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Press Release

Marks and Spencer Group Plc
Half Year Results For 26 Weeks Ended 29 September 2018
"Accelerated pace of change in the first phase of transformation"

26 weeks ended	29 Sep 18	30 Sep 17	*Change %*
Group revenue	£4,966.9m	£5,125.6m	*-3.1*
Profit before tax & adjusting items[1]	£223.5m	£219.1m	*2.0*
Free cash flow before adjusting items[2]	£300.4m	£218.4m	*37.5*
Adjusting items[1, 2]	£(96.8)m	£(100.8)m	*4.0*
Profit before tax	£126.7m	£118.3m	*7.1*
Profit after tax	£89.8m	£84.6m	*6.1*
Basic adjusted earnings per share[1]	10.6p	10.7p	*-0.9*
Basic earnings per share	5.4p	5.2p	*3.8*
Net debt	£1.78bn	£2.03bn	*-12.3*
Ordinary dividend per share	6.8p	6.8p	-

[1]Adjusted results are consistent with how business performance is measured internally. [2]Refer to adjusting items table below for further details. See glossary for definitions and reconciliations to statutory measures.

Strategic progress

- New management structure and significant change in organisation and direction under substantially new leadership team
- Reshaping buy and focusing on hero lines in Clothing & Home
- Initial steps to restore value and broaden family appeal in Food
- Closure programme of over 100 full-line stores generating encouraging transfer rates; significant further change required
- Initial steps to drive digital catch up and change in culture; 20.4% of UK C&H sales now online
- Process in place to reengineer end to end supply chain, removing costs, complexity and working capital
- At least £350m of cost savings targeted, to underpin delivery

Steve Rowe, Chief Executive:

"In May I set out in our "Facing the Facts" presentation, the challenges we face and the steps we are taking in this the first phase of our transformation programme. Against the background of profound structural change in our industry, we are leaving no stone unturned and reshaping our business, its organisation and culture.

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“This phase is about rebuilding the foundations of the future M&S and we are judging progress as much by the pace of change as the trading outcomes. Already, we have reorganised into a family of strong businesses in the biggest change to our structure for decades. We now have a largely new, very determined and energetic management team in place. M&S is becoming a faster, more commercial and more digital business.

“We are on track to restructure our store portfolio with over 100 full-line closures and expect to see newly remodelled stores open next year. We are fixing the basics of our online channel and there are very early signs of improvement. Every aspect of our ranges, how we trade, our supply chain and marketing is undergoing scrutiny and change.“

Financial headlines

- Profit before tax & adjusting items up 2.0% as a result of the phasing of costs with full year cost guidance unchanged
- Adjusting items of £96.8m, including £47.6m for UK store closure programme
- Clothing & Home revenue down 2.7% impacted by store closures, with like-for-like sales down 1.1%. Online Clothing sales growth ahead of market. Gross margin down 20bps as a result of sale timing
- Food revenue down 0.2% with like-for-like revenue down 2.9% reflecting tough trading and our actions to restore trusted value, including fewer promotions and price investment, and Easter timing. Gross margin down 25bps as a result
- Net debt reduced to £1.78bn as a result of tight capital expenditure control and slightly lower working capital year-on-year

RESTORING THE BASICS

In May we set out the nine key pillars of our first phase ‘restoring the basics’ transformation agenda and we will report on the performance against each of these as we progress. Our objective is to create a profitable, growing family of businesses within three to five years, bound together not only by shared sites but by a common consumer brand, employment values, technology and customer data.

This half year report is presented in three sections:

- An update on progress against nine key areas of our ‘restoring the basics’ agenda outlined in May
- A financial review of our half year performance
- Unaudited accounts for the 26 weeks to 29 September 2018

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1. Reshaping the ranges and customer profile in Clothing & Home

In Clothing & Home our business has an ageing customer base, a very wide range, a weak supply chain and an ageing store portfolio. Despite this, we retain a very strong customer franchise and market position. Clothing & Home revenue decreased 2.7% as we closed 21 full-line stores and three outlets in the period. Like-for-like revenue decreased 1.1%. Discounted sales were broadly level, with the impact of sale timing offset by a planned reduction in promotions.

Our objective is to reshape our buy; reducing the number of options, buying more stylish and contemporary product in greater depth, and to deliver market leading value. By focusing on stylish and wearable "Must-Have" essentials and building on our strong customer franchises in denim, lingerie, back to school and workwear, we will shift back towards family aged customers seeking style, quality and value.

During the first half we made a start on reducing the number of lines and bought slightly deeper into key categories such as dresses, where sales were up by 3% with strong growth online. We also reduced the price of hundreds of everyday lines, including our £15 men's chinos, which generated an increase in sales of 8%. Our sales were held back by weakness in areas such as tops and in Kids daywear where range improvement is needed.

Our marketing has pivoted from group level branding campaigns towards a more effective retail and digital programme. Our recent "Must-Haves" campaign together with "Holly's Picks", endorsed by our new brand ambassador Holly Willoughby, capture our central themes of stylish everyday essentials and a family age customer. The "Love it for Less" campaign underpins the beginnings of our value investment.

2. Protecting the magic but modernising the rest in Food

Food revenue decreased 0.2%, with like-for-like revenue down 2.9%. We opened 22 new Food stores in the period, the benefit from which was partly offset by full-line closures. As expected, reported revenue was adversely impacted by the timing of Easter and by the actions we are taking to restore "trusted value". These include reducing prices and removing complex and confusing promotions. Although we are starting to reshape the ranges and tackle the weakness in our supply chain, waste and availability remain worse than market comparator levels.

