred and contingent consideration		(2.8)	-
		105.2	5.6
Adjustments to profit before tax		(6.3)	(131.2)

Strategic programmes - UK store estate (£51.3m)

In November 2016, the Group announced a strategic programme to transform and rotate the UK store estate with the overall objective to improve our store estate to better meet our customers' needs. The Group incurred charges of £870m up to April 2023 under this programme primarily relating to closure costs associated with stores identified as part of the strategic transformation plans.

The Group has recognised a charge of £51.3m in the period in relation to those stores identified as part of the rotation plans. The charge primarily reflects the latest view of store closure plans and latest assumptions for estimated store closure costs, as well as charges relating to the impairment of buildings and fixtures and fittings, and depreciation as a result of shortening the useful economic life of stores based on the most recent approved exit routes.

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

As at 1 April 2023, the total closure programme now consists of 206 stores, 108 of which have already closed. Further charges of c.£165m are estimated within the next eight financial years, bringing anticipated total programme costs since 2016 to c.£1bn. In addition, where store exit routes in the next eight 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. The anticipated total programme costs to date do not include any costs that may arise in relation to a further c.30 stores currently under consideration for closure within the next eight years. At this stage these c.30 stores remain commercially supportable and in the event of a decision to close the store, the exit routes are not yet certain.

These costs are reported as adjusting items on the basis that they are significant in quantum, relate to a strategic initiative focused on reviewing our store estate and to aid comparability from one period to the next. The programme includes all stores within the programme to be closed by FY30/31, but charges in the year, and future charges, did not include Foodhall closures at a lease event where there is opportunity to secure a better location.

Strategic programmes – Structural simplification (£16.4m)

During 2022/23, the Group committed to a structural reduction of its operating costs and a desire to simplify the organisation and prioritise to mitigate cost increases faced by the business. As part of this objective, a thorough review has been performed to restructure and right size the organisation with an in-year focus on the support functions. As part of the programme, the Group has incurred £1.3m of consultancy costs. The review of structures has resulted in a reduction of c.700 roles versus plan across central support centres, management and stores, with a charge of £16.4m recognised in the period primarily for redundancy and exit costs associated with these changes. The provision is expected to be fully utilised during 2023/24. Further charges of c.£17m are expected in 2023/24 bringing the total programme cost to c.£33.4m.

These costs are considered to be adjusting items as the costs are part of the strategic programme, significant in value and would distort the year-on-year profitability of the business.

Strategic programmes – Organisation (£10.7m)

During 2016/17, the Group announced a wide-ranging strategic review across a number of areas of the business which included UK organisation and the programme to centralise our London Head Office functions into one building. In the period, an impairment charge of £10.7m has been recognised (last year: £14.3m impairment reversal). This relates to the updating of assumptions and market fluctuations over the life of the sub-let of previously closed offices. Total costs of centralising our London Head Office functions into one building incurred to date are c.£97m. Any future charges/reversals will relate to the updating of assumptions and market fluctuations over the life of the sub-let lease to September 2040.

These charges are reported as adjusting items as they are significant in value, relate to a strategic initiative, are not considered to be normal operating costs of the business and are consistent with the disclosure of costs previously recognised.

Strategic programmes – UK logistics (£10.5m)

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, Hertfordshire. 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.

In January 2023, the closure of a further distribution centre was announced for 2023/24. A net charge of £10.5m has been recognised in the period, reflecting the view of estimated closure costs. Total programme costs to date are £28.4m with further net charges of £30.2m expected over the next two financial years.

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

Store impairments, impairment reversals and property charges (£15.1m credit)

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

The Group has performed impairment testing based on the latest Board approved budget and three year plan future cash flow projections for UK and International stores (excluding those stores that have been captured as part of the UK store estate programme). As a result, store impairment testing has identified stores where the current and anticipated future performance does not support the carrying value of the stores. A charge of £18.0m (last year: £2.9m) has been incurred primarily in respect of the impairment of assets associated with these stores. In addition, a credit of £33.1m (last year: £63.4m) has been recognised for the reversal of store impairments incurred in previous periods, where revised future cash flow projections more than support the carrying value of the stores, reflecting improved trading expectations compared to those assumed at the prior year end. Refer to note 11 for further details on the impairments.

The charges/credits have been classified as an adjusting item on the basis of the significant quantum of the charge/credit in the period to the results of the Group. Any future charges or reversals relating to stores previously impaired within adjusting items will continue to be recognised within adjusting items in line with the original charge. Any future charges or reversals relating to stores not previously impaired within adjusting items or otherwise meeting the Group's adjusting items policy will be recognised in the underlying results.

Acquisition of Gist Limited (£22.1m)

On 30 September 2022 the Group completed the acquisition of Gist Limited from Storeshield Limited, a subsidiary of The BOC Group Limited, as part of M&S' multi-year programme to modernise its Food supply chain network to support growth. As part of the transaction the Group has incurred £28.3m of one-off charges that are not considered to be day-to-day operational costs of the business. Transaction costs of £6.8m have been incurred and £3.3m of other costs, mainly retention bonuses, along with £18.2m of charges relating to the settlement of our pre-existing relationship with Gist Limited. This was offset by a £6.2m gain on bargain purchase. See note 18 for further details.

These costs are adjusting items as they relate to a major transaction and, but for the transaction, the business would not have incurred these costs and as a result are not considered to be normal operating costs of the business. Further costs are expected in 2023/24 in relation to the acquisition, such as retention bonuses.

Amortisation and fair value adjustments arising as part of the investment in Ocado Retail Limited (£14.0m)

Intangible assets of £366.0m were acquired as part of the investment in Ocado Retail Limited in 2019/20 relating to the Ocado brand and acquired customer relationships. These intangibles are being amortised over their useful economic lives of 10 – 40 years with an amortisation charge of £17.1m recognised in the period and a related deferred tax credit of £3.1m.

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 judgments about their value and economic life and are not related to the Group's underlying trading performance. These charges are reported as adjusting items on the basis that they are significant in quantum and to aid comparability from one period to the next.

M&S Bank charges incurred in relation to insurance mis-selling provisions (£2.0m)

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 £2.0m (last year: £16.0m).

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 £324.7m which exceeds the total offset against profit share of £255.8m to date and this deficit will be deducted from the Group's share of future profits from M&S Bank.

Franchise restructuring (£0.4m credit)

In September 2021 the Group announced the closure of 11 franchise stores in France in response to increased EU border costs. Consequently, the Group recognised a charge of £10.3m for closure costs in 2021/22. A provision release of £0.4m has been recognised during the period in relation to the stores in France. No future costs are expected.

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

Remeasurement of contingent consideration including discount unwind (£108.0m credit)

Contingent consideration, resulting from the investment in Ocado Retail Limited, is remeasured at fair value at each reporting date with the changes in fair value recognised in profit or loss. During 2021/22, £33.8m of contingent consideration was settled, following the achievement of the first and second performance targets. A credit of £108.0m has been recognised in the period, representing the revaluation of the contingent consideration payable to £64.7m (£57.8m plus interest). See note 12 for further details. 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 determined in 2024/25.

