

# press release

Issued: Tuesday 9 November 2010

# Marks and Spencer Group plc Half Year Results 2010/11 26 weeks ended 2 October 2010

# **Half-year results:**

- Sales up 5.4% at £4,569.7m: UK +5.6%; International +3.8%
- UK like-for-like sales +4.4%: General Merchandise +6.3%; Food +2.6%
- Adjusted operating profit<sup>1</sup> +12.1% to £409.2m (last year £365.0m)
- Adjusted profit before tax<sup>1</sup> +16.9% to £348.6m (last year £298.3m)
- Profit before tax £348.6m (last year £306.7m)
- Adjusted basic earnings per share +21.2% to 16.6p1 (last year 13.7p)
- Interim dividend up 12.7% to 6.2p per share (last year 5.5p)
- Net debt £2.2bn (last half year £2.4bn)

<sup>1</sup> Before property disposals

# **Business highlights:**

- Increase in Clothing market share of 60bps<sup>2</sup> to 11.2% with growth across all areas
- Increase in Food market share of 10bps<sup>3</sup> to 3.6%
- Continued improvement in customer price perceptions in Clothing and Food
- 940 new lines launched in Food
- Gross margin up 25 bps
- Direct sales up 49%
- International sales up 3.8% to £462.0m; 20 new stores opened
- <sup>2</sup> Kantar Worldpanel Clothing value share 24 w/e 5 September 2010
- <sup>3</sup> Kantar Worldpanel Food and Drink share 24 w/e 3 October 2010

# **Update highlights:**

- Evolution not revolution building on success
- By 2013/14:
  - o Deliver group revenues of between £11.5bn and £12.5bn
  - o Focus on the UK business to deliver £1.0bn to £1.5bn of new revenues
  - o Become a leading UK multi-channel retailer with revenues of £800m to £1.0bn
  - o Target International (excl. Republic of Ireland) revenues of £800m to £1.0bn
- Project 2020 to be accelerated and deliver an additional £50m benefit
- £850m-900m additional capital investment over the next three years with target IRR of 12-15%
- Maintain a progressive dividend policy with broadly two times cover

# Commenting on the Half Year Results, Marc Bolland, Chief Executive, said:

"Marks & Spencer has had a strong first half. Profit before tax was up 17%, earnings per share up 21%, and the Board has approved a half year dividend of 6.2p per share, an increase of 12.7%.

"In Clothing, we grew market share in all areas as we gave our customers better fashions, more choice and great value. In Food, more customers chose to shop with us recognising our quality, innovation, and improved values.

# Commenting on the update, Marc said:

"The business is in good shape and we have strong foundations on which to build through evolution not revolution.

"We will begin by focusing on the core UK business. For our customers this means that in Clothing we will improve our core M&S ranges, so that the unique quality, style and fashion of the M&S brand stand out. We will also clarify the position of our sub-brands, moving them from labels to real brands.

"In Food, we will establish a clear market position as a specialist high-quality retailer, inspiring customers with our unrivalled quality and innovation. Our focus will be on fresh, speciality and convenience, bringing the Best of British and Flavours of the World to our customers.

"Over the first three years we will also build our multi-channel and international capability. This will develop M&S into an international multi-channel retailer, making the M&S brand more accessible to more customers around the world."

Plan: 2010-2013

# 1) Focus on the UK

Our first priority, from 2010 to 2013, is to improve our business capabilities in the UK. We will do this by developing the M&S brand, improving our stores, and focusing on our Clothing, Home and Food businesses.

#### Brand

Our brand is one of our key assets and we excel when we lead the market by originating special products that are unique to M&S.

Today we are building on our enviable brand strength by launching 'Only at M&S', a brand positioning which encapsulates our special qualities and better communicates the extraordinary lengths to which we go to deliver innovative 'M&S only' products.

# **Stores**

We know that customers can find our stores difficult to shop. We will address this by segmenting our stores better, whether by region or local demographics for example, and by creating a more inspiring in-store environment. We will improve in-store navigation and present a more consistent packaging architecture across Food, Clothing and Home. We will also focus on more cross-selling – migrating more of our customers between Food, Clothing and Home.

# **Clothing**

Our research shows that customers lack clarity on the positioning of our sub-brands in Clothing. We plan to address this by increasing the role of the M&S brand so it becomes a brand destination of choice in its own right. We will continue to build on its outstanding quality and make demonstrable improvements to our core ranges as well as improving our style and fashion credentials.

We believe that our sub-brands are real assets which customers desire and enjoy. But they tell us that we need to develop these sub-brands giving them more distinctive values, turning them from labels to real brands.

We will deliver more clarity and remove duplication across the sub-brands by exiting Portfolio and transitioning the range to our core M&S brand. In addition we will improve the in-store presentation of our sub-brands, introduce dedicated brand managers in order to manage the brands individually and provide clear support and targeted marketing strategies.

# Home

Currently only 20% of our customers shop our Home department, representing a real opportunity to grow this part of the business. We will do this by offering a wider choice and making our core Home offer more accessible in our largest stores and online.

We will also take a 'lifestyle' approach to Home, segmenting our offer into Classic, Contemporary and Design. Our focus will be on growth departments such as kitchenware, bedding and personal care and, we will release additional space by exiting Technology, which will allow us to play to our strengths.

## Food

In Food we will build on our heritage of quality and innovation to establish a clear market position as a specialist, high quality food retailer, focusing on freshness, speciality and convenience.

Branded foods will play a role only where we cannot develop our own best in class M&S alternatives. We will reduce the number of non-M&S branded lines from 400 to around 100, while at the same time introducing another 100 distinctive international brands, exclusively available at M&S.

The space in our food halls is currently under-utilised. Better use of space will allow us to bring in new products, increasing our range from 7,000 to 8,000 lines, offering our customers greater choice and more innovation.

We will ensure that we continue to provide great value on our core lines, improving the quality without increasing prices. Our focus however will be on developing products unique to M&S and characterised by innovation and superb eating quality, inspired by the Best of British and Flavours of the World.

# UK space growth

For the last two years we have lagged the UK retail market on space growth. Our target is for 95% of the population to be within 30 minutes drive of a full-line M&S store by 2015. In order to do this, we will step up the pace of space growth to around 3% per annum until 2015/16.

We will increase the number of Simply Food stores, ensuring they are tailored to meet the needs of customers in their local catchment area.

We will refresh the look of our stores, and execute a programme of store relocations and openings to increase coverage. We will maximise the opportunity presented by our Shop Your Way service by using our franchise partners' store network as customer collection points.

# 2) Multi-channel

Our multi-channel operations are a key area of growth, as our customers increasingly shop with us via a range of different channels.

While we have made considerable progress over the last year with Shop Your Way, our aim is now to become the UK's leading multi-channel retailer, growing sales to between £800m to £1.0bn by 2013/14. We will offer a seamless, high quality shopping experience for our customers whichever way they shop with us - in stores, online or over the phone.

In order to deliver this, we will build and manage a new platform for <a href="https://www.marksandspencer.com">www.marksandspencer.com</a> which will enable us to provide a customised multi-channel experience that links all our channels for our customers. We will continue to work closely with Amazon to maximise the performance of our existing platform until our Amazon agreement ends in late 2013.

In Food, we plan to grow our existing online wine, flower, and 'food to order' business from £80m today to £150m by 2013/14. We will continue to evaluate a full online food offer but do not intend to build that capability at present.

It is important that we continue to provide new opportunities for customers to shop with us. We will install, for example, touch-screen, web-based ordering points in stores. We will start International online capability with one market in 2011.

## 3) International

While we have 337 stores in 41 territories overseas, we are essentially a UK retailer that exports. We have an opportunity to move on from this and become a more international retailer, reducing our dependency on the UK economic cycle. We will target International sales (excluding Republic of Ireland) of between £800m to £1.0bn by 2013/14.