We are at the early stages of reengineering our food categories and development pipeline to broaden our appeal and frequency of shop. Over recent years the business has become excessively dependent on both short-term promotions and complex and confusing multi-buys including the profit dilutive "Dine In" programme. We have already reduced the prices of over 100 everyday lines with many more to go. Sales have been impacted by the pain of transition to "trusted value" and we expect this pattern to continue in the lead up to Christmas.

Illustrations of our actions include our Oakham whole chicken at a "New Lower Price" of £3.50, the "Best Ever" Burger and "Best Ever" Prawn Sandwich, and the £5 everyday value "Stag Tin" butter shortbread, all highly successful. As with Clothing & Home, marketing has been redirected towards sales driving programmes including "What's new at M&S" on social channels, appealing to a different audience at lower cost than traditional media.

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3. Transforming our leadership

Both main UK businesses are building very strong leadership teams, so that two-thirds of our most senior business leaders are new in the last 18 months. In Clothing & Home Wes Taylor as Menswear Director and Jill Stanton as Womenswear Director are leading very substantial programmes of change alongside recent appointments in supply chain and marketing. The Food team is now substantially new with the appointment of George Wright, due to join next year from Tesco PLC as Commercial Director, April Preston as Product Development Director, Sharry Cramond as Marketing Director and Nick Hewitt as Finance Director. Dean Simpson has arrived to lead the store renewal programme. Kirsty Ward, formerly VP of Financial Services at Walmart Inc. and Jeremy Pee, formerly Digital Director at Loblaw Companies Limited, will be joining before Christmas.

We continue to attract and promote new talent interested in joining potentially the biggest turnaround project in UK retail.

4. Building greater accountability

The embedded M&S culture is siloed, slow, and hierarchical. We have now completed the first phase of restructuring, evolving to a simpler accountable family of businesses supported by common values, shared infrastructure and customer data, and a streamlined central team. Jill McDonald and Stuart Machin, as Managing Directors, have full accountability for Clothing & Home and Food, and complete functional business boards now including marketing, supply chain, finance and technology. This reorganisation included the redeployment of c.350 colleagues previously sitting in Group marketing. Our International business is also structured in the same manner as the UK.

5. Becoming a digital first retailer across M&S

As part of our digital first approach, Jeremy Pee joins us as Chief Digital & Data Officer in December to lead the turnaround of our data and loyalty programmes and the digital conversion of the business.

In advance we have launched the "Decoded programme", which involves sending 1,000 colleagues on a one-day digital immersion programme and 150 colleagues on an 18-month data analytics programme. To give M&S the opportunity to access the best of digital innovation and change our culture, we have also established incubation partnerships with Founders Factory and True Capital, partly to provide insight into the sector and partly to expose M&S colleagues to the speed and agility of entrepreneurial management.

Our website and online fulfilment capability remain well behind the best of our competitors. However, very early steps to improve our website have helped deliver UK Clothing & Home growth of 9.1% online, with clothing growth ahead of the market, and further improvement has been seen in recent weeks. Technology and supply chain resilience remains an issue but despite this 20.4% of UK Clothing & Home sales are now online compared with 18.2% in H1 2017/18. We have completed an investment in Castle Donington to improve the immediate capacity issues through peak trading. Further investment will be needed next year to meet our growth plans to 2021, after which additional despatch capacity will be required.

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IT development and the transition from legacy systems remains challenging. A further IT development write-off was taken in the first half and we continue to experience teething problems with new systems, notably new warehouse management systems. Work is in hand to address basic weaknesses in merchandise and range planning processes. The migration to the new technology partner TCS has progressed, although inevitably this transition has created some bedding down issues.

6. Creating a high-quality store estate fit for the future

Our estate is older than those of our competitors with numerous legacy issues which urgently need to be addressed.

We are on track to close over 100 full-line stores and have now closed 29 under our accelerated UK store closure programme. The sales transfer rates from these early closures has been encouraging and most colleagues have been successfully redeployed. We are also at the early stages of planning the redevelopment of some of our older sites in city centres. Our UK stores are predominately leasehold and while around half of our lease liabilities fall due within 10 years our average remaining tenure on market rent leases is around 20 years. In addition, we retain a freehold interest or part interest in many of the problematic older stores. Future development will be undertaken under strict returns criteria, to ensure that we begin to reduce this historic burden on our business.

The combination of rising business rates and rent increases continues to put pressure on the cost base but we expect rent inflation to diminish substantially as the new reality dawns on landlords and centre owners. Combined rent and rates inflation on continuing stores in the first half was c.1%.

With this cost pressure we are moving towards a leaner operational structure. In the first half we implemented the streamlining of regional management structures removing around 500 roles.

Our store formats need renewing to create a more modern, customer and service friendly and digital environment for both main businesses. However, any evolution in format will fall into the second stage of transformation. At this stage, store expenditure remains tightly controlled with limited low-cost investment to improve sight lines and basic customer services.

7. Cost savings of at least £350m by 2020/21

M&S has in recent years become high cost to operate at all levels and we set out hard targets to reduce costs as part of the first phase of transformation. We are making good progress on our ambition to generate cost savings of at least £350m by 2020/21 to create a leaner, more efficient base for the business.

In the current year cost savings derive from the management restructure, IT transformation programme, property costs, and central costs including procurement, in addition to the operating costs of stores which have closed. We expect these will offset inflation, new space and channel shift, with the result that we are maintaining our guidance of up to 1% reduction in full year UK operating costs.