Net finance costs incurred in relation to Gist Limited deferred and contingent consideration (£2.8m)

Deferred consideration, resulting from the acquisition of Gist Limited, is held at amortised cost, whilst the contingent consideration is remeasured at fair value at each reporting date with the changes in fair value recognised in profit or loss. A charge of £2.8m has been recognised in the period, representing the discount unwind of the deferred consideration and revaluation of the contingent consideration payable. See note 12 for further details. The discount unwind and 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 discount unwind and remeasurement will be recognised in adjusting items until the final payments are made in 2025/26.

4 Finance income/(costs)

	2023 £m	2022 £m
Bank and other interest receivable	22.9	3.7
Other finance income	0.9	5.9
Pension net finance income	28.7	13.2
Interest income of subleases	5.6	5.5
Finance income before adjusting items	**58.1**	28.3
Finance income in adjusting items	108.0	5.6
Finance income	**166.1**	33.9
Other finance costs	(6.4)	(0.8)
Interest payable on syndicated bank facility	(4.5)	(4.7)
Interest payable on Medium Term Notes	(65.4)	(79.6)
Interest payable on lease liabilities	(116.7)	(121.1)
Unwind of discount on provisions	(5.4)	(3.8)
Unwind of discount on Partnership liability to the Marks & Spencer UK Pension Scheme (see note 9)	(4.3)	(4.4)
Finance costs before adjusting items	**(202.7)**	(214.4)
Finance costs in adjusting items	(2.8)	-
Finance costs	**(205.5)**	(214.4)
Net finance costs	**(39.4)**	(180.5)

5 Income tax expense

The effective tax rate was 23.4% (last year: 21.1%) and the effective tax rate of profit excluding adjusting items was 25.9% (last year: 18.2%)

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 year.

The adjusted earnings per share figures have also been calculated based on earnings before adjusting items that are significant in nature and/or quantum and are considered distortive to underlying results (see note 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 year; unvested shares granted under the Deferred Share Bonus Plan; unvested shares granted under the Restricted Share Plan; and unvested shares within the Performance Share Plan that have met the relevant performance conditions at the end of the reporting period.

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

	2023 £m	2022 £m
Profit attributable to equity shareholders of the Company	**363.4**	306.6
Add/(less):		
Adjusting items (see note 3)	6.3	131.2
Tax on adjusting items	(13.7)	(12.6)
Profit before adjusting items attributable to equity shareholders of the Company	**356.0**	425.2

	Million	Million
Weighted average number of ordinary shares in issue	1,963.5	1,958.1
Potentially dilutive share options under Group's share option schemes	70.4	73.0
Weighted average number of diluted ordinary shares	**2,033.9**	2,031.1

	Pence	Pence
Basic earnings per share	18.5	15.7
Diluted earning per share	17.9	15.1
Adjusted basic earnings per share	18.1	21.7
Adjusted diluted earnings per share	17.5	20.9

7 Dividends

The Group suspended dividend payments at the start of the pandemic to protect the balance sheet. This enabled it to invest in its transformation priorities and trusted value. Consistent with that announcement, the Board does not expect to pay a dividend in 2022/23.

However, with the business generating an improved operating performance and having a strengthened balance sheet with credit metrics consistent with investment grade, the Board plans to restore a modest annual dividend to shareholders starting with an interim dividend with the results in November.

8 Retirement benefits

	2023 £m	2022 £m
Opening net retirement benefit surplus	1,038.2	631.4
Current service cost	(0.1)	(0.2)
Administration cost	(4.8)	(4.8)
Net interest income	28.7	13.2
Employer contributions	38.1	41.8
Remeasurements	(622.8)	357.0
Exchange movement	0.1	(0.2)
Closing net retirement benefit surplus	**477.4**	**1,038.2**

	2023 £m	2022 £m
Total market value of assets	6,781.9	10,090.7
Present value of scheme liabilities	(6,299.9)	(9,046.8)
Net funded pension plan asset	482.0	1,043.9
Unfunded retirement benefits	(2.2)	(2.6)
Post-retirement healthcare	(2.4)	(3.1)
Net retirement benefit surplus	**477.4**	**1,038.2**
Analysed in the statement of financial position as:		
Retirement benefit asset	482.0	1,043.9
Retirement benefit deficit	(4.6)	(5.7)
Net retirement benefit surplus	**477.4**	**1,038.2**

Financial assumptions

The financial assumptions for the UK DB pension scheme and the most recent actuarial valuations of the other post-retirement schemes have been updated by independent qualified actuaries to take account of the requirements of IAS 19 "Employee Benefits" in order to assess the liabilities of the schemes. The most significant of these are the discount rate and the inflation rate which are 4.75% (last year: 2.70%) and 3.25% (last year: 3.70%). The inflation rate of 3.25% (last year: 3.70%) reflects the Retail Price Index (RPI) rate.

The amount of the surplus varies if the main financial assumptions change, particularly the discount rate. If the discount rate decreased by 0.25% the surplus would decrease by c.£25m. If the inflation rate decreased by 0.25%, the surplus would decrease by c.£30m.

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

9 Marks and Spencer Scottish Limited Partnership

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

The Partnership holds £1.3bn (last year: £1.3bn) of properties at book value which have been leased back to Marks and Spencer plc. The Group retains control over these properties, including the flexibility to substitute alternative properties into the Partnership. The first limited Partnership interest (held by the Marks & Spencer UK Pension Scheme) entitles the Pension Scheme to receive £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 £124.8m (last year: £192.3m) is included as a financial liability in the Group's financial statements as it is a transferable financial instrument and measured at amortised cost, being the net present value of the future expected distributions from the Partnership. During the year to 1 April 2023, an interest charge of £4.3m (last year: £4.4m) 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 £122.8m (last year: £193.5m).

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.

10 Intangible assets

	Goodwill	Brands	Computer software	Computer software under development	Total
	£m	£m	£m	£m	£m
At 3 April 2021					
Cost	135.7	118.6	1,539.6	56.9	1,850.8
Accumulated amortisation, impairments and write-offs	(112.0)	(112.5)	(1,362.2)	(32.1)	(1,618.8)
Net book value	23.7	6.1	177.4	24.8	232.0
Year ended 2 April 2022					
Opening net book value	23.7	6.1	177.4	24.8	232.0
Additions	4.8	0.1	0.9	63.8	69.6
Transfers and reclassifications	-	-	29.6	(44.6)	(15.0)
Asset write-offs	-	-	(0.6)	-	(0.6)
Amortisation charge	-	(0.6)	(93.0)	-	(93.6)
Exchange difference	0.1	-	-	-	0.1
Closing net book value	**28.6**	**5.6**	**114.3**	**44.0**	**192.5**
At 2 April 2022					
Cost	140.6	118.7	1,570.1	76.1	1,905.5
Accumulated amortisation, impairments and write-offs	(112.0)	(113.1)	(1,455.8)	(32.1)	(1,713.0)
Net book value	**28.6**	**5.6**	**114.3**	**44.0**	**192.5**
Year ended 1 April 2023					
Opening net book value	28.6	5.6	114.3	44.0	192.5
Additions	-	-	5.3	79.1	84.4
Acquired through business combinations	-	-	1.5	1.2	2.7
Transfers and reclassifications	-	-	35.6	(64.2)	(28.6)
Asset write-offs	-	-	(0.7)	-	(0.7)
Amortisation charge	-	(0.6)	(86.4)	-	(87.0)
Exchange difference	(0.2)	-	-	-	(0.2)
Closing net book value	28.4	5.0	69.6	60.1	163.1
At 1 April 2023					
Cost	140.6	118.7	1,612.5	92.2	1,964.0
Accumulated amortisation, impairments and write-offs	(112.2)	(113.7)	(1,542.9)	(32.1)	(1,800.9)
Net book value	28.4	5.0	69.6	60.1	163.1