We will continue to adopt the appropriate ownership model for the different markets in which we operate. Our emphasis will be on franchise operations, building stronger partnerships in each territory. We will use a JV or wholly-owned model in selected markets where it is appropriate.

Instead of 'planting flags' we aim to build a leadership position in priority markets. We have already built a strong presence in markets like Turkey and the Czech Republic by opening a flagship store surrounded by a cluster of smaller, supporting stores. We will continue to build local leadership in core markets in this way. We will also enter selected countries with our online capability to complement our stores on the ground, setting up tailored websites for specific local markets from 2013.

We will develop a new organisational structure to enable our growth overseas, where necessary reshaping our supply chain and building up our capabilities in international design, marketing and customer insight.

# 4) IT, Logistics and Supply Chain

We will accelerate the benefits of Project 2020, our plan to transform our IT and logistics, and increase our original target cost savings from £250m to £300m, comprising £125m from improvements in IT and £175m from logistics, with no increase in capital investment.

In Clothing and Home, we will continue to reduce our dependency on our full service vendor suppliers, giving us greater control of our supply chain. By 2015 we will aim to have a supply base comprising 35% FSV suppliers and 65% Direct.

As a result of these actions we will deliver a 5% improvement in Food availability by 2013/14, and a 9% improvement in Clothing and Home by 2015.

## Plan: 2013 - 2015

Over the first three years our focus will be on the core UK business, – our brand, our stores and our Clothing and Home and Food business. Over this period we will complete our UK space growth programme, giving us new foundations from which to drive our like-for-like growth, and returns from our assets.

The work done over the first three years, to build up our International and multi-channel capability, will allow us to really build our scale and grow revenues in each business in the following years.

#### **Investment and Returns**

Our plan will be delivered through additional capital investment in our stores, systems and marketing.

In addition to the current capital expenditure run rate of c. £550m per annum, we anticipate spending an additional c. £300m per annum over the next three years, giving a total of £850m to £900m per annum. We are targeting an IRR of between 12-15% on the additional investment.

Of the £850m to £900m additional capital investment, £600m will be invested in improving our UK business and a further £150m in each of multi-channel and International respectively. All of this additional investment will be funded from existing cash flows and we remain committed to maintaining an investment grade credit rating.

We have an ambition to grow the business to between £11.5bn and £12.5bn of revenues by 2013/14. Over this period, our focus on the UK business will deliver £1.0bn to £1.5bn of revenues, we will become a leading multi-channel retailer with sales of £800m to £1.0bn, and we will grow International revenues (excluding Republic of Ireland) to between £800m to £1.0bn.

We believe that growth of this order, in stable economic conditions, is achievable. We also intend to deliver consistent returns for our shareholders by adopting a progressive dividend policy with dividends broadly covered twice by earnings.

# **Half-year review:**

# **General Merchandise**

Total General Merchandise sales were up 7.2% with like-for-like sales up 6.3%, as we continued to provide our customers with stronger fashions, more choice and great value.

We grew our share of the Clothing market by 60 bps to 11.2% with good growth across all areas. Gross margin was up 10 basis points with better markdown management helping to mitigate input cost pressures, including adverse currency translation and rising commodity prices.

We kept our ranges fashionable and fresh, interpreting the season's key trends for our customers and capturing catwalk trends, such as our Limited Collection aviator jacket. We showcased our ranges through our highly successful Autumn advertising campaign which has brought 1.8 million more customers into our stores and helped deliver strong growth in advertised lines.

We offered our customers even greater choice, introducing more newness - styles, fabrics and colours across all areas of clothing, with something to suit every style and budget. For example, we increased the numbers of options available in dresses by 40% and doubled the fabric options available in our men's casual shirts.

With household budgets still under strain we ensured that we continue to offer great value to our customers, keeping our opening price points level. At the same time, we saw customers increasingly returning to M&S for quality that lasts particularly when choosing key investment pieces, in areas such as suits and coats. In addition, our schoolwear range continued to be number one in the market despite intense price competition from discounters.

# **Food**

Total Food sales were up 4.1% with like-for-like sales up 2.6% as more customers chose to shop at M&S, returning to quality and recognising our improved value and increased innovation.

We grew our market share by 10 basis points to 3.6% despite very little space growth. Food gross margin was up 5 basis points with better management of promotions and waste helping to offset the commodity price increases and annualisation of last year's price investment.

Customers are increasingly recognising the great value we offer, and we were the only retailer showing an improvement in customers' perception of value in the period (Millward Brown). We continued our programme of promotions such as the 'Dine In', which has grown in popularity. Building on its success we extended this type of offer to everyday meal solutions such as the Italian meal deal for two for £5, and the 3 for £5 offer on Summer deli.

We have continued our focus on market leading innovation launching 940 lines over the first half of the year, creating a real point of difference for our customers. Our new biscuit range introduced in July was hugely successful, selling over 18 million items since launch. We relaunched entire ranges including confectionary and desserts. Our latest British Groceries range features the 'Terribly Clever' cooking solutions including crispy roast potato seasoning. We are on track to deliver our commitment to refresh 25% of our total food range this year.

Exceptional quality continues to be at the heart of everything we do, as recognised by over 30 awards. We were named Supermarket of the Year at the International Wine Challenge Awards for a record third year running. Customers come to us for top quality products such as our sirloin steaks, the sales of which doubled in the period.

We have worked hard to improve on-shelf availability and reduce levels of waste through better merchandising and distribution. Next year we will be introducing new systems which will deliver a step change in availability and further improve our customer service.

## **Multi-channel**

M&S Direct sales were up 49% in the first half of the year, outperforming the online market growth of 18% (Interactive Media in Retail Group). Site traffic grew by 27% to almost 3 million visits per week. Our on-line clothing market share was 5.9% (*Kantar Worldpanel: 24 weeks ended 5 September 2010*).

At the IMRG E-Commerce Awards in October we won the Online Gold Award for the Best e-Commerce site and were named Best Multi-Channel Retailer for our 'Shop Your Way' service.

The roll out of 'Shop your Way' is now complete and available in 434 of our stores, meaning that customers can shop seamlessly across our channels, whenever and however they choose.

In May we became the first high street retailer to deliver a fully mobile optimised website m.marksandspencer.com. By the end of the first half we have already had 1.2 million unique visitors to the site, generating over 13,000 orders.

M&S TV, our online video channel continues to grow in popularity, with over 4 million views since launch. Customers can now watch Myleene Klass show them how to wear our latest styles, or our development chefs showcasing our latest food innovation.

We now have over 160,000 Facebook fans, and 14,000 Twitter followers. The use of social media is enabling us to engage with our customers and gain further insights into their shopping habits and preferences.

# International

International sales grew by 3.8%, accounting for 10.1% of total Group revenues. Operating profits were down 2.3% to £64.4m. We opened 20 new stores and now have 337 stores in 41 territories.

Our trading in Greece and Ireland continued to be impacted by the weakness in the local economy. We closed two stores in Greece, but remain committed to our long-term future in this market.

We have continued to grow our business in Central and Eastern Europe, opening six new stores across the Czech Republic, Poland and Estonia.

In India, with our partner Reliance Retail, we have continued to open new bigger stores and make our pricing more competitive through increased use of local sourcing. We opened three new stores giving us a total of 18.

In China, we opened a second store in Shanghai, in Yu Gardens, with a third to follow in December. Our Hong Kong stores continued to perform well.

Our Franchise businesses have also performed well over the first half. While the growth in the Gulf region has slowed, we have seen continued strong trading in Russia, Turkey and the Ukraine with eight new stores opening across the Franchise businesses.

# **Supply Chain and IT**

Last year, through Project 2020, we set out the key elements of our plan to restructure our supply chain, implement new information systems and improve operational execution. In the first half of the year we made good progress against our objectives, and remain on track to deliver the benefits outlined at the time.