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We expect our programme to build from its current base. The closure of marginal low contributing stores and the rationalisation of unprofitable categories and ranges will in time unlock significant cost, margin, working capital and maintenance capital savings. These include an improved shape and depth of buy reducing the cost of singles handling and stock clog in Clothing & Home. Improved rates of sale in Food will reduce unnecessary waste and through our closure programme we will eliminate the facilities maintenance costs of outdated equipment in legacy stores.

We will also further rationalise the number of holding centres for stock as we complete our single tier network. In addition, we will leverage technology to improve store operations from labour scheduling to stock management and replenishment to self-scan and checkout. We will maintain an intense focus on central costs, procurement and support functions which do not drive sales.

8. Modernising our Clothing & Home and Food supply chains

In both major businesses the supply chain infrastructure is well short of state of the art, management has been fragmented, and consequentially stock levels, availability, markdown and waste all remain at uncompetitive levels. However comprehensive programmes including "Fuse" are now underway to implement end to end changes supported by expert outside advice.

In Clothing & Home stock carrying levels remain at c.20 weeks and availability remains unsatisfactory. Supply chain and store operating costs are impacted by the complexity of stock handling and the volume of slow-moving lines. The initial assessment of Clothing & Home "Fuse" is promising, with significant reduction in stock and cost to operate. In physical distribution we are on track to open a further national distribution centre at Welham Green next spring and this will allow us to increase our single tier network coverage to c.85%.

In our Food supply chain we operate high and demanding standards of freshness and code life. However, both waste and availability remain at uncompetitive levels compared to our major rivals. The Food programme aims to address this problem and to date has focussed largely on changing processes at store level. Initial results from the "academy" stores are encouraging, but there was no significant benefit in the first half results. Longer term progress will require more far reaching restructuring of the supply chain.

9. Rebuilding profitable growth in International

Our International business is now emerging from the fundamental restructuring to reshape it around a number of very strong franchise partners and to exit some of the loss-making owned businesses. This now provides a viable platform for implementing essential improvements, in pricing to become market competitive, in supply chain, and online.

In the first half International revenue decreased by 18.4% at constant currency primarily as a result of the sale of our business in Hong Kong to a franchise partner in December 2017. Excluding Hong Kong and exit markets, revenue grew by 1.6% at constant currency.

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Our International competitiveness is increasingly impacted by the growth of other international fashion brands. Our objective is to adapt our International ranges and prices to compete in local markets not just as a premium priced British brand. Price reductions have delivered encouraging volume uplifts where implemented. As we roll out the programme to larger markets, price deflation will impact margins, but we are repositioning the businesses for future growth.

Full year guidance 2018/19

Trading conditions remain challenging and the headwinds from the growth of online competition and the march of the discounters remain strong in all our markets. Therefore, as we embark on the difficult early stages of transformation we are expecting little improvement in sales trajectory.

- In Clothing & Home we now expect a space reduction of c.4% (previously 5%) as at year end. Our programme remains on track
- Capital expenditure remains under tight control and we expect it to be between £300-350m before disposals (previously £350-£400m)
- All other full year guidance remains unchanged and is shown in detail on page 16

First half group revenue: constant currency

Group revenue decreased by 3.0% at constant currency. First half revenue was adversely impacted by Easter timing by an estimated 0.8% in Food and 0.2% in Clothing & Home and the Group's accelerated UK store closures. International revenue reflects the sale of our retail operations in Hong Kong to a franchise partner at the end of December 2017. Excluding Hong Kong and exit markets, International revenue grew by 1.6%.

% change	H1	Q1	Q2
Food	**-0.2**	-0.1	-0.2
- Like-for-like	**-2.9**	-3.1	-2.7
Clothing & Home	**-2.7**	-1.6	-3.7
- Like-for-like	**-1.1**	-0.6	-1.6
Total UK sales	**-1.1**	-0.7	-1.6
- Like-for-like	**-2.2**	-2.2	-2.3
International	**-18.4**	-21.1	-15.8
Total Group	**-3.0**	**-2.9**	**-3.1**
M&S.com (Memo only)	*5.6*	*6.3*	*5.0*

See glossary for definitions. Prior year revenue has been restated for the reclassification of cards & gift wrap from Clothing & Home to Food.

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We will report our third quarter trading update on 10 January 2019.

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Investor & Analyst webcast:

Investor and analyst presentation will be held at 9.00am on 7 November 2018. This presentation can be viewed live on the Marks and Spencer Group plc website.

Fixed Income Investor conference call:

This will be hosted by Humphrey Singer, Chief Finance Officer, at 2.00pm on 7 November 2018:

Dial in number: +44 (0)330 336 9125 Access code: 8343136

A recording of this call will be available until 5.00pm on 14 November 2018:

Dial in number: +44 (0) 207 660 0134 Access code: 8343136

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HALF YEAR FINANCIAL REVIEW

26 weeks ended	29 Sep 18 £m	30 Sep 17 £m	*Change %*
Group revenue	**4,966.9**	**5,125.6**	***-3.1***
Food[1]	2,813.2	2,817.6	*-0.2*
Clothing & Home[1]	1,702.5	1,750.3	*-2.7*
UK	4,515.7	4,567.9	*-1.1*
International	451.2	557.7	*-19.1*
Group operating profit before adjusting items	**262.5**	**266.1**	***-1.4***
UK	200.4	205.8	*-2.6*
International	62.1	60.3	*3.0*
Net finance costs	(39.0)	(47.0)	*17.0*
Profit before tax & adjusting items	**223.5**	**219.1**	***2.0***
Adjusting items	(96.8)	(100.8)	*4.0*
Profit before tax	**126.7**	**118.3**	*7.1*

1. Prior year revenue has been restated for the reclassification of cards & gift wrap from Clothing & Home to Food. For further detail please see Note 2 to the financial statements.