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

	per una	India	Sports Edit	Other	Total Goodwill
	£m	£m	£m	£m	£m
Net book value at 2 April 2022	16.5	6.6	4.8	0.7	28.6
Exchange difference	-	(0.2)	-	-	(0.2)
Net book value at 1 April 2023	16.5	6.4	4.8	0.7	28.4

Goodwill impairment testing

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

The goodwill balance relates to the goodwill recognised on the acquisition of per una £16.5m (last year: £16.5m), India £6.4m (last year: £6.6m), Sports Edit £4.8m (last year: £4.8m) and other £0.7m (last year: £0.7m).

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

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

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

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

Management estimates discount rates that reflect the current market assessment of the time value of money and the risks specific to each asset or CGU. The pre-tax discount rates are derived from the Group's post-tax weighted average cost of capital ("WACC") which has been calculated using the capital asset pricing model, the inputs of which include a country risk-free rate, equity risk premium, Group size premium and a risk adjustment (beta). The post-tax WACC is subsequently grossed up to a pre-tax rate and was 13.4% for per una (last year: 10.8%) and 15.4% for India (last year: 11.3%).

The immediately quantifiable impacts of climate change and costs expected to be incurred in connection with our net zero commitments, are included within the Group's budget and three-year plan which have been used to support the impairment reviews, with no material impact on cash flows.

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

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

11 Property, plant and equipment

The Group's property, plant and equipment of £5,203.7m (last year: £4,902.3m) consists of owned assets of £3,747.7m (last year: £3,486.5m) and right-of-use assets of £1,456.0m (last year: £1,415.8m).

Property, plant and equipment - owned

	Land and buildings	Fixtures, fittings and equipment	Assets in the course of construction	Total
	£m	£m	£m	£m
At 3 April 2021				
Cost	2,809.9	5,450.2	67.5	8,327.6
Accumulated depreciation, impairments and write-offs	(787.5)	(3,959.3)	(18.2)	(4,765.0)
Net book value	2,022.4	1,490.9	49.3	3,562.6
Year ended 2 April 2022				
Opening net book value	2,022.4	1,490.9	49.3	3,562.6
Additions	0.9	17.7	238.0	256.6
Transfers and reclassifications	3.0	175.8	(164.3)	14.5
Disposals	(15.9)	(1.9)	-	(17.8)
Impairment reversals	34.5	27.6	-	62.1
Impairment charge	(57.6)	(31.4)	-	(89.0)
Asset write-offs	0.9	(11.4)	-	(10.5)
Depreciation charge	(34.2)	(256.1)	-	(290.3)
Exchange difference	(1.7)	-	-	(1.7)
Closing net book value	1,952.3	1,411.2	123.0	3,486.5
At 2 April 2022				
Cost	2,764.8	5,275.7	141.2	8,181.7
Accumulated depreciation, impairments and write-offs	(812.5)	(3,864.5)	(18.2)	(4,695.2)
Net book value	1,952.3	1,411.2	123.0	3,486.5
Year ended 1 April 2023				
Opening net book value	1,952.3	1,411.2	123.0	3,486.5
Additions	0.8	40.0	296.2	337.0
Acquired through business combinations	150.5	38.7	3.8	193.0
Transfers and reclassifications	15.0	292.3	(280.7)	26.6
Disposals	(2.2)	(2.2)	-	(4.4)
Impairment reversals	25.8	14.4	-	40.2
Impairment charge	(22.5)	(9.3)	-	(31.8)
Asset write-offs	2.2	1.5	-	3.7
Depreciation charge	(59.9)	(250.4)	-	(310.3)
Exchange difference	5.5	1.6	0.1	7.2
Closing net book value	2,067.5	1,537.8	142.4	3,747.7
At 1 April 2023				
Cost	2,911.4	5,532.3	160.6	8,604.3
Accumulated depreciation, impairments and write-offs	(843.8)	(3,994.6)	(18.2)	(4,856.6)
Net book value	2,067.6	1,537.7	142.4	3,747.7

Asset write-offs in the year include assets with gross book value of £240.9m (last year: £383.3m) and £nil (last year: £nil) net book value that are no longer in use and have therefore been retired.

Right-of-use assets

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

Right-of-use assets	Land and buildings	Fixtures, fittings and equipment	Total
	£m	£m	£m
At 3 April 2021	1,444.7	51.3	1,496.0
Additions	72.7	17.9	90.6
Transfers and reclassifications	0.5	-	0.5
Disposals	(7.7)	(0.2)	(7.9)
Impairment reversals	28.9	-	28.9
Impairment charge	(25.4)	-	(25.4)
Depreciation charge	(146.2)	(21.6)	(167.8)
Exchange difference	0.9	-	0.9
At 2 April 2022	1,368.4	47.4	1,415.8
Additions	198.0	37.3	235.3
Acquired through business combinations	6.7	14.1	20.8
Transfers and reclassifications	2.1	(0.1)	2.0
Disposals	(27.8)	(10.7)	(38.5)
Impairment reversals	14.9	-	14.9
Impairment charge	(14.8)	-	(14.8)
Depreciation charge	(159.0)	(21.9)	(180.9)
Exchange difference	1.3	0.1	1.4
At 1 April 2023	1,389.8	66.2	1,456.0

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

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

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

The value in use of each CGU is calculated based on the Group's latest budget and forecast cash flows, covering a three-year period, which have regard to historic performance and knowledge of the current market, together with the Group's views on the future achievable growth and the impact of committed initiatives. The cash flows include ongoing capital expenditure required to maintain the store network, but exclude any growth capital initiatives not committed. Cash flows beyond this three-year period are extrapolated using a long-term growth rate based on management's future expectations, with reference to forecast GDP growth. These growth rates do not exceed the long-term growth rate for the Group's retail businesses in the relevant territory. If the CGU relates to a store which the Group has identified as part of the UK store estate programme, the value in use calculated has been modified by estimation of the future cash flows up to the point where it is estimated that trade will cease and then estimation of the timing and amount of costs associated with closure detailed fully in note 3. The immediately quantifiable impacts of climate change and costs expected to be incurred in connection with our net zero commitments, are included within the Group's budget and three-year plan which have been used to support the impairment reviews, with no material impact on cash flows. We also expect any potential store refurbishments to be phased over multiple years and therefore any changes required due to climate change would not have a material impact in any given year and the warehouse and support centres are located in areas which we would not expect to be physically impacted by climate change. As a consequence there has been no material impact in the forecast cash flows used for impairment testing.