The first phase of our warehouse consolidation programme is now well under way with the closure of 30 of the 110 sites. Our new one million sq ft warehouse in Bradford opened in May of this year. Planning permission has now been obtained for a second site in the East Midlands which will be a combined National Distribution Centre and a dedicated e-commerce facility, with construction due to begin in the new year.

In IT we are making good progress with the upgrade of our systems. In stores, we have completed the implementation of a new stock management system, which is providing more accurate real-time stock level information. We are in the process of rolling out the new Point of Sale System (POS), currently in 40 stores, and due be completed in 2011.

The first phase of the SAP roll-out, our new core business system, is nearing completion. The final phase, which will include the new stock ledger, will commence in the new year. We have also started the trial of a new forecasting and space planning and ranging systems in Foods, which will deliver improved availability and waste management, and are due to be rolled out in the new year.

# Plan A

We continue to make good progress on Plan A, our eco and ethical programme. 70 of the 180 commitments have now been achieved with many new initiatives coming on-stream over the past six months. Our first ever One Day Wardrobe Clearout was held in September, with customers returning 350,000 items of unwanted clothing worth over £1 million to Oxfam.

Encouraged by the success of our Fairtrade products, we became the first UK retailer to stock Fairtrade vegetables.

Since the launch of M&S Energy 400,000 customers have signed up and we recently added solar panels to our home energy efficiency services. All employees have been offered free cavity or loft insulation, helping them cut their carbon emissions and energy bills. A comprehensive half year update on Plan A progress will be issued next week.

# **Current trading and outlook**

We have had a good start to the second half. We expect the trading conditions ahead to become more challenging as consumers' disposable incomes come under pressure from increased VAT rates and the impact of public spending cuts. In addition, we are facing increased commodity prices and significantly tougher comparatives in the second half. As a result we remain cautious about the outlook for the remainder of this year and next.

# **Financial Review**

Summary of Results	26 weeks ended		
	2 Oct 10	26 Sept 09	% inc
	£m	£m	
Group revenue	4,569.7	4,335.8	+5.4
UK	4,107.7	3,890.6	+5.6
International	462.0	445.2	+3.8
Operating profit before property disposals	409.2	365.0	+12.1
UK	344.8	299.1	+15.3
International	64.4	65.9	-2.3
Profit before tax and property disposals	348.6	298.3	+16.9
Profit on property disposals	-	8.4	-
Profit before tax	348.6	306.7	+13.7
Adjusted EPS	16.6p	13.7p	+21.2
Dividend per share (declared)	6.2p	5.5p	+12.7

#### Revenues

Group revenues were up 5.4% driven by an improvement in like-for-like sales in the UK and a good performance in our International business. Revenue growth by area, by period, in the UK was:

<u>Total revenue</u>	<u>Q1%</u>	<b>Q2</b> %	<u>H1%</u>
Clothing	7.4	7.8	7.3
Home	4.1	9.3	6.2
General Merchandise	<b>7.0</b>	8.0	7.2
Food	2.9	5.2	4.1
Total	4.8	6.5	5.6
<u>Like-for-like revenue</u>			
General Merchandise	6.0	7.0	6.3
Food	1.5	3.7	2.6
Total	3.6	5.3	4.4

UK revenues were up 5.6% in total with a like-for-like increase of 4.4%, reflecting the improvement in both the market conditions and our product offer. We added c.2% of space, in both Food and General Merchandise.

International revenues were up 3.8%, which includes a 1.1% adverse impact from currency translation. Whilst some of our overseas businesses continue to be impacted by the economic downturn, particularly the Republic of Ireland and Greece, many delivered good growth in the

half, with areas such as the Czech Republic, India and China particularly strong. Our franchise business also continued to perform well, despite the slowdown in the Middle East, with territories including Russia and the Far East growing strongly.

# **Operating profit**

Operating profit before property disposals was £409.2m, up 12.1%.

In the UK, operating profit before property disposals was up 15.3% at £344.8m. Gross margin was up 25 basis points at 42.0%. General merchandise gross margin was up 10 basis points at 53.2%, with better sourcing and tight control over stock and markdowns, mitigating the adverse currency pressure. Food gross margin was up 5 basis points at 31.5% as a result of better management of promotions and waste helping to offset the commodity price increases and annualisation of last year's price investment.

UK operating costs before bonus were up 4.7% to £1,373.3m. A breakdown of the costs is shown below:

	26 weeks ended			
	2 Oct 10 £m	26 Sept 09 £m	% inc	
Retail staffing	418.5	406.8	2.9%	
Retail occupancy	481.6	469.6	2.6%	
Distribution	189.1	186.9	1.2%	
Marketing and related	64.3	57.5	11.8%	
Support	219.8	190.9	15.1%	
Total before bonus	1,373.3	1,311.7	4.7%	
Bonus	28.0	30.0	-6.7%	
Total including bonus	1,401.3	1,341.7	4.4%	

The increase in retail staffing costs is due to growth in selling space, higher volumes and the annualisation of last year's pay review. Occupancy costs reflect growth in selling space as well as the impact of rent reviews. Distribution costs were well managed despite volume increases and inflationary pressure, as we continued to see the benefits of initiatives to improve supply chain efficiency. The growth in marketing costs reflects the increase in the number of advertising campaigns in both General Merchandise and Food. The increase in support costs is largely due to additional depreciation and performance share plan charges.

As a result of the performance in the first half being better than planned, a bonus of £28.0m has been accrued (last year £30.0m). The level of full year bonus will depend on the Group's full year trading performance.

The UK operating profit includes a contribution of £22.6m (last year £17.5m) from the Group's continuing economic interest in M&S Money.

International operating profit was down 2.3% at £64.4m (last year £65.9m), 1.7% on constant currency basis. Owned store operating profits were £22.1m, down 14.0%, 12.1% on constant currency, reflecting difficult trading conditions in Greece, as well as an increased level of preopening costs in India, China and Czech Republic, with 12 new stores opening in the first half of the year. Franchise operating profits were up 5.2% to £42.3m due to strong sales growth.

## **Net finance costs**

	26 weeks ended		
	2 Oct 10	26 Sept 09	
	£m	£m	
Interest payable	(69.4)	(67.5)	
Interest income	1.4	0.7	
Net interest payable	(68.0)	(66.8)	
Pension finance income (net)	17.9	5.6	
One-off fee on transfer of derivative assets to the	(8.5)	-	
Pension Scheme			
Fair value movement on financial instruments	(2.0)	(3.5)	
Unwinding of discount on partnership liability to	-	(2.0)	
the Marks and Spencer UK Pension Scheme			
Net finance costs	(60.6)	(66.7)	

Net interest payable was up 1.8% at £68.0m reflecting an increase in the Group's average cost of funding to 6.0% (last year 5.6%), partially offset by a reduction in average net debt over the half year. Net finance costs were down £6.1m after an increase in pension finance income to £17.9m (last year £5.6m), partly offset by an £8.5m fee paid on transfer of derivatives to the pension scheme as part of the funding plan announced in May 2010.

# **Taxation**

The taxation charge is based on an estimated full year effective tax rate of 27% (last half year 28%), reflecting the impact on deferred tax of the recently announced changes to the corporation tax rate.

# **Earnings per share**

Adjusted earnings per share from continuing operations, which excludes the impact of property disposals, increased by 21.2% to 16.6p per share. The weighted average number of shares in issue during the period was 1,576.8m (last year 1,571.7m).

#### Dividend

The Board is recommending an interim dividend of 6.2p, an increase of 12.7% on last year.

# Capital expenditure

	<u>26 weeks ended</u>			
	2 Oct 10	26 Sept 09		
	£m	£m		
Store modernisation programme	38.9	25.6		
New stores	21.0	16.3		
International	9.7	12.9		
Supply chain and technology	64.9	84.9		
Maintenance	24.0	5.8		
Total capital expenditure	158.5	145.5		

Group capital expenditure for the half was £158.5m. We continued to invest in our supply chain and technology in line with our strategy to build an infrastructure fit to support the future growth of the business.