UK: Food

Food revenue decreased 0.2%, with like-for-like revenue down 2.9%. As expected, reported revenue was adversely impacted by the timing of Easter, a planned reduction in promotions and price investment.

We opened 22 new Food stores during the period in line with our plan to focus store expansion on only the highest returning locations. As expected, the sales contribution from new stores was partly offset by our store closure programme.

Gross margin was down 25bps year-on-year. While we continued to absorb input cost inflation, we also made initial investments in trusted value, although we partly offset this by reduced promotional spend.

UK: Clothing & Home

Clothing & Home revenue decreased by 2.7% as we closed 21 full-line stores and three outlets. Like-for-like revenue decreased 1.1%. Discounted sales were broadly level, with the impact of sale timing offset by a planned reduction in promotions.

Gross margin was down 20bps at 58.1%. Buying margin was up 30bps, as we offset currency headwinds and price investment with better buying. Discounting increased by 50bps. While stock into sale was down, as expected margin was adversely impacted by greater sell through of sale stock in the reporting period.

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Clothing & Home online performance was encouraging, with revenue growth of 9.1%, with Clothing growth ahead of the market. Total M&S.com revenue increased 5.6% at constant currency, adversely impacted by the planned change to our food offer and by the closure of our website in China.

UK operating costs

26 weeks ended	29 Sep 18 £m	30 Sep 17 £m	*Change %*
Store staffing	522.1	532.5	*-2.0*
Other store costs	471.7	493.1	*-4.3*
Distribution & warehousing	266.2	256.2	*3.9*
Marketing	70.1	77.5	*-9.5*
Central costs	354.3	360.9	*-1.8*
Total[1]	**1,684.4**	**1,720.2**	***-2.1***

1. See Note 2 to the financial statements.

UK operating costs decreased by 2.1%. The costs of new space and channel shift were largely offset by store closures in the period. Inflation related cost increases were more than offset by our cost saving programmes and the timing of a number of expenses which will rebuild in the second half.

Store staffing costs and other store costs reduced as closures and efficiencies more than offset cost inflation.

Supply chain efficiencies were insufficient to offset the costs of inflation and channel shift in distribution and warehousing.

Marketing costs declined, although this largely reflected the timing of campaigns.

Central costs reduced as a result of lower incentives year-on-year, offsetting investment in the "Fuse" programme and increased IT expenses which were driven by the write off of a systems investment.

M&S Bank

M&S Bank income before adjusting items was down £1.9m to £18.7m. This was predominantly a result of a decline in the travel business and an increase in bad debt provisioning.

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International

26 weeks ended Revenue	29 Sep 18 £m	30 Sep 17 £m	*Change %*	*Change CC %*	*Change CC % excl. Hong Kong*
Franchise	203.5	168.5	*20.8*	*20.6*	*4.6*
Owned Retained[1]	247.7	332.1	*-25.4*	*-24.3*	*-0.5*
Total Retained	451.2	500.6	*-9.9*	*-9.0*	*1.6*
Owned Exit[1]	-	57.1	-	-	-
Total	**451.2**	**557.7**	***-19.1***	***-18.4***	***-10.7***

Operating profit before adjusting items			
Franchise	39.9	43.4	*-8.1*
Owned Retained[1]	20.5	18.7	*9.6*
Total Retained	60.4	62.1	*-2.7*
Owned Exit[1]	1.7	(1.8)	*194.4*
Total	**62.1**	**60.3**	***3.0***

[1]Last year restated for closure of our online business in China. Hong Kong results reported in owned retained until the business was sold to our franchise partner in December 2017.

International revenue decreased 18.4% at constant currency, as a result of the closure of stores in loss making exit markets and the sale of our operations in Hong Kong to our franchise partner in December 2017. Excluding these effects, revenue at constant currency increased 1.6%. Growth in franchise revenue was driven by the further expansion of our Food business, particularly in France. The decline in revenue in owned retained markets, reflects difficult trading in the Republic of Ireland which was largely offset by continued growth in India and other owned retained markets.

International operating profit before adjusting items increased by 3.0% to £62.1m. Total retained profit declined 2.7% driven by lower franchise operating profit. This was adversely impacted by a change in mix and a reallocation of central costs to franchise markets following the exit of loss-making owned stores. We also benefited from the recovery of an historical VAT receivable in our owned exit markets.

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Net finance costs

26 weeks ended	29 Sep 18 £m	30 Sep 17 £m	Change £m
Interest payable	(41.1)	(51.4)	10.3
Interest income	2.8	3.1	(0.3)
Net interest payable	**(38.3)**	**(48.3)**	**10.0**
Pension net finance income	12.8	8.9	3.9
Unwind of discount on Scottish Limited Partnership liability	(4.4)	(5.4)	1.0
Unwind of discount on provisions	(8.5)	(2.3)	(6.2)
Ineffectiveness on financial instruments	(0.6)	0.1	(0.7)
Net finance costs	**(39.0)**	**(47.0)**	**8.0**

Net finance costs decreased by £8.0m to £(39.0)m. This was primarily due to a £10.3m decrease in interest payable as a result of the repayment of the US$500m bond in December 2017. Pension net finance income increased by £3.9m driven by a higher UK defined benefit pension scheme surplus at the start of the year. The unwind of discount on provisions reflects the central London office reorganisation as well as our UK store estate programme.

Group profit before tax & adjusting items

Group profit before tax & adjusting items was £223.5m, up 2.0% on last year benefiting from lower first half costs.