The key assumptions in the value-in-use calculations are the growth rates of sales and gross profit margins, changes in the operating cost base, long-term growth rates and the risk-adjusted pre-tax discount rate. The pre-tax discount rates are derived from the Group's weighted average cost of capital, which has been calculated using the capital asset pricing model, the inputs of which include a country risk-free rate, equity risk premium, Group size premium and a risk adjustment (beta). The pre-tax discount rates range from 12.5% to 18.1% (last year: 9.8% to 15.8%). If the CGU relates to a store which the Group has identified as part of the UK store estate programme, the additional key assumptions in the value-in-use calculations are costs associated with closure, the disposal proceeds from store exits and the timing of the store exits.

Impairments – UK stores excluding the UK store estate programme

During the year, the Group has recognised an impairment charge of £17.3m and impairment reversals of £33.1m as a result of UK store impairment testing unrelated to the UK store estate programme (last year: impairment charge of £6.9m and impairment reversals of £63.4m). Impairment charges of £17.3m and impairment reversals of £33.1m have been recognised within adjusting items (see note 3). The impaired stores were impaired to their value in use recoverable amount of £109.8m, which is their carrying value at year end. The stores with impairment reversals were written back to the lower of their value in use recoverable amount, and the carrying value if the impairment had not occurred, of £159.7m.

For UK stores, when considering both impairment charges and reversals, cash flows beyond the three-year period are extrapolated using the Group's current view of achievable long-term growth of 2.0%, adjusted to 0% where management believes the current trading performance and future expectations of the store do not support the growth rate of 2.0%. The rate used to discount the forecast cash flows for UK stores is 12.5% (last year: 9.8%).

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

A reduction in sales of 5% from the three-year plan in year 3 would increase the impairment charge by £24.2m and a 25 basis points reduction in the gross profit margin from year 3 onwards would increase the impairment charge by £1.8m. In combination a 5% reduction in sales and a 25 basis point reduction in gross profit margin would increase the impairment charge by £30.3m. A 250 basis points increase in the discount rate would increase the impairment charge by £28.8m.

A reduction in sales of 5% from the three-year plan in year 3 would reduce the reversal by £7.0m and a 25 basis points reduction in the gross profit margin from year 3 would reduce the reversal by £1.1m. In combination a 5% reduction in sales and a 25 basis point reduction in gross profit margin would reduce the reversal by £8.0m. A 250 basis points increase in the discount rate would reduce the reversal by £7.6m.

Impairments – UK store estate programme

During the year, the Group has recognised an impairment charge of £28.6m and impairment reversals of £22.0m relating to the ongoing UK store estate programme. These stores were impaired to their value in use recoverable amount of £307.2m, which is their carrying value at year end. The impairment charge relates to the store closure programme and has been recognised within adjusting items (see note 3). Impairment reversals predominantly reflect changes to expected store closure dates and improved trading expectations compared to those assumed at the end of the prior year end.

Where the planned closure date for a store is outside the three-year plan period, no growth rate is applied. The rate used to discount the forecast cash flows for UK stores is 12.5% (last year: 9.8%).

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

A delay of 12 months in the date of each store exit would result in a decrease in the impairment charge of £70.9m. A 5% reduction in planned sales in years 2 and 3 (where relevant) would result in an increase in the impairment charge of £12.2m.

Neither a 250 basis point increase in the discount rate, a 25 basis point reduction in gross profit margin during the period of trading, nor a 2% increase in the costs associated with exiting a store, would result in a significant increase to the impairment charge, individually or in combination with the other reasonably possible scenarios considered.

Impairments – International stores

During the year the Group recognised an impairment charge of £0.7m (last year: £nil) in Ireland as a result of store impairment testing.

12 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 that use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

				2023				2022
	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
– other investments[1]	-	12.3	8.6	20.9	-	17.6	4.5	22.1
Derivatives used for hedging	-	22.7	-	22.7	-	64.4	-	64.4
Liabilities measured at fair value								
Financial liabilities at fair value through profit or loss								
- derivatives held at FVTPL	-	(2.1)	-	(2.1)	-	(0.9)	-	(0.9)
- Ocado contingent consideration[2]	-	-	(64.7)	(64.7)	-	-	(172.6)	(172.6)
- Gist contingent consideration[3]	-	-	(25.0)	(25.0)	-	-	-	-
Derivatives used for hedging	-	(63.1)	-	(63.1)	-	(2.7)	-	(2.7)

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

1. Within Level 3 other investments, the Group holds £7.3m of venture capital investments, managed by True Capital Limited, measured at FVTPL (last year: £3.1m) which are Level 3 instruments. The fair value of these investments has been determined in accordance with the International Private Equity and Venture Capital ("IPEV") Valuation Guidelines. Where investments are either recently acquired or there have been recent funding rounds with third parties, the primary input when determining the valuation is the latest transaction price.
2. 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. Last year, £33.8m was settled, relating to the first two targets. The final target relates to Ocado Retail Limited achieving a specified target level of earnings in the financial year ending November 2023, with any resulting payment due in 2024 following completion of the Ocado Retail Limited audited FY23 statutory accounts. The performance target is binary, meaning that a payment of £156.3m plus interest will be made if the performance target is met. Should the target not be met, no consideration would be payable. The fair value of the contingent consideration was estimated using an expected present value technique and was based on probability-weighting possible scenarios and applying an appropriate discount rate to reflect the timing of the possible payment. The Group has considered a range of scenarios reflecting current market uncertainty, taking into account Ocado Retail Limited's most recent trading update in March 2023, and determined a fair value of £64.7m (last year: £172.6m). If the level of earnings assumed in the probability-weighted scenarios was 10% higher or lower, the fair value of liability would increase or decrease by £17.5m respectively. A discount rate of 6.4% (last year: 4.2%) was used. During the period, a gain of £108.0m was recognised in profit or loss in relation to the remeasurement (see note 3).
3. As part of the investment in Gist Limited, the Group has agreed to pay the former owners of Gist Limited additional consideration of up to £25.0m plus interest when freehold properties are disposed of under certain conditions. There is no minimum amount payable. The Group has the ability to retain the properties should it wish to do so, in which case the full amount of £25.0m plus interest will be payable on the third anniversary of completion.

The fair value of the contingent consideration arrangement of £25.0m was estimated by calculating the present value of the future expected cashflows. The estimates are based on a discount rate of 6.1%. A 2.5% change in the discount rate would result in a change in fair value of £1.4m.