We added c.2% of trading space in the UK, trading from 15.4m square feet at the end of September 2010. We opened two stores during the half year, both Simply Foods.

## Cash flow and net debt

	26 weeks ended		
	2 Oct 10	26 Sept 09	
	£m	£m	
Cash flow from operations	474.9	518.2	
Capex and disposals	(184.1)	(176.9)	
Interest and taxation	(140.8)	(100.7)	
Dividends and share issues	(147.2)	(146.5)	
Other movements	-	(24.4)	
Net cash inflow	2.8	69.7	
Opening net debt	(2,068.4)	(2,490.8)	
Exchange and other non-cash movements	(110.4)	2.5	
Closing net debt	(2,176.0)	(2,418.6)	

The Group reported a net cash inflow of £2.8m (last half year – inflow £69.7m). Cash inflow from operations decreased by £43.3m, reflecting growth in profits offset by a working capital outflow of £123.8m compared with a £68.9m outflow last year. This was a result of higher inventory levels due to improved sales performance and a further increase in direct buying. In addition, we have contributed £35.0m to the Pension scheme in line with the pension funding plan (last half year - £nil).

Capital expenditure, net of disposals, was £184.1m (last half year - £176.9m) reflecting further investment in our supply chain and IT as well as new space growth. Exchange and other non-cash movements balance of £110.4m includes £113.0m in relation to the transfer of the US\$ hedge contract to the pension fund, as part of the funding plan announced in May. Net debt was £2,176.0m (last year end £2,068.4m), down £242.6m on last half year.

### **Pensions**

At 2 October 2010 the IAS 19 net retirement benefit deficit was £287.5m (3 April 2010 £366.5m). The market value of scheme assets increased by £392.2m, due to assets contributed as part of this year's funding plan as well as improved asset performance. This has been offset by the £313.2m increase in the present value of the scheme liabilities due to a decrease in the discount rate from 5.5% to 5.0%, partly offset by the reduction in the inflation rate from 3.6% to 3.1%.

## Guidance

Guidance for financial year 2010/11:

- Gross margin is expected to be broadly level with last year.
- Operating costs before bonus are expected to be at the upper end of the 4% to 5% range.
- The planned opening of new footage will add around 2% to total space, representing a c. 1.5% increase in general merchandise and c. 2.5% increase in food footage, on a weighted average basis. Total square footage at 3 April 2010 was c. 15.3m square feet.
- Capital expenditure is expected to be in the range of £500-£550m.
- Pension finance income, based on the 31 March 2009 valuation of the pension fund, is expected to be £38m (last year £10.8m).
- The estimated full year effective tax rate is 27% (last year 25.6%)

We will update on our third quarter sales on 11 January 2011.

# For further information, please contact:

## **Investor Relations:**

Majda Rainer: +44 (0)20 8718 1563

# **Media enquiries:**

Corporate Press Office: +44 (0)20 8718 1919

# **Investor & Analyst webcast:**

Investor and analyst presentation will be held at 9.15am on 9 November 2010. This presentation can be viewed live on the Marks and Spencer Group plc website on:

www.marksandspencer.com/thecompany.

Video interviews with *Marc Bolland, Chief Executive and Alan Stewart,* CFO will be available on the above website. The interviews are also available in audio and transcript.

# **Fixed Income Investor Conference Call:**

This will be hosted by Alan Stewart, Chief Finance Officer at 11am on Wednesday 10<sup>th</sup> November:

Dial in number: +44 (0) 208 515 2302

A recording of this call will be available until 19 November 2010: Dial in number: +44 (0) 207 959 6720 Access Code: 4382797##

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 such forward-looking statements are subject to various risks and uncertainties, including 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 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 market

#### Principal risks and uncertainties

The principal risks and uncertainties which could impact the Group's long-term performance remain those detailed on pages 56 - 57 of the Group's 2010 Annual Report and Financial Statements. Information on financial risk management is also set out on pages 102 - 105 of the Annual Report, a copy of which is available on the Group's website www.marksandspencer.com. The key risks and mitigating activities have not changed from these:

- Business strategy and financial risk, including the UK and global economic outlook, competition and financial position
- People development and retention
- Operational threats, including change projects, stock management, IT security, suppliers/third parties and supply chain and growth within Direct and International
- Reputational risk, including brand, environmental risks, ethical standards, health and safety and business continuity.

#### Statement of Directors' responsibilities

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

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

The directors of Marks and Spencer Group plc are listed in the Group's 2010 Annual Report and financial statements with the exception of the appointments of Marc Bolland, Robert Swannell and Alan Stewart on 1 May 2010, 4 October 2010 and 28 October 2010 respectively, and the resignation of lan Dyson on 14 July 2010.

A list of current Directors is maintained on the Group's website: www.marksandspencer.com.

By order of the Board

Marc Bolland Chief Executive

Alan Stewart Chief Finance Officer

#### Consolidated income statement

		26 weeks ended					53 weeks ended
		2 Oct 2010	26 Sept 2009	3 April 2010			
	Notes	£m	£m	£m			
Revenue	2	4,569.7	4,335.8	9,536.6			
Operating profit	2	409.2	373.4	852.0			
Finance income	3	19.3	6.3	12.9			
Finance costs	3	(79.9)	(73.0)	(162.2)			
Profit on ordinary activities before taxation		348.6	306.7	702.7			
Analysed between: Before property disposals Profit on property disposals		348.6	298.3 8.4	694.6 8.1			
Income tax expense	4	(94.2)	(85.9)	(179.7)			
Profit for the period		254.4	220.8	523.0			
Attributable to: Equity shareholders of the Company Minority interests		261.2 (6.8) 254.4	224.3 (3.5) 220.8	<b>526.3</b> (3.3) <b>523.0</b>			
Basic earnings per share Diluted earnings per share	5A 5B	16.6p 16.4p	14.3p 14.2p	33.5p 33.2p			
Non-GAAP measure: Adjusted profit before taxation (£m) Adjusted basic earnings per share	1 5A	348.6 16.6p	298.3 13.7p	694.6 33.0p			
Adjusted diluted earnings per share	5B	16.4p	13.6p	32.7p			

#### Consolidated statement of comprehensive income

	26 weeks end	26 weeks ended	
	2 Oct 2010	26 Sept 2009	3 April 2010
	£m	£m	£m
Profit for the period	254.4	220.8	523.0
Other comprehensive income:			
Foreign currency translation differences	(19.9)	(17.2)	(17.4)
Actuarial losses on retirement benefit schemes	(101.0)	(388.0)	(251.6)
Deferred tax on retirement benefit scheme	25.3	108.6	71.7
Cash flow and net investment hedges			
- fair value movements in equity	(26.5)	(2.3)	52.1
- recycled and reported in net profit	33.6	(83.4)	(119.8)
- amount recognised in inventories	(13.4)	(12.0)	4.8
Tax on cash flow hedges and fair value hedges	2.9	33.0	25.9
Other comprehensive income for the period, net of tax	(99.0)	(361.3)	(234.3)
Total comprehensive income/(loss) for the period	155.4	(140.5)	288.7
Attributable to:			
Equity shareholders of the Company	162.2	(137.0)	292.0
Minority interests	(6.8)	(3.5)	(3.3)
	155.4	(140.5)	288.7

 $The \ notes \ on \ pages \ 21 \ to \ 26 \ form \ an \ integral \ part \ of \ this \ condensed \ consolidated \ interim \ financial \ information.$ 