Adjustments to profit before tax

The Group makes certain adjustments to statutory profit measures in order to derive alternative performance measures that provide stakeholders with additional helpful information on the performance of the business. For further detail on adjusting items please see Note 3 to the financial statements.

26 weeks ended	29 Sep 18 £m	30 Sep 17 £m	Change £m
Strategic programmes			
– UK store estate	(47.6)	(6.1)	(41.5)
– Organisation	(11.1)	(26.5)	15.4
– IT restructure	(8.3)	-	(8.3)
– UK logistics	(9.0)	-	(9.0)
– Changes to pay and pensions	(3.2)	(6.7)	3.5
– International store closures and impairments	(2.3)	2.2	(4.5)
UK store impairments, asset write-offs and onerous lease charges	-	(45.8)	45.8
M&S Bank charges incurred in relation to the insurance mis-selling provision	(15.3)	(17.9)	2.6
Adjusting items	**(96.8)**	**(100.8)**	**4.0**

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We have recognised a number of charges in the period relating to the implementation of our strategic programmes including:

- A charge of £47.6m in relation to stores proposed for closure. This includes accelerated depreciation, impairment of assets and other closure costs
- A charge of £11.1m in relation to the redundancy costs associated with the review of the retail organisational structure and accelerated depreciation related to centralising our London offices
- A charge of £8.3m in relation to our technology transformation programme which we began in the prior year
- A net charge of £9.0m as we continue to transition to a single tier UK Clothing & Home distribution network, including the closure of two of our distribution centres

In FY 16/17 the Group announced its intention to close owned stores in ten international markets. A net charge of £2.3m has been recognised in the period reflecting the actualisation of previously estimated closure costs.

We continue to incur charges in relation to M&S Bank insurance mis-selling provision resulting in a charge of £15.3m.

Taxation

The effective tax rate on profit before tax and adjusting items was 22.0% (last year 21.0%). This is higher than the UK statutory rate due to the recapture of previous tax relief under the Marks and Spencer Scottish Limited Partnership ("SLP") structure. The effective tax rate on statutory profit before tax was 29.1% (last year 28.5%) due to the impact of disallowable adjusting items.

Earnings per share

Basic earnings per share increased by 3.8% to 5.4p, due to the increase in profit year-on-year. The weighted average number of shares in issue during the period was 1,624.0m (last year 1,624.3m).

Adjusted basic earnings per share decreased by 0.9% to 10.6p as higher adjusted profit year-on-year was offset by higher profits attributable to non-controlling interests in the period.

Capital expenditure

26 weeks ended	29 Sep 18 £m	30 Sep 17 £m	Change £m
UK store environment	6.8	9.2	(2.4)
New UK stores	19.6	31.7	(12.1)
International	3.9	5.0	(1.1)
Supply chain	15.3	12.2	3.1
IT & M&S.com	34.9	33.6	1.3
Property maintenance	28.5	20.6	7.9
Capital expenditure before disposals	**109.0**	**112.3**	**(3.3)**
Proceeds from property disposals	(2.0)	(1.2)	(0.8)
Capital expenditure	**107.0**	**111.1**	**(4.1)**

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Group capital expenditure before disposals decreased by 2.9% to £109.0m.

UK store environment spend was slightly down reflecting the investment in store layouts in the prior year. This was partially offset by our investment in the renewal and rebranding of Foodhalls. Spend on UK store space was also down as we opened ten new owned Food stores in the current year compared to ten Food and four full-line stores in the prior year.

Supply chain expenditure increased, reflecting our investment in the Welham Green distribution centre and our investment to increase capacity at Castle Donington. Maintenance spend also increased as we have invested in energy efficiency projects and we have reconfigured our central London office building.

Cash flow & net debt

26 weeks ended	29 Sep 18 £m	30 Sep 17 £m	Change £m
Adjusted operating profit	**262.5**	**266.1**	**(3.6)**
Depreciation and amortisation before adjusting items	268.1	286.4	(18.3)
Working capital	13.5	(45.7)	59.2
Defined benefit scheme pension funding	(36.8)	(40.5)	3.7
Capex and disposals	(155.1)	(181.1)	26.0
Interest and taxation	(53.9)	(75.9)	22.0
Investment in Joint Venture	(2.5)	-	(2.5)
Non-cash share based payment charges	9.8	12.3	(2.5)
Share transactions	(5.2)	(3.2)	(2.0)
Free cash flow before adjusting items	**300.4**	**218.4**	**82.0**
Adjusting items cash outflow	(59.2)	(113.9)	54.7
Free cash flow	**241.2**	**104.5**	**136.7**
Ordinary dividends paid	(193.1)	(193.1)	-
Free cash flow after shareholder returns	**48.1**	**(88.6)**	**136.7**
Opening net debt	**(1,827.5)**	**(1,934.7)**	**107.2**
Exchange and other non-cash movements	(1.7)	(2.7)	1.0
Closing net debt	**(1,781.1)**	**(2,026.0)**	**244.9**

The business generated free cash flow before adjusting items of £300.4m, up £82.0m on last year, driven by a working capital inflow, lower capital expenditure and lower interest and taxation payments. The working capital inflow was largely a result of a lower build-up of seasonal stock year-on-year and the timing of payments. Lower interest and taxation payments reflect both the repayment of a bond in December 2017 and lower taxable profit in the prior year.

Defined benefit scheme pension funding of £36.8m reflects the second limited partnership interest distribution to the pension scheme.

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Adjusting items in cash flow during the period include £15.3m for M&S Bank, £14.8m in relation to our store closure programme, £9.4m of net restructuring and redundancy in our stores and warehouses, £7.8m in relation to our IT transformation programme and £8.5m relating to the closure of stores in International markets.