The Marks & Spencer UK Pension Scheme holds a number of financial instruments which make up the pension asset of £6,781.9m (last year: £10,090.7m). Level 1 and Level 2 financial assets measured at fair value through other comprehensive income amounted to £2,754.7m (last year: £4,945.8m[1]). Additionally, the scheme assets include £4,027.2m (last year: £5,144.9m1) of Level 3 financial assets. See note 8 for information on the Group's retirement benefits.

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

	2023 £m	2022 £m
Opening balance	5,144.9	4,996.9
Fair value (loss)/gain recognised in other comprehensive income[1]	(401.8)	191.6
Cash withdrawals	(715.9)	(43.6)
Closing balance	4,027.2	5,144.9

[1] Last year restated to reflect the deferred payment due from the Marks and Spencer Scottish Limited Partnership (see note 9).

Fair value of financial instruments

With the exception of the Group's fixed rate bond debt and the Partnership liability to the Marks & Spencer UK Pension Scheme (note 9), 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 £1,346.4m (last year: £1,529.5m); the fair value of this debt was £1,264.3m (last year: £1,549.6m) which has been calculated using quoted market prices and includes accrued interest. The carrying value of the Partnership liability to the Marks & Spencer UK Pension Scheme (level 2 equivalent) is £124.8m (last year: £192.3m) and the fair value of this liability is £121.9m (last year: £187.9m).

13 Contingencies and commitments

A. Capital commitments

	2023 £m	2022 £m
Commitments in respect of properties in the course of construction	100.8	59.8
Software capital commitments	6.1	6.1
	106.9	65.9

Last year, the Group 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. At 1 April 2023, the Group had invested £7.5m (last year: £3.3m) of this commitment, which is held as a non-current other investment and measured at fair value through profit or loss.

B. Other material contracts

In the event of termination of our trading arrangements with certain warehouse operators, the Group has a number of options and commitments to purchase some property, plant and equipment, at values ranging from historical net book value to market value, which are currently owned and operated by the warehouse operators on the Group's behalf. These options and commitments would have no material impact on the Group's statement of financial position.

See note 9 for details on the Partnership arrangement with the Marks & Spencer UK Pension Scheme.

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

Cash flows from operating activities

	2023	2022
	£m	£m
Profit on ordinary activities after taxation	364.5	309.0
Income tax expense	111.2	82.7
Finance costs	205.5	214.4
Finance income	(166.1)	(33.9)
Operating profit	515.1	572.2
Share of results of Ocado Retail Limited	29.5	(13.9)
Increase in inventories	(58.5)	(46.5)
Increase in receivables	(33.7)	(2.9)
Increase in payables	82.1	289.1
Depreciation, amortisation and write-offs	523.2	510.7
Non-cash share based payment expense	38.0	38.8
Defined benefit pension funding	(36.8)	(36.8)
Adjusting items net cash outflows[1,2]	(67.9)	(45.8)
Adjusting items M&S Bank[3]	(2.0)	(16.0)
Adjusting operating profit items	111.5	136.8
Cash generated from operations	1,100.5	1,385.7

[1] Excludes £11.5m (last year: £5.6m) of surrender payments included within repayment of lease liabilities in the consolidated statement of cash flows relating to leases within the UK store estate programme.

[2] Adjusting items net cash outflows relate to strategic programme costs associated with the UK store estate, UK logistics, UK structural simplification programme, the utilisation of the provisions for International store closures and impairments, and legal costs related to the acquisition of Gist Limited.

[3] Adjusting items M&S Bank relates to M&S Bank income recognised in operating profit offset by charges incurred in relation to the insurance mis-selling provision, which is a non-cash item.

15 Analysis of net debt

A. Reconciliation of movement in net debt

	At 4 April 2021 £m	Cash flow £m	Changes in fair values £m	Lease additions and remeasurements £m	Exchange and other non-cash movements[1] £m	At 2 April 2022 £m
Net debt						
Bank loans and overdrafts	(4.7)	4.7	-	-	-	-
Cash and cash equivalents	674.4	531.7	-	-	(8.2)	1,197.9
Net cash per statement of cash flows	669.7	536.4	-	-	(8.2)	1,197.9
Current other financial assets	18.4	(0.8)	-	-	-	17.6
Liabilities from financing activities						
Medium Term Notes	(1,682.1)	244.0	-	-	(91.4)	(1,529.5)
Lease liabilities	(2,405.9)	344.3	-	(100.6)	(116.5)	(2,278.7)
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 9)	(185.5)	-	-	-	(2.4)	(187.9)
Derivatives held to hedge Medium Term Notes	(8.1)	-	26.6	-	-	18.5
Liabilities from financing activities	(4,281.6)	588.3	26.6	(100.6)	(210.3)	(3,977.6)
Less: Cashflows related to interest and derivative instruments	77.6	(208.7)	(26.6)	-	221.0	63.3
Net debt	(3,515.9)	915.2	-	(100.6)	2.5	(2,698.8)

	At 3 April 2022 £m	Cash flow £m	Changes in fair values £m	Lease additions and remeasurements £m	Exchange and other non-cash movements[1] £m	**At 1 April 2023 £m**
Net debt						
Cash and cash equivalents	1,197.9	(130.5)	-	-	0.5	**1,067.9**
Net cash per statement of cash flows	1,197.9	(130.5)	-	-	0.5	**1,067.9**
Current other financial assets	17.6	(5.3)	-	-	0.7	**13.0**
Liabilities from financing activities						
Medium Term Notes	(1,529.5)	262.3	-	-	(79.2)	**(1,346.4)**
Lease liabilities	(2,278.7)	353.8	-	(270.7)	(86.0)	**(2,281.6)**
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 9)	(187.9)	66.0	-	-	-	**(121.9)**
Derivatives held to hedge Medium Term Notes	18.5	(57.4)	33.7	-	-	**(5.2)**
Liabilities from financing activities	(3,977.6)	624.7	33.7	(270.7)	(165.2)	**(3,755.1)**
Less: Cashflows related to interest and derivative instruments	63.3	(171.7)	(33.7)	-	179.1	**37.0**
Net debt	(2,698.8)	317.2	-	(270.7)	15.1	**(2,637.2)**

[1]Exchange and other non-cash movements includes interest paid on Medium Term Notes of £65.4m (last year: £79.6m), interest paid on lease liabilities of £116.7m (last year: £121.1m) and interest paid on the Partnership liability to the Marks & Spencer UK Pension Scheme of £4.3m (last year: £4.4m).

B. Reconciliation of net debt to statement of financial position

	2023 £m	2022 £m
Statement of financial position and related notes		
Cash and cash equivalents	1,067.9	1,197.9
Current other financial assets	13.0	17.6
Medium Term Notes – net of foreign exchange revaluation	(1,356.6)	(1,494.7)
Lease liabilities	(2,281.6)	(2,278.7)
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 9)	(124.8)	(192.3)
	(2,682.1)	(2,750.2)
Interest payable included within related borrowing and the partnership liability to the Marks & Spencer UK Pension Scheme	44.9	51.4
Net debt	(2,637.2)	(2,698.8)

16 Related party transactions

A. Joint ventures and associates

Ocado Retail Limited

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

Loan to Ocado Retail Limited

	2023 £m	2022 £m
Opening balance	-	-
Loans advanced	30.0	-
Interest charged	0.9	-
Closing balance	30.9	-

The loan matures during 2039/40 and accrues interest at Sterling Overnight Index Average ("SONIA") plus an applicable margin.