#### Consolidated statement of financial position

		As at	As at	As at
		2 Oct 2010	26 Sept 2009	3 April 2010
	Notes	£m	£m	£m
ASSETS				
Non-current assets				
Intangible assets		484.4	422.3	452.8
Property, plant and equipment		4,616.3	4,735.4	4,722.0
Investment property		22.3	22.3	22.4
Investment in joint venture Other financial assets		12.2 3.0	11.7 4.2	11.5 3.0
Trade and other receivables		275.6	311.5	287.7
Derivative financial instruments		20.0	132.1	132.9
Deferred tax assets		0.8	132.1	0.7
Deletted tax assets		5,434.6	5,639.5	5,633.0
		,	,	,
Current assets				
Inventories		727.1	660.6	613.2
Other financial assets		109.7	89.5	171.7
Trade and other receivables		289.1	307.0	281.4
Derivative financial instruments		43.7	27.0	48.1
Cash and cash equivalents		528.2	296.5	405.8
		1,697.8	1,380.6	1,520.2
Total assets		7,132.4	7,020.1	7,153.2
Total dissets		7,102.4	7,020.1	7,133.2
LIABILITIES				
Current liabilities				
Trade and other payables		1,108.2	1,111.6	1,153.8
Borrowings and other financial liabilities		575.9	835.4	482.9
Partnership liability to the Marks & Spencer UK Pension Scheme	8	-	70.0	71.9
Derivative financial instruments		60.6	70.7	27.1
Provisions		16.6	32.3	25.6
Current tax liabilities		116.5	114.1	129.2
		1,877.8	2,234.1	1,890.5
Non-current liabilities				
Retirement benefit deficit	7	287.5	521.1	366.5
Trade and other payables	·	298.9	242.0	280.3
Borrowings and other financial liabilities		2,302.8	2,077.7	2,278.0
Derivative financial instruments		22.2	1.4	-
Provisions		23.9	45.1	25.5
Deferred tax liabilities		109.0	86.4	126.5
		3,044.3	2,973.7	3,076.8
Total liabilities		4,922.1	5,207.8	4,967.3
Net assets		2,210.3	1,812.3	2,185.9
Tet ussets		2,210.3	1,012.3	2,103.3
EQUITY				
Called-up share capital - equity		395.7	394.7	395.5
Share premium account		249.8	239.0	247.5
Capital redemption reserve		2,202.6	2,202.6	2,202.6
Hedging reserve		2.2	(8.9)	11.6
Other reserve		(5,970.5)	(6,542.2)	(5,970.5)
Retained earnings		5,320.0	5,511.0	5,281.9
Total shareholders' equity		2,199.8	1,796.2	2,168.6
Minority interests in equity		10.5	16.1	17.3
Total equity		2,210.3	1,812.3	2,185.9

The notes on pages 21 to 26 form an integral part of this condensed consolidated interim financial information.

#### Consolidated statement of changes in equity

	Ordinary	Share	Capital						
	share	premium	redemption	Hedging	Other	Retained		Minority	
	capital	account	reserve	reserve	reserve	earnings	Total		Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m
As at 4 April 2010	395.5	247.5	2,202.6	11.6	(5,970.5)	5,281.9	2,168.6	17.3	2,185.9
Profit/(loss) for the period Other comprehensive income:	-	-	-	-	-	261.2	261.2	(6.8)	254.4
Foreign currency translation				(0.9)		(19.0)	(19.9)		(19.9)
Actuarial losses on retirement benefit schemes	_		_	(0.9)	_	(101.0)	(101.0)	-	(101.0)
Cash flow and net investment hedges						(101.0)	(101.0)		()
- fair value movements in equity	_	_	-	(31.6)	-	5.1	(26.5)	-	(26.5)
- recycled and reported in net profit	-	-	-	33.6	-	-	33.6	-	33.6
- amount recognised in inventories	-	-	-	(13.4)	-	-	(13.4)	-	(13.4)
Tax on items taken directly to equity	-	-	-	2.9	-	25.3	28.2	-	28.2
Total comprehensive income		-	-	(9.4)	-	171.6	162.2	(6.8)	155.4
Transactions with owners:									
Dividends	_		_	_	_	(149.7)	(149.7)		(149.7)
Shares issued on exercise of employee share options	0.2	2.3	_	_	_	(115.7)	2.5	_	2.5
Charge for share-based payments	-	-	-	_	-	15.6	15.6	-	15.6
Deferred tax on share schemes	-	-	-	-	-	0.6	0.6	-	0.6
As at 2 October 2010	395.7	249.8	2,202.6	2.2	(5,970.5)	5,320.0	2,199.8	10.5	2,210.3
	Ordinom	Choro	Canital						
	Ordinary share	Share	Capital redemption	Hodging	Other	Retained		Minority	
	capital	account	reserve	Hedging reserve	reserve	earnings	Total	,	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m
As at 29 March 2009	394.4	236.2	2,202.6	62.6	(6,542.2)	5,728.1	2,081.7	18.9	2,100.6
Profit/(loss) for the period	-		-,	-	-	224.3	224.3	(3.5)	220.8
Other comprehensive income:									
Foreign currency translation	-	-	-	1.6	-	(18.8)	(17.2)	-	(17.2)
Actuarial losses on retirement benefit schemes	-	-	-	-	-	(388.0)	(388.0)	-	(388.0)
Cash flow and net investment hedges									
- fair value movements in equity	-	-	-	(10.7)	-	8.4	(2.3)	-	(2.3)
<ul> <li>recycled and reported in net profit</li> </ul>	-	-	-	(83.4)	-	-	(83.4)	-	(83.4)
- amount recognised in inventories	-	-	-	(12.0)	-	-	(12.0)	-	(12.0)
Tax on items taken directly to equity	-	-	<u> </u>	33.0 (71.5)	-	108.6 ( <b>65.5</b> )	141.6 (137.0)	(3.5)	141.6 (140.5)
Total comprehensive income	-	-	-	(/ 1.3)	-	(03.3)	(137.0)	(3.3)	(140.3)
Transactions with owners:									
Dividends	-	-	-	-	-	(149.6)	(149.6)	-	(149.6)
Transactions with minority shareholders	-	-	-	-	-	-	-	0.7	0.7
Shares issued on exercise of employee share options	0.3	2.8	-	-	-	-	3.1	-	3.1
Purchase of own shares held by employee trusts	-	-	-	-	-	(19.0)	(19.0)	-	(19.0)
Charge for share-based payments Deferred tax on share schemes	-	-	-	-	-	11.2 5.8	11.2 5.8	-	11.2 5.8
As at 26 September 2009	394.7	239.0	2,202.6	(8.9)	(6,542.2)	5,511.0	1,796.2	16.1	1,812.3
				(515)	(9/5 -=)		-,		.,
	Ordinary	Share	Capital						
	share	premium	redemption	Hedging	Other	Retained		Minority	
	capital	account	reserve	reserve	reserve	earnings	Total		Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m
As at 29 March 2009	394.4	236.2	2,202.6	62.6	(5,970.5)	5,156.4	2,081.7	18.9	2,100.6
Profit/(loss) for the period	-	-	-	-	-	526.3	526.3	(3.3)	523.0
Other comprehensive income:				0.1		(17 5)	(17.4)		/17 A
Foreign currency translation Actuarial losses on retirement benefit schemes	-	-	-	0.1	-	(17.5) (251.6)	(17.4) (251.6)	-	(17.4) (251.6)
Cash flow and net investment hedges	-	-	-	_	-	(231.6)	(231.6)	-	(231.0)
- fair value movements in equity	_		_	38.0	_	14.1	52.1		52.1
- recycled and reported in net profit	_	_	_	(119.8)	_		(119.8)	_	(119.8)
- amount recognised in inventories	_	-	-	4.8	-	-	4.8	_	4.8
Tax on items taken directly to equity	-	-	-	25.9	-	71.7	97.6	-	97.6
Total comprehensive income	-	-	-	(51.0)	-	343.0	292.0	(3.3)	288.7
Torrest of an angle and an angle									
Transactions with owners: Dividends						(226.0)	(236.0)	_	(236.0)
Transactions with minority shareholders	-	-	-	-	-	(236.0)	(230.0)	1.7	(236.0)
Shares issued on exercise of employee share options	1.1	11.3	-	-	-	-	12.4	-	12.4
Purchase of own shares held by employee trusts	-	-	-	-	-	(19.0)	(19.0)	-	(19.0)
Charge for share-based payments	-	-	-	-	-	28.5	28.5	-	28.5
Deferred tax on share schemes	-	-	-	-	-	9.0	9.0	-	9.0
As at 3 April 2010	395.5	247.5	2,202.6	11.6	(5,970.5)	5,281.9	2,168.6	17.3	2,185.9

The notes on pages 21 to 26 form an integral part of this condensed consolidated interim financial information.