After the payment of our final dividend from FY 17/18, net debt was down £46.4m from the start of the financial year.

Dividend

We have announced an interim dividend of 6.8p. This will be paid on 11 January 2019 to shareholders on the register of members as at close of business on 16 November 2018.

Pension

On an IAS 19 basis, the net retirement benefit surplus was £970.9m (last full year £948.2m) as at 29 September 2018.

We have reached agreement with the Marks and Spencer plc (the Company) UK Defined Benefit Pension Scheme Trustee with regards to the triennial actuarial valuation of the scheme. The valuation as at 31 March 2018 has resulted in a statutory surplus of £652m. This is an improvement on the previous position at 31 March 2015 (statutory surplus of £204m), primarily due to lower assumed life expectancy. The Company and Trustee have confirmed, in line with the current funding arrangement, that no further contributions will be required to fund past service as a result of this valuation (other than those already contractually committed under the existing Marks and Spencer Scottish Limited Partnership arrangements – see Note 9).

On 26 October 2018, the High Court issued a judgement in a claim involving Lloyds Banking Group's defined benefit pension schemes. This judgement concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgement have a potential consequence for many other defined benefit pension schemes and are likely to result in an increase in the liabilities of the Marks and Spencer UK Defined Benefit Pension Scheme. This increase has not been reflected in either the actuarial surplus agreed with the Trustee or the interim results.

Guidance

We expect Clothing & Home space to decrease by 4% (previously 5%) as at year end and capital expenditure to be between £300-£350m (previously £350-£400m) before disposals. All other full year guidance remains unchanged.

	Full year guidance
UK Food	
- Space increase[1] (%)	c.0
- Gross margin change (bps)	0 to -50
UK Clothing & Home	
- Space decrease[1] (%)	c.4
- Gross margin change (bps)	0 to 50
UK operating costs (%)	0 to -1
Tax rate (%)	c.22
Capital expenditure (£m)	300 to 350

1. *As at year end*

Brexit

The impact of the United Kingdom's decision to leave the European Union remains unknown for the UK and the Group. The implications for the Group could include, but are not limited to:

- Uncertainty on international trade tariffs
- Changes to logistics operations and the practicalities of movement of goods
- Tightening of the labour market and the potential for increased costs
- Volatility in currency and corporate bond rates which could have an impact on the Group's trading performance and pension valuation and charges
- Changes in consumer confidence which may impact on the Group's ongoing trading performance

The Board continues to monitor the ongoing negotiations between the UK and the EU to assess the potential impact and any transitional arrangements that may be agreed.

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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 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 2018 Annual Report (pages 20-24).

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

- Ends -

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Principal risks and uncertainties

The principal risks and uncertainties which could impact the Group's long-term performance remain those detailed on pages 23-24 of the Group's 2018 Annual Report and Financial Statements, along with mitigating activities relevant to each risk. Information on financial risk management is also set out on pages 106-108 of the Annual Report, a copy of which is available on the Group's website www.marksandspencer.com. These principal risks cover:

- Trading environment
- Business transformation
- Food safety & integrity
- Corporate compliance & responsibility
- Information security (including Cyber)
- Technology
- Talent & capability
- Brand & customer experience
- Third party management

The impact of the United Kingdom's decision to leave the European Union on 29 March 2019 remains uncertain for the UK and the Group. The implications for the Group could include, but are not limited to:
- uncertainty on international trade tariffs;
- changes to logistics operations and the practicalities of movement of goods;
- tightening of the labour market and the potential for increased costs;
- volatility in currency and corporate bond rates which could have an impact on the Group's trading performance and pension valuation and charges; and
- changes in consumer confidence which may impact the Group's ongoing trading performance.

The Board continues to monitor the ongoing negotiations between the UK and the EU to assess the potential impact and any transition arrangements that may be agreed.

Statement of directors' responsibilities

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

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

There have been the following changes to the directors of Marks and Spencer Group plc to those listed in the Group's 2018 Annual Report and financial statements; Humphrey Singer (appointed 9 July 2018), Katie Bickerstaffe (appointed 10 July 2018), Pip McCrostie (appointed 10 July 2018), Richard Solomons (resigned 10 July 2018) and Vindi Banga (resigned 1 October 2018). A list of current directors is maintained on the Group's website: www.marksandspencer.com.

By order of the Board

Steve Rowe
Chief Executive

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Condensed consolidated income statement (Unaudited)

		26 weeks ended					
		29 Sep 2018			30 Sep 2017		
	Notes	Before adjusting items £m	Adjusting items £m	Total £m	Before adjusting items £m	Adjusting items £m	Total £m
Revenue	2	**4,966.9**	**-**	**4,966.9**	**5,125.6**	**-**	**5,125.6**
Operating profit	2, 3	**262.5**	**(96.8)**	**165.7**	**266.1**	**(100.8)**	**165.3**
Finance income	4	15.8	-	15.8	12.1	-	12.1
Finance costs	4	(54.8)	-	(54.8)	(59.1)	-	(59.1)
Profit before tax		**223.5**	**(96.8)**	**126.7**	**219.1**	**(100.8)**	**118.3**
Income tax (expense)/credit	5	(49.2)	12.3	(36.9)	(46.0)	12.3	(33.7)
Profit for the period		**174.3**	**(84.5)**	**89.8**	**173.1**	**(88.5)**	**84.6**
Attributable to:							
Owners of the parent		172.4	(84.5)	87.9	173.2	(88.5)	84.7
Non-controlling interests		1.9	-	1.9	(0.1)	-	(0.1)
		174.3	**(84.5)**	**89.8**	**173.1**	**(88.5)**	**84.6**
Basic earnings per share (pence)	6	10.6p	(5.2p)	5.4p	10.7p	(5.5p)	5.2p
Diluted earnings per share (pence)	6	10.6p	(5.2p)	5.4p	10.6p	(5.4p)	5.2p