Parent guarantee

Ocado Retail Limited has entered into a £30.0m revolving credit facility provided by BNPP, of which £25.0m was drawn at 1 April 2023 (last year: undrawn). The Group, along with Ocado Group plc, jointly guarantee the facility.

Sales and purchases of goods and services

	2023 £m	2022 £m
Sales of goods and services	35.7	36.1
Purchases of goods and services	0.1	0.2

Included within trade and other receivables is a balance of £2.9m (last year: £1.9m) owed by Ocado Retail Limited.

Nobody's Child Limited

Nobody's Child Limited became an associate of the Group in November 2021.

During the year, the Group made purchases of goods amounting to £6.3m (last year: £1.2m)

At 1 April 2023, there was no balance included within trade and other payables (last year: £0.2m) owed to Nobody's Child Limited, and a £0.7m balance included within other financial assets (last year: £0.7m) owed from Nobody's Child Limited.

B. Other related party transactions

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

17 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 control 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 had a financial year end date of 27 November 2022, aligning with its parent company, Ocado Group plc. For the Group's purpose of applying the equity method of accounting, Ocado Retail Limited has prepared financial information to the nearest quarter-end date of its financial year end, as to do otherwise would be impracticable. The results of Ocado Retail Limited are incorporated in these financial statements from 28 February 2022 to 26 February 2023. There were no significant events or transactions in the period from 27 February 2023 to 1 April 2023.

The carrying amount of the Group's interest in Ocado Retail Limited is £756.9m (last year: £800.4m). The Group's share of Ocado Retail Limited losses of £43.5m (last year: loss of £18.6m) includes the Group's share of underlying losses of £29.5m, which includes £13.2m of exceptional income before tax related to insurance receipts (last year: share of underlying profit: £13.9m) and adjusting item charges of £14.0m (last year: £32.5m) (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 26 Feb 2023 £m	As at 27 Feb 2022 £m
Ocado Retail Limited		
Current assets	220.0	291.2
Non-current assets	618.7	590.1
Current liabilities	(267.7)	(223.3)
Non-current liabilities	(421.7)	(449.8)
Net assets	149.3	208.2

	28 Feb 2022 to 26 Feb 2023 £m	29 Feb 2021 to 27 Feb 2022 £m
Revenue	2,222.0	2,248.8
(Loss)/profit for the period	(59.0)	27.8
Other comprehensive income	-	-
Total comprehensive (loss)/income	(59.0)	27.8

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

	As at 1 Apr 2023 £m	As at 2 Apr 2022 £m
Ocado Retail Limited		
Net assets	149.3	208.2
Proportion of the Group's ownership interest	74.6	104.1
Goodwill	449.1	449.1
Brand	236.2	242.7
Customer relationships	67.1	77.7
Other adjustments to align accounting policies	(75.8)	(78.9)
Acquisition costs	5.7	5.7
Carrying amount of the Group's interest in Ocado Retail Limited	756.9	800.4

In addition, the Group holds immaterial investments in joint ventures and associates totalling £11.0m (last year: £10.5m). The Group's share of profits totalled £0.5m (last year: £0.7m loss).

18 Business combination

On 30 September 2022, the Group completed the acquisition of 100% of the issued share capital and voting rights of Gist Limited ("Gist"), a non-listed logistics and supply chain business based in the UK, thereby obtaining control. Gist provides the majority of M&S Food logistics services via a network of primary and secondary distribution centres located across the UK and the Republic of Ireland, including a number of freehold warehouses. The acquisition is expected to accelerate the Group's multi-year plan to modernise its Food supply chain network to support growth.

The acquisition has been accounted for as a business combination using the acquisition method of accounting in accordance with IFRS 3 Business Combinations and consequently the Gist assets acquired, and liabilities assumed, have been recorded by the Group at fair value.

	As at 30 Sep 2022 £m
Fair value of consideration transferred	
Cash	170.6
Deferred consideration	83.5
Contingent consideration	23.7
Settlement of pre-existing relationship	(18.2)
Total consideration transferred	259.6
Fair value of identifiable net assets	
Intangible assets	2.7
Property, plant and equipment[1]	213.8
Inventories	3.3
Trade and other receivables[2]	88.0
Cash and cash equivalents	67.8
Trade and other payables	(74.1)
Borrowings and other financial liabilities	(21.3)
Provisions	(2.9)
Deferred tax liabilities	(11.5)
Total identifiable net assets acquired	265.8
Gain on bargain purchase	(6.2)
Net cash outflow arising on acquisition	
Cash consideration	170.6
Less: cash and cash equivalents acquired	(67.8)
	102.8

[1] Property, plant and equipment principally comprises the distribution warehouses which were fair valued following a review undertaken by RICS registered valuers.
[2] The fair value of trade and other receivables is considered equivalent to the gross contractual amount and the Group expects to collect substantially all of these.

The acquisition resulted in a gain on bargain purchase due to the estimated fair value of the identifiable net assets acquired exceeding the element of the purchase price treated as consideration. The gain has been recognised within adjusting items (see note 3).

A bargain purchase has arisen as a result of a combination of factors including the previous owner's decision to sell Gist and the element of the acquisition price relating to settling the pre-existing relationship, as opposed to forming part of the purchase consideration.

The Group incurred acquisition-related costs of £6.8m, predominantly transaction costs, which have been recognised within adjusting items (see note 3).

Since the acquisition date, Gist, as a standalone entity, contributed £84.2m of revenue and £0.1m of loss before tax to the Group's results. If the acquisition had occurred on 3 April 2022, the Group estimates that consolidated pro-forma revenue would have been c.£100m higher and profit before tax would have been c.£1m higher. In determining these amounts, the Group has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 3 April 2022.

Settlement of pre-existing relationship

The Group and Gist were parties to a long-term supply contract under which Gist supplied the Group with logistics services at agreed contract rates. This pre-existing relationship was effectively terminated at the acquisition date.

The Group has attributed £18.2m of the consideration transferred to the settlement of the pre-existing relationship. The fair value of the settlement has been determined based on an assessment of the difference between current market rates and the rates previously agreed in the higher cost legacy supply contract. This amount has been recognised within adjusting items (see note 3).

19 Contingent assets

The Group is currently seeking damages from an independent third party following its 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.

20 Subsequent events

The Board has approved a tender offer to repurchase c.£225m of the Group's Medium Term Notes which will be announced on 24 May 2023.