Other reserves includes £571.7m equity interest being the fair value of the discretionary scheduled payments from the Marks and Spencer Scottish Limited Partnership to the Marks and Spencer UK Pension Scheme (see note 8).

#### Consolidated cash flow information

#### STATEMENT OF CASH FLOWS

		26 weeks ended		
		2 Oct 2010	26 Sept 2009	3 April 2010
	Notes	£m	£m	£m
Cash flows from operating activities				
Cash generated from operations	10	474.9	518.2	1,349.7
Tax paid		(95.7)	(38.0)	(120.7)
Net cash inflow from operating activities		379.2	480.2	1,229.0
Cash flows from investing activities				
Acquisition of subsidiaries, net of cash acquired		-	(5.4)	(5.4)
Purchase of property, plant and equipment		(130.3)	(171.3)	(352.0)
Proceeds from sale of property, plant and equipment		0.4	20.8	20.9
Purchase of intangible fixed assets		(54.2)	(26.4)	(77.5)
Sale/(purchase) of financial assets		61.6	(36.9)	(118.3)
Interest received		-	0.1	2.7
Net cash outflow from investing activities		(122.5)	(219.1)	(529.6)
Cash flows from financing activities				
Interest paid		(45.1)	(62.8)	(163.4)
Cash inflow from borrowings		8.8	13.6	30.7
Drawdown of syndicated bank facility		(17.5)	(121.6)	(529.4)
Issue of medium term notes		-	-	397.2
Redemption of medium-term notes		-	-	(200.4)
Monetisation of derivative assets		32.8	-	-
Decrease in liability to the Marks & Spencer UK Pension Scheme		(68.0)	(71.9)	(68.0)
Decrease in obligations under finance leases		(5.1)	(4.2)	(17.0)
Equity dividends paid		(149.7)	(149.6)	(236.0)
Shares issued under employee share schemes		2.5	3.1	12.4
Purchase of own shares held in employee trusts		-	(19.0)	(19.0)
Net cash outflow from financing activities		(241.3)	(412.4)	(792.9)
Net cash inflow/(outflow) from activities		15.4	(151.3)	(93.5)
Effects of exchange rate changes		(0.9)	(2.2)	(2.1)
Opening net cash		202.7	298.3	298.3
Closing net cash		217.2	144.8	202.7

## RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

		26 weeks ended		53 weeks ended
	·	2 Oct 2010	26 Sept 2009	3 April 2010
		£m	£m	£m
Opening net debt		(2,068.4)	(2,490.8)	(2,490.8)
Net cash inflow/(outflow) from activities		15.4	(151.3)	(93.5)
(Decrease)/increase in current financial assets		(61.6)	36.9	118.3
Decrease in debt financing		49.0	184.1	386.9
Exchange and other non-cash movements		(110.4)	2.5	10.7
Movement in net debt		(107.6)	72.2	422.4
Closing net debt	11	(2,176.0)	(2,418.6)	(2,068.4)

 $The \ notes \ on \ pages \ 21 \ to \ 26 \ form \ an \ integral \ part \ of \ this \ condensed \ consolidated \ interim \ financial \ information.$ 

#### 1 General information and basis of preparation

The results for the first half of the financial year have not been audited and are prepared on the basis of the accounting policies set out in the Group's 2010 Annual Report and Financial Statements, except as described below. The financial information has been prepared in accordance with the Disclosure and Transparency rules of the Financial Services Authority and with International Accounting Standard (IAS) 34 - 'Interim Financial Reporting' as endorsed by the European Union. This condensed consolidated interim information should be read in conjunction with the Annual Report and Financial Statements for the year ended 3 April 2010, which have been prepared in accordance with IFRSs as adopted by the European Union.

- Taxes on income in the interim period are accrued using the tax rate that would be applicable to expected total annual earnings.

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 4 April 2010;

- IFRS 3 (Revised) – 'Business Combinations' was issued in January 2008 and consequential amendments to IAS 27 'Consolidated and separate financial statements', IAS 28 'Investments in associates' and IAS 31 'Interests in joint ventures'. These affect the accounting for any acquisitions made by the Group from 4 April 2010. Acquisitions made prior to that date will not be affected. This is not currently applicable to the Group, since it has not made any acquisitions from this date.

The following Standards, amendments and interpretations to existing standards are effective the financial year beginning 4 April 2010 but are not relevant to the Group.

- IFRIC 17, 'Distributions of non-cash assets to owners'
- IFRIC 18, 'Transfers of assets from customers
- Improvements to International Financial Reporting Standards in 2009 were issued in April 2009. The effective dates vary standard by standard but most are effective 1 January 2010.

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

The summary of results for the year ended 3 April 2010 is an extract from the published Annual Report and Financial Statements which were approved by the board of Directors on 24 May 2010, have been reported on by the Group's auditors and delivered to the Registrar of Companies. The audit report on the Annual Report and Financial Statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under s498 of the Companies Act 2006.

The Directors believe that the adjusted profit and earnings per share measures provide additional useful information for shareholders on the underlying performance of the business. These measures are consistent with how underlying business performance is measured internally. The adjusted profit before tax measure is not a recognised profit measure under IFRS and may not be directly comparable with adjusted profit measures used by other companies. The adjustments made to reported profit before tax are to exclude the following:

- exceptional income and charges these are one-off in nature and therefore create significant volatility in reported earnings; and
- profits and losses on the disposal of properties these can vary significantly from year to year, again creating volatility in reported earnings.

#### 2 Segmental Information

IFRS 8 requires operating segments to be identified on the basis of internal reporting about 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 directors. The executive directors review the Group's internal reporting in order to assess performance and allocate resources. The reported segments are UK and International which are reported in a manner consistent with the internal reporting to the executive directors.

The executive directors assess the performance of the operating segments based on a measure of operating profit. This measurement basis excludes the effects of exceptional items from the operating segments as well as gains or losses on the disposal of assets. Central costs are all classified as UK costs and presented within UK operating profit. The executive directors also monitor revenue within the segments. To increase transparency, the Group has decided to include an additional voluntary disclosure analysing revenue within the reportable segments.

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

The following is an analysis of the Group's revenue and results by reportable segment:			
		26 weeks ende	ed 2 October 2010
	Management	Adjustment <sup>2</sup>	Statutory
	£m	£m	£m
General Merchandise	2,003.1	(20.3)	1,982.8
Food	2,144.0	(19.1)	2,124.9
UK revenue	4,147.1	(39.4)	4,107.7
Wholesale	153.2	0.0	153.2
Retail	309.7	(0.9)	308.8
International revenue	462.9	(0.9)	462.0
Group revenue	4,610.0	(40.3)	4,569.7
UK operating profit '	344.8	-	344.8
International operating profit	64.4	-	64.4
Group operating profit (adjusted)	409.2	-	409.2
Profit on property disposals			-
Group operating profit			409.2
Finance income			19.3
Finance costs			(79.9)
Profit before tax			348.6

<sup>1</sup> UK operating profit includes a contribution of £22.6m (last half year £17.5m and last full year £30.4m) from M&S Money under the terms of our arrangement with HSBC.