Condensed consolidated statement of comprehensive income

		26 weeks ended		52 weeks ended
	Notes	29 Sep 2018 (Unaudited) £m	30 Sep 2017 (Unaudited) £m	31 March 2018 (Audited) £m
Profit for the period		**89.8**	**84.6**	**29.1**
Other comprehensive income/(expense):				
Items that will not be reclassified to profit or loss				
Remeasurements of retirement benefit schemes	8	(26.6)	(99.3)	200.9
Tax credit on retirement benefit schemes		4.9	17.2	(39.0)
		(21.7)	(82.1)	161.9
Items that may be reclassified subsequently to profit or loss				
Foreign currency translation differences				
- movement recognised in other comprehensive income		(13.0)	(20.0)	(23.4)
- reclassified and reported in profit or loss		-	-	(36.2)
Revaluation of available for sale assets		-	-	6.9
Cash flow hedges and net investment hedges				
- fair value movements in other comprehensive income		129.5	(155.2)	(208.7)
- reclassified and reported in net profit or loss		(15.8)	41.1	85.0
- amount recognised in inventories		(31.9)	31.8	57.5
Tax (charge)/credit on cash flow hedges and net investment hedges		(15.4)	16.3	19.7
		53.4	(86.0)	(99.2)
Other comprehensive income/(expense) for the period, net of tax		31.7	(168.1)	62.7
Total comprehensive income/(expense) for the period		**121.5**	**(83.5)**	**91.8**
Attributable to:				
Owners of the parent		119.6	(83.4)	88.4
Non-controlling interests		1.9	(0.1)	3.4
		121.5	**(83.5)**	**91.8**

Condensed consolidated statement of financial position

	Notes	As at 29 Sep 2018 (Unaudited) £m	As at 30 Sep 2017 (Unaudited) £m	As at 31 March 2018 (Audited) £m
Assets				
Non-current assets				
Intangible assets		549.4	656.5	599.2
Property, plant and equipment		4,242.4	4,680.3	4,393.9
Investment property		15.5	15.5	15.5
Investment in joint ventures		9.4	7.0	7.0
Other financial assets		9.9	3.0	9.9
Retirement benefit asset	8	987.0	653.0	970.7
Trade and other receivables		206.8	230.3	209.0
Derivative financial instruments	10	24.7	42.9	27.1
		6,045.1	**6,288.5**	**6,232.3**
Current assets				
Inventories		837.2	914.5	781.0
Other financial assets		14.5	17.8	13.7
Trade and other receivables		301.8	316.6	308.4
Derivative financial instruments	10	37.9	61.9	7.1
Cash and cash equivalents		180.7	313.8	207.7
		1,372.1	**1,624.6**	**1,317.9**
Total assets		**7,417.2**	**7,913.1**	**7,550.2**
Liabilities				
Current liabilities				
Trade and other payables		1,475.0	1,577.9	1,405.9
Partnership liability to the Marks and Spencer UK Pension Scheme	9	71.9	71.9	71.9
Borrowings and other financial liabilities		129.5	505.1	125.6
Derivative financial instruments	10	5.3	57.4	73.8
Provisions		129.0	58.8	98.8
Current tax liabilities		72.1	75.0	50.0
		1,882.8	**2,346.1**	**1,826.0**
Non-current liabilities				
Retirement benefit deficit	8	16.1	14.6	22.5
Trade and other payables		326.7	337.7	333.8
Partnership liability to the Marks and Spencer UK Pension Scheme	9	196.1	258.1	263.6
Borrowings and other financial liabilities		1,682.8	1,688.2	1,670.6
Derivative financial instruments	10	5.9	6.3	30.7
Provisions		163.1	138.2	193.1
Deferred tax liabilities		256.6	241.0	255.7
		2,647.3	**2,684.1**	**2,770.0**
Total liabilities		**4,530.1**	**5,030.2**	**4,596.0**
Net assets		**2,887.1**	**2,882.9**	**2,954.2**
Equity				
Issued share capital		406.2	406.2	406.2
Share premium account		416.7	416.4	416.4
Capital redemption reserve		2,210.5	2,210.5	2,210.5
Hedging reserve		(11.4)	(51.4)	(65.3)
Cost of hedging reserve		12.5	-	-
Other reserve[1]		(6,542.2)	(6,542.2)	(6,542.2)
Retained earnings		6,395.4	6,449.4	6,531.1
Total shareholders' equity		**2,887.7**	**2,888.9**	**2,956.7**
Non-controlling interests in equity		(0.6)	(6.0)	(2.5)
Total equity		**2,887.1**	**2,882.9**	**2,954.2**

The notes on pages 23 to 38 form an integral part of the condensed consolidated interim financial information.

[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.