Principal risks & uncertainties

The Board reviews and monitors the principal risks and uncertainties which could have a material effect on the Group's results. The updated principal risks and uncertainties for 2022/23 are listed below. A fuller disclosure of the risks, including the associated mitigating activities will be set out in the Strategic Report of the 2022/23 Annual Report and Accounts.

An uncertain trading environment	The business continues to operate in an environment impacted by an increasingly complex set of external factors. The ongoing cost of living crisis, the invasion in Ukraine and continued consequences of the pandemic, along with the potential for further geopolitical and economic uncertainties have combined to create a difficult and unpredictable trading environment which could negatively impact future performance.
Business transformation	Ongoing business transformation is dependent on our ability to prioritise capital spend and resources to accelerate and successfully implement the suite of critical strategic projects to deliver our medium- and longer-term growth ambitions.
Joint venture investments	Successful achievement of any joint venture's long- term performance is inherently complex due to the ownership structure and the need to align different shareholder perspectives. The value of our investment in Ocado Retail Limited, achievement of our multi-channel food strategy, protection of our brand and delivery of anticipated trading performance is dependent on maintaining effective strategic and operational relationships with both Ocado Retail and Ocado Group. Similarly, linked to the planned growth of global sales, business performance in India will be shaped by the ability to maintain strategic alignment and harmonised ways of working with Reliance Industries.
Business continuity and resilience	A major operational or resilience failure at a key business location, including any of our key global sourcing or supply locations (such as Bangladesh and China), at Castle Donington (our primary online Clothing & Home distribution centre), in our food supply chain or logistics operations, or at a critical third party outsourced provider could result in business interruption. More broadly, an inability to effectively respond to large, disruptive global events (such as the pandemic, geo-political tensions, trade sanctions or natural disasters) or national issues (such as industrial action) could also impact trading performance.
Product safety and integrity	A failure to prevent and/or effectively respond to a major food or product safety incident, or to maintain product integrity, could impact customer confidence in our brand and business performance.
Talent, capability and culture	The ongoing success of the business is dependent upon an ability to: attract, retain and develop the right talent, skills and capabilities; achieve cultural change to support efficient and effective working; meet the financial and wellbeing expectations of our colleagues; respond to labour cost pressures; and work collaboratively with our Business Involvement Group and unions. Any shortfall in executing against these objectives could impact the delivery of core operational activities and longer-term strategy, including aspects of our transformation programme.
Information security	A significant or wide-reaching data breach or cyber-attack, directly or at a related third party, could adversely impact our reputation, result in legal exposure including significant fines, business disruption, loss of information for our customers, employees or business and/or loss of stakeholder and customer confidence.
Corporate compliance and responsibility	A failure to consistently deliver against our legal and regulatory obligations or broader corporate 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 and trusted by our customers and other stakeholders.
Climate change and environmental responsibility	Our customers, colleagues, investors and other stakeholders have expectations for the business to operate in an environmentally conscious manner. This includes reducing the environmental impact of our business over time, progressing towards our net zero targets (including those linked to Gist and elsewhere within our supply chain) and effectively managing the consequences of climate related risks (such as extreme weather events). Failure to achieve this could impact our brand, future trading performance and other business costs, including financing.
Liquidity and funding	Barriers to maintaining affordable short- and long-term funding to meet business needs or an inability to effectively manage associated risks (such as foreign exchange and/or interest rate changes) could impact our ability to transform at pace, as well as have an adverse impact on business performance or viability. Future fragility in the financial markets could also impact the Business directly (such as heightening counterparty risk or restricting access to capital), or indirectly (such as triggering liquidity or funding support for the M&S Pension Scheme).
EU border challenges	The cost consequences and operational friction from the complexity of border arrangements between the UK and the European Union (EU) could impact trading performance generally and our Irish business specifically.

Glossary

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

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

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

<table>
<tr><th>Alternative performance measure ("APM")</th><th>Closest equivalent statutory measure</th><th>Reconciling items to statutory measure</th><th>Definition and purpose</th></tr>
<tr><td colspan="4">Income Statement Measures</td></tr>
<tr><td>Sales</td><td>Revenue</td><td>Consignment sales</td><td>Sales includes 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 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.</td></tr>
<tr><td>Clothing & Home store / Clothing & Home online sales</td><td>None</td><td>Not applicable</td><td>The growth in sales on a year-on-year basis is a good indicator of the performance of the stores and online channels.
<table>
<tr><th></th><th>2022/23
£m</th><th>2021/22
£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>2,538.6</td><td>2,209.5</td><td>14.9</td></tr>
<tr><td>Consignment sales</td><td>(21.4)</td><td>(8.6)</td><td></td></tr>
<tr><td>Store revenue</td><td>2,517.2</td><td>2,200.9</td><td>14.4</td></tr>
<tr><td>Online sales[1]</td><td>1,176.4</td><td>1,122.7</td><td>4.8</td></tr>
<tr><td>Consignment sales</td><td>(35.3)</td><td>(15.3)</td><td></td></tr>
<tr><td>Online revenue</td><td>1,141.1</td><td>1,107.4</td><td>3.0</td></tr>
<tr><td>UK Clothing & Home sales</td><td>3,715.0</td><td>3,332.2</td><td>11.5</td></tr>
<tr><td>Consignment sales</td><td>(56.7)</td><td>(23.9)</td><td></td></tr>
<tr><td>Total UK Clothing & Home revenue</td><td>3,658.3</td><td>3,308.3</td><td>10.6</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>
</table>

<table>
<tr><th>Alternative performance measure ("APM")</th><th>Closest equivalent statutory measure</th><th>Reconciling items to statutory measure</th><th>Definition and purpose</th></tr>
<tr><td>Like-for-like sales growth</td><td>Movement in revenue per the income statement</td><td>Revenue from non like-for-like stores