<sup>&</sup>lt;sup>2</sup> Adjustments relate to revenue adjustments recognised in cost of sales for management accounting purposes.

		26 weeks ended 2	6 September 2009
	Management	Adjustment	Statutory
	£m	£m	£m
General Merchandise	1,874.4	(24.6)	1,849.8
Food	2,059.1	(18.3)	2,040.8
UK revenue	3,933.5	(42.9)	3,890.6
Wholesale	144.0	(0.0)	144.0
Retail	302.3	(1.1)	301.2
International revenue	446.3	(1.1)	445.2
Group revenue	4,379.8	(44.0)	4,335.8
UK operating profit	299.1	_	299.1
International operating profit	65.9	-	65.9
Group operating profit (adjusted)	365.0	-	365.0
Profit on property disposals			8.4
Group operating profit			373.4
Finance income			6.3
Finance costs			(73.0)
Profit before tax			306.7

#### 2 Segmental Information continued

		ded 3 April 2010	
	Management	Adjustment	Statutory
	£m	£m	£m
General Merchandise	4,186.2	(34.2)	4,152.0
Food	4,455.5	(39.6)	4,415.9
UK revenue	8,641.7	(73.8)	8,567.9
Wholesale	297.7	-	297.7
Retail	673.1	(2.1)	671.0
International revenue	970.8	(2.1)	968.7
Group revenue	9,612.5	(75.9)	9,536.6
UK operating profit	701.2	-	701.2
International operating profit	142.7	-	142.7
Group operating profit (adjusted)	843.9	-	843.9
Profit on property disposals			8.1
Group operating profit			852.0
Finance income			12.9
Finance costs			(162.2)
Profit before tax			702.7

Sales of General Merchandise and Foods are subject to seasonality due to higher demand during the Christmas period which falls in the second half of the financial year.

Reportable segments' assets are reconciled to total assets as follows:

	As at	As at	As at
	2 Oct 2010	2 Oct 2010 26 Sept 2009	3 April 2010
	£m	£m	£m
UK assets	6,156.4	6,166.1	6,242.7
International assets	976.0	854.0	910.5
Total assets	7,132.4	7,020.1	7,153.2

#### 3 Finance income/(costs)

	26 weeks ended		53 weeks ended
	2 Oct 2010	26 Sept 2009	3 April 2010
	£m	£m	£m
Finance income			
Bank and other interest receivable	1.4	0.7	2.1
Pension finance income (net)	17.9	5.6	10.8
Finance income	19.3	6.3	12.9
Finance costs			
One-off premium on repurchase of debt	-	-	(13.5)
One-off fee payable on transfer of derivative assets to the Pension Scheme (note 7)	(8.5)	-	-
Interest on bank borrowings	(3.4)	(3.5)	(7.1)
Interest payable on syndicated bank facility	(0.8)	(4.3)	(5.9)
Interest payable on medium-term notes	(63.1)	(56.9)	(117.9)
Interest payable on finance leases	(2.1)	(2.8)	(5.3)
Fair value movements on financial instruments	(2.0)	(3.5)	(8.5)
Unwinding of discount on partnership liability to the Marks & Spencer UK Pension Scheme	-	(2.0)	(4.0)
Finance costs	(79.9)	(73.0)	(162.2)
Net finance costs	(60.6)	(66.7)	(149.3)

#### 4 Taxation

The taxation charge for the 26 weeks ended 2 October 2010 is based on an estimated full year effective tax rate of 27.0% (last full year 25.6%).

A number of changes to the UK Corporation tax system were announced in the June 2010 Budget Statement. Finance Act (No2) Act 2010, which was substantively enacted at the balance sheet date, included legislation to reduce the main rate of corporation tax from 28% to 27% from 1 April 2011.

The tax charge in the income statement is based on management's best estimate of the full year effective tax rate based on expected full year profits to 2 April 2011. The full year effective tax rate includes the impact to the income statement of calculating UK deferred tax balances at the reduced rate of 27%. The impact of this rate change on the interim income statement is a reduction in the half year tax charge of £7m.

Further reductions to the corporation tax rate are proposed to reduce the rate by 1% per annum to 24% by 1 April 2014. These changes had not been substantively enacted at the balance sheet date and are therefore not included in these financial statements.

#### 5 Earnings per share

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

The adjusted earnings per share figures have been calculated in addition to the earnings per share required by IAS 33 - 'Earnings per Share' and are based on earnings excluding the effect of property disposals and exceptional items. These have been calculated to allow the shareholders to gain an understanding of the underlying trading performance of the Group.

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 only one class of dilutive potential ordinary shares being those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the period.

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

,	26 weeks ended		53 weeks ended
	2 Oct 2010	26 Sept 2009	3 April 2010
	£m	£m	£m
Earnings after tax	261.2	224.3	526.3
Property disposals (net of tax)	-	(8.4)	(8.1)
Adjusted earnings after tax	261.2	215.9	518.2
	million	million	million
Weighted average number of ordinary shares in issue	1,576.8	1,571.7	1,572.2
Potentially dilutive share options under Group's share option schemes	14.3	12.7	14.3
Weighted average number of diluted ordinary shares	1,591.1	1,584.4	1,586.5
A Basic earnings per share			
	pence	pence	pence
Basic earnings per share	16.6	14.3	33.5
Property disposals per share	-	(0.6)	(0.5)
Adjusted basic earnings per share	16.6	13.7	33.0
B Diluted earnings per share			
• •	pence	pence	pence
Diluted earnings per share	16.4	14.2	33.2
Property disposals per share	-	(0.6)	(0.5)
Adjusted diluted earnings per share	16.4	13.6	32.7

## 6 Dividends

	26 week	26 weeks ended	
	2 Oct 2010 26 Sept 2009 £m £m	2 Oct 2010 26 Sept 2009	3 April 2010
		£m	£m
Final dividend of 9.5p per share (last year 9.5p per share)	149.7	149.6	149.6
Prior period interim dividend of 5.5p per share	-	-	86.4
	149.7	149.6	236.0

The Directors have approved an interim dividend of 6.2p per share (last half year 5.5p per share) which, in line with the requirements of IAS 10 - 'Events after the Balance Sheet Date', has not been recognised within these results. This results in an interim dividend of £97.8m (last half year £86.4m) which will be paid on 14 January 2011 to shareholders whose names are on the Register of Members at the close of business on 19 November 2010. The ordinary shares will be quoted ex dividend on 17 November 2010. Shareholders may choose to take this dividend in shares or in cash.

#### 7 Retirement benefits

	26 weeks ended		53 weeks ended
	2 Oct 2010	26 Sept 2009	3 April 2010
	£m	£m	£m
Opening net retirement benefit deficit	(366.5)	(152.2)	(152.2)
Current service cost	(27.7)	(28.1)	(56.3)
Curtailment charge		-	(1.0)
Interest cost	(141.0)	(133.5)	(270.6)
Expected return on scheme assets	158.9	139.1	281.4
Employer contributions	189.5	41.2	82.7
Actuarial loss	(101.0)	(388.0)	(251.6)
Exchange movement	0.3	0.4	1.1
Closing net retirement benefit deficit	(287.5)	(521.1)	(366.5)
Total market value of assets	5,340.8	4,643.2	4,948.6
Present value of scheme liabilities	(5,611.8)	(5,147.6)	(5,298.6)
Net funded pension plan deficit	(271.0)	(504.4)	(350.0)
Unfunded retirement benefits	(1.0)	(0.9)	(0.9)
Post-retirement healthcare	(15.5)	(15.8)	(15.6)
Net retirement benefit deficit	(287.5)	(521.1)	(366.5)

#### Financial assumptions

The main financial assumptions used to assess the liabilities of the scheme have been updated by independent qualified actuaries to assess the liabilities of the scheme. The most significant of these are the discount rate and the inflation rate which are 5.0% (last full year 5.5%) and 3.1% (last full year 3.6%) respectively.