Condensed consolidated statement of changes in equity

26 weeks ended 29 September 2018 (Unaudited)	Ordinary share capital	Share premium account	Capital redemption reserve	Hedging reserve	Cost of hedging reserve	Other reserve[1]	Foreign exchange reserve	Retained earnings	Total	Non-controlling interest	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
As at 1 April 2018	**406.2**	**416.4**	**2,210.5**	**(65.3)**	**-**	**(6,542.2)**	**(29.3)**	**6,560.4**	**2,956.7**	**(2.5)**	**2,954.2**
Adjustment on initial application of IFRS 9	**-**	**-**	**-**	**(11.9)**	**11.9**	**-**	**-**	**(0.5)**	**(0.5)**	**-**	**(0.5)**
Adjusted opening shareholders' equity	**406.2**	**416.4**	**2,210.5**	**(77.2)**	**11.9**	**(6,542.2)**	**(29.3)**	**6,559.9**	**2,956.2**	**(2.5)**	**2,953.7**
Profit for the period	-	-	-	-	-	-	-	87.9	87.9	1.9	89.8
Other comprehensive income/(expense):											
Foreign currency translation	-	-	-	-	-	-	(13.0)	-	(13.0)	-	(13.0)
Remeasurements of retirement benefit schemes	-	-	-	-	-	-	-	(26.6)	(26.6)	-	(26.6)
Tax credit on retirement benefit schemes	-	-	-	-	-	-	-	4.9	4.9	-	4.9
Cash flow and net investment hedges											
- fair value movements in other comprehensive income	-	-	-	128.7	0.8	-	-	-	129.5	-	129.5
- reclassified and reported in net profit	-	-	-	(15.8)	-	-	-	-	(15.8)	-	(15.8)
- amount recognised in inventories	-	-	-	(31.9)	-	-	-	-	(31.9)	-	(31.9)
Tax on cash flow hedges and net investment hedges	-	-	-	(15.2)	(0.2)	-	-	-	(15.4)	-	(15.4)
Other comprehensive income/(expense)	-	-	-	65.8	0.6	-	(13.0)	(21.7)	31.7	-	31.7
Total comprehensive income/(expense)	-	-	-	65.8	0.6	-	(13.0)	66.2	119.6	1.9	121.5
Transactions with owners:											
Dividends	-	-	-	-	-	-	-	(193.1)	(193.1)	-	(193.1)
Shares issued on exercise of employee share options	-	0.3	-	-	-	-	-	-	0.3	-	0.3
Purchase of own shares held by employee trusts	-	-	-	-	-	-	-	(5.5)	(5.5)	-	(5.5)
Credit for share-based payments	-	-	-	-	-	-	-	9.8	9.8	-	9.8
Deferred tax on share schemes	-	-	-	-	-	-	-	0.4	0.4	-	0.4
As at 29 September 2018	**406.2**	**416.7**	**2,210.5**	**(11.4)**	**12.5**	**(6,542.2)**	**(42.3)**	**6,437.7**	**2,887.7**	**(0.6)**	**2,887.1**

26 weeks ended 30 September 2017 (Unaudited)	Ordinary share capital	Share premium account	Capital redemption reserve	Hedging reserve	Cost of hedging reserve	Other reserve[1]	Foreign exchange reserve	Retained earnings	Total	Non-controlling interest	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
As at 2 April 2017	406.2	416.4	2,210.5	17.3	-	(6,542.2)	30.5	6,617.6	3,156.3	(5.9)	3,150.4
Profit/(loss) for the year	-	-	-	-	-	-	-	84.7	84.7	(0.1)	84.6
Other comprehensive income/(expense):											
Foreign currency translation	-	-	-	(0.7)	-	-	(19.3)	-	(20.0)	-	(20.0)
Remeasurements of retirement benefit schemes	-	-	-	-	-	-	-	(99.3)	(99.3)	-	(99.3)
Tax credit on retirement benefit schemes	-	-	-	-	-	-	-	17.2	17.2	-	17.2
Cash flow and net investment hedges											
- fair value movements in other comprehensive income	-	-	-	(157.2)	-	-	-	2.0	(155.2)	-	(155.2)
- reclassified and reported in net profit	-	-	-	41.1	-	-	-	-	41.1	-	41.1
- amount recognised in inventories	-	-	-	31.8	-	-	-	-	31.8	-	31.8
Tax on cash flow hedges and net investment hedges	-	-	-	16.3	-	-	-	-	16.3	-	16.3
Other comprehensive income/(expense)	-	-	-	(68.7)	-	-	(19.3)	(80.1)	(168.1)	-	(168.1)
Total comprehensive income/(expense)	-	-	-	(68.7)	-	-	(19.3)	4.6	(83.4)	(0.1)	(83.5)
Transactions with owners:											
Dividends	-	-	-	-	-	-	-	(193.1)	(193.1)	-	(193.1)
Purchase of own shares held by employee trusts	-	-	-	-	-	-	-	(3.2)	(3.2)	-	(3.2)
Credit for share-based payments	-	-	-	-	-	-	-	12.6	12.6	-	12.6
Deferred tax on share schemes	-	-	-	-	-	-	-	(0.3)	(0.3)	-	(0.3)
As at 30 September 2017	**406.2**	**416.4**	**2,210.5**	**(51.4)**	**-**	**(6,542.2)**	**11.2**	**6,438.2**	**2,888.9**	**(6.0)**	**2,882.9**

52 weeks ended 31 March 2018 (Audited)	Ordinary share capital	Share premium account	Capital redemption reserve	Hedging reserve	Cost of hedging reserve	Other reserve[1]	Foreign exchange reserve	Retained earnings	Total	Non-controlling interest	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
As at 2 April 2017	406.2	416.4	2,210.5	17.3	-	(6,542.2)	30.5	6,617.6	3,156.3	(5.9)	3,150.4
Profit for the period	-	-	-	-	-	-	-	25.7	25.7	3.4	29.1
Other comprehensive (expense)/income:											
Foreign currency translation											
- movement recognised in other comprehensive income	-	-	-	0.2	-	-	(23.6)	-	(23.4)	-	(23.4)
- reclassified and reported in profit and loss	-	-	-	-	-	-	(36.2)	-	(36.2)	-	(36.2)
Remeasurements