Consignment sales</td><td>The period-on-period change in sales (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>2022/23
£m</th><th>2021/22
£m</th><th>%</th></tr>
<tr><td>UK Food</td><td></td><td></td><td></td></tr>
<tr><td>Like-for-like</td><td>6,872.2</td><td>6,519.2</td><td>5.4</td></tr>
<tr><td>Net new space[1]</td><td>345.8</td><td>120.4</td><td></td></tr>
<tr><td>Total UK Food sales</td><td>7,218.0</td><td>6,639.6</td><td>8.7</td></tr>
<tr><td>UK Clothing & Home</td><td></td><td></td><td></td></tr>
<tr><td>Like-for-like</td><td>3,647.0</td><td>3,280.4</td><td>11.2</td></tr>
<tr><td>Net new space</td><td>68.0</td><td>51.8</td><td></td></tr>
<tr><td>Total UK Clothing & Home sales</td><td>3,715.0</td><td>3,332.2</td><td>11.5</td></tr>
</table>
[1] UK Food net new space includes Gist third-party revenue.</td></tr>
<tr><td>M&S.com sales / Online sales</td><td>None</td><td>Not applicable</td><td>Total sales through the Group's online platforms. These sales are reported within the relevant UK Clothing & Home, UK Food and International segment results. The growth in sales on a year-on-year basis is a good indicator of the performance of the online channel and is a measure used within the Group's incentive plans. Refer to the Remuneration Report for an explanation of why this measure is used within incentive plans.</td></tr>
<tr><td>International online</td><td>None</td><td>Not applicable</td><td>International sales through International online platforms. These sales are reported within the International segment results. The growth in sales on a year-on-year basis is a good indicator of the performance of the online channel. This measure has been introduced given the Group's focus on online sales.
<table>
<tr><th></th><th>2022/23
£m</th><th>2021/22
£m</th><th>%</th></tr>
<tr><td>International sales</td><td></td><td></td><td></td></tr>
<tr><td>Stores</td><td>874.5</td><td>764.7</td><td>14.4</td></tr>
<tr><td>Online</td><td>180.5</td><td>172.5</td><td>4.6</td></tr>
<tr><td>At reported currency</td><td>1,055.0</td><td>937.2</td><td>12.6</td></tr>
</table></td></tr>
<tr><td>Sales growth at constant currency</td><td>None</td><td>Not applicable</td><td>The period-on-period change in sales retranslating the previous year sales 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>2022/23
£m</th><th>2021/22
£m</th><th>%</th></tr>
<tr><td>International sales</td><td></td><td></td><td></td></tr>
<tr><td>At constant currency</td><td>1,055.0</td><td>948.3</td><td>11.2</td></tr>
<tr><td>Impact of FX retranslation</td><td>–</td><td>(11.1)</td><td></td></tr>
<tr><td>At reported currency</td><td>1,055.0</td><td>937.2</td><td>12.6</td></tr>
</table></td></tr>
</table>

Alternative performance measure ("APM")	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Adjusting items	None	Not applicable	Those items which the Group excludes from its adjusted profit metrics in order to present a further measure of the Group's performance. Each of these items, costs or incomes, is considered to be significant in nature and/or quantum or are consistent with items treated as adjusting in prior periods. Excluding these items from profit metrics provides readers with helpful additional information on the performance of the business across periods because it is consistent with how the business performance is planned by, and reported to, the Board and the Executive Committee.
Adjusted operating profit Operating profit before adjusting items	Operating profit	Adjusting items (See note 3)	Operating profit before the impact of adjusting items. The Group considers this to be an important measure of Group performance and is consistent with how the business performance is reported and assessed by the Board and the Executive Committee.
Adjusted operating margin Operating margin before adjusting items	None	Not applicable	Adjusted operating profit as a percentage of sales.
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 leases	Finance income/costs	Finance income/costs (See note 4)	The net of interest income on subleases and interest payable on lease liabilities. This measure has been introduced as it allows the Board and Executive Committee to assess the impact of IFRS 16 Leases.
Net financial interest	Finance income/costs	Finance income/costs (See note 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.

Alternative performance measure (“APM”)	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Profit before tax and adjusting items	Profit before tax	Adjusting items (See note 3)	Profit before the impact of adjusting items and tax. The Group considers this to be an important measure of Group performance and is consistent with how the business performance is reported and assessed by the Board and the Executive Committee. This is a measure used within the Group’s incentive plans. Refer to the Remuneration Report for an explanation of why this measure is used within incentive plans.
Adjusted basic earnings per share	Earnings per share	Adjusting items (See note 3)	Profit after tax attributable to owners of the parent and before the impact of adjusting items, divided by the weighted average number of ordinary shares in issue during the financial year. This is a measure used within the Group’s incentive plans. Refer to the Remuneration Report for an explanation of why this measure is used.
Adjusted diluted earnings per share	Diluted earnings per share	Adjusting items (See note 3)	Profit after tax attributable to owners of the parent and before the impact of adjusting items, divided by the weighted average number of ordinary shares in issue during the financial year adjusted for the effects of any potentially dilutive options.
Effective tax rate before adjusting items	Effective tax rate	Adjusting items and their tax impact (See note 3)	Total income tax charge for the Group excluding the tax impact of adjusting items divided by the profit before tax and adjusting items. This measure is an indicator of the ongoing tax rate for the Group.
Bought-in margin	None	Not applicable	Difference between landed cost of stock and selling value, expressed as a percentage of total exc VAT sales.
Balance Sheet Measures			
Net debt	None	Reconciliation of net debt (see note 15)	Net debt comprises total borrowings (bank and bonds net of accrued interest and lease liabilities), the spot foreign exchange component of net derivative financial instruments that hedge the debt and the Scottish Limited Partnership liability to the Marks and Spencer UK Pension Scheme less cash, cash equivalents and unlisted and short-term investments. Net debt does not include contingent consideration as it is conditional upon future events which are not yet certain at the balance sheet date. This measure is a good indication of the strength of the Group’s balance sheet position and is widely used by credit rating agencies.
Net debt excluding lease liabilities	None	Reconciliation of net debt (see note 15)	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 from operations	Operating profit	See Financial Review	Calculated as operating profit less adjusting items within operating profit, depreciation and amortisation before adjusting items, cash lease payments, working capital, defined benefit scheme pension funding, capex and disposals, financial interest, taxation, employee-related share transactions, share of (profit)/loss from associate, adjusting items in cashflow and loans to associates.

Alternative performance measure ("APM")	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Free cash flow	Operating profit	See Financial Review	Calculated as free cash flow from operations less acquisitions, investments and divestments. 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.
Free cash flow after shareholder returns	Operating profit	See Financial Review	Calculated as free cash flow less dividends paid. This measure shows the cash retained by the Group in the year.
Other Measures			
Capital expenditure	None	Not applicable	Calculated as the purchase of property, plant and equipment, investment property and intangible assets during the year, less proceeds from asset disposals excluding any assets acquired or disposed of as part of a business combination or through an investment in an associate.
Return on capital employed ("ROCE")	None	Not applicable	Calculated as being adjusted operating profit divided by the average of opening and closing capital employed. The measures used in this calculation are set out below:

	2022/23 £m	2021/22 £m
Operating profit	**515.1**	**572.2**
Adjusting items included in operating profit (see note 3)	111.5	136.8
Adjusted operating profit	**626.6**	**709.0**
Net assets	2,814.9	2,917.9
Add back:		
Partnership liability to the Marks & Spencer UK Pension Scheme	124.8	192.3
Deferred tax liabilities	72.3	187.2
Non-current borrowings and other financial liabilities	3,184.0	3,561.0
Retirement benefit deficit	4.6	5.7
Derivative financial instruments	42.5	-
Current tax liabilities	38.5	34.0
Less:		
Investment property	(11.8)	(15.0)
Derivative financial instruments	-	(61.4)
Retirement benefit assets	(482.0)	(1,043.9)
Current tax assets	(6.5)	-
Deferred tax assets	(7.6)	-
Net operating assets	**5,773.7**	**5,777.8**
Add back: Provisions related to adjusting items	100.3	124.9
Capital employed	**5,874.0**	**5,902.7**
Average capital employed	**5,888.4**	**5,788.3**
ROCE %	**10.6%**	**12.2%**

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

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