The amount of the deficit varies if the main financial assumptions change, particularly the discount rate. If the discount rate increased/decreased by 0.1% the IAS 19 deficit would decrease/increase by c.£0.1bn.

On 13 October 2010 the Urgent Issue Task Force issued a proposed Abstract 'Accounting implications of the replacement of the Retail Prices Index with the Consumer Prices Index for Retirement Benefits' in response to a request to provide guidance on the accounting implications of the government decision on 8 July 2010. On this date, the Minister for Pensions announced the government's intention to move to using the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI) as the inflation measure to use in determining the minimum pension increases to be applied to the statutory index-linked features of retirement benefits. The government is expected to announce the next such annual inflation measure in November 2010.

This change has not been reflected in the inflation assumption at the half year on the basis there has been no formal change to government legislation to date; the guidance by the UITF is only in draft format; and discussions with the Pension Trustees regarding this matter are ongoing. Reflecting this change in inflation measure in the valuation assumptions is expected to reduce the Group's IAS 19 pension deficit by circa £150m, crediting other comprehensive income.

#### Marks and Spencer Scottish Limited Partnership

Included within the pension scheme assets is the Partnership Interest of the Pension Scheme in the Marks and Spencer Scottish Limited Partnership (£644.1m as at 2 October 2010; £631.7m as at 3 April 2010). The market value of this non-quoted financial asset is measured based on the expected cashflows, yield curves appropriate to these cashflows, and benchmark asset-backed credit spreads.

#### Funding plan

The triennial valuation of the UK defined benefit pension showed a deficit of £1.3bn at 31 March 2009 and a £800m funding plan was agreed with the Trustees in May 2010. The £500m difference between the valuation deficit and the funding plan is expected to be met by investment returns on the pension scheme's existing assets. The funding plan includes the following contributions from M&S:

- Cash contributions of £35m p.a. for the first three years of the funding plan, increasing to c.£60m p.a. until 2018. This had a present day cash value of £376m. The first payment was made in May 2010.
- £124m of value through the transfer of assets from existing US dollar debt hedge contracts held by M&S. The transfer of these assets was recognised in May 2010.
- £300m of value through the granting of a further interest in the Scottish Limited Partnership. This new interest entitles the pension scheme to a fixed annual distribution of c.£36m for 15 years commencing in 2017 and a capital sum in 2031 equal to the lower of £350m or any funding deficit in the pension scheme at that point in time. Unlike the existing partnership interest, as this interest is not transferable by the Pension Scheme, it does not qualify as an IAS 19 asset and is therefore not included in the IAS 19 valuation of the Pension Scheme deficit as at 2 October 2010. The annual distributions will be recognised as a Pension Scheme asset as they are paid.

## 8 Marks and Spencer Scottish Limited Partnership

The Marks and Spencer Scottish Limited Partnership holds £1.5bn of properties which are leased to Marks and Spencer plc. The Group retains control over these properties, including the flexibility to substitute alternative properties. The Marks and Spencer UK Pension Scheme is a limited partner. Until March 2009 this limited partnership interest entitled the Pension Scheme to receive an annual distribution of £71.9m from the profits of the Partnership.

On 25 March 2009 the terms of the Scottish Limited Partnership agreement were amended to make the payment by the Scottish Limited Partnership of annual distributions to the Pension Scheme discretionary at the instance of Marks and Spencer plc, in relation to financial years 2010/11 onwards. The discretion is exercisable if the Group does not pay a dividend or make any other form of return to its shareholders. The impact of the amendment was to derecognise the remaining financial liability and reclassify it to other reserves. As at 2 October 2010 there was no obligation to pay a distribution in relation to 2010/11. However, upon payment of an interim dividend in January 2011, an obligation to pay the scheduled distribution of £71.9m in relation to 2010/11 will arise. This amount will then be recognised as a liability in the balance sheet and as a reduction in other reserves. This liability to the Pension Scheme will be settled in accordance with the Partnership Agreement.

#### 9 Capital expenditure and contingencies

#### A Capital expenditure

Additions to the cost of property, plant and equipment, investment property and intangible assets are £158.5m (last half year £145.5m) and for the year ended 3 April 2010 were £397.6m. Disposals in net book value of property, plant and equipment, investment property and intangible assets are £0.9m (last half year £12.4m) and for the year ended 3 April 2010 were £16.0m.

#### **B** Capital commitments

	As at	As at	As at
	2 Oct 2010	26 Sept 2009	3 April 2010
	£m	£m	£m
Commitments in respect of properties in the course of construction	102.9	32.4	69.0

#### C Other material contracts

In the event of a material change in the trading arrangements with certain warehouse operators, the Group has a commitment to purchase property, plant and equipment, at values ranging from historical net book value to market value, which are currently owned and operated by them on the Group's behalf.

#### 10 Cash flow analysis

	26 weeks ended		53 weeks ended
	2 Oct 2010	26 Sept 2009	3 April 2010
	£m	£m	£m
Cash flows from operating activities			
Profit on ordinary activities after taxation	254.4	220.8	523.0
Income tax expense	94.2	85.9	179.7
Finance costs	79.9	73.0	162.2
Finance income	(19.3)	(6.3)	(12.9)
Operating profit	409.2	373.4	852.0
Increase in inventories	(113.9)	(121.7)	(74.3)
Decrease/(increase) in receivables	3.9	(10.4)	25.3
(Decrease)/increase in payables	(55.5)	83.4	132.5
Exceptional operating cash outflow	(8.9)	(23.0)	(34.1)
Depreciation and amortisation	224.5	213.7	427.9
Share-based payments	15.6	11.2	28.5
Profit on property disposals	-	(8.4)	(8.1)
Cash generated from operations	474.9	518.2	1,349.7

#### 11 Reconciliation of net debt to consolidated statement of financial position

	As at	As at	As at
	2 Oct 2010	26 Sept 2009	3 April 2010
	£m	£m	£m
Consolidated statement of financial position and related notes			
Cash and cash equivalents	528.2	296.5	405.8
Other current financial assets	109.7	89.5	171.7
Bank loans and overdrafts	(383.0)	(199.4)	(267.4)
Syndicated bank facility	(197.2)	(634.3)	(219.8)
Medium term notes	(2,227.4)	(1,867.6)	(2,048.2)
Finance lease liabilities	(87.0)	(100.4)	(89.8)
Partnership liability to the Marks & Spencer UK Pension Scheme	-	(70.0)	(71.9)
	(2,256.7)	(2,485.7)	(2,119.6)
Interest payable included within related borrowings	80.7	67.1	51.2
Total net debt	(2,176.0)	(2,418.6)	(2,068.4)

## 12 Related party transactions

Supplier transactions occurred during the period between the Group and a company controlled by a close family member of Kate Bostock, an executive director of the Group. These transactions amounted to £2.5m during the period (last half year £3.4m) with an outstanding trade payable of £0.2m at 2 October 2010 (last half year £0.5m). The company was a supplier prior to Kate's employment by the Group.

Supplier transactions occurred during the period between the Group and a company controlled by Martha Lane Fox's partner. Martha is a non-executive director of the Group. These transactions amounted to £0.6m during the period (last half year £0.6m) with an outstanding trade payable of £0.1m at 2 October 2010 (last half year £0.1m).

# **Independent review report to Marks and Spencer Group Plc**

#### Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 2 October 2010, which comprises the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, statement of cash flows and related notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

# Directors' responsibilities

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

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

## **Our responsibility**

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of the Disclosure and Transparency Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

# Scope of review

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

#### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 2 October 2010 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

PricewaterhouseCoopers LLP Chartered Accountants London 8 November 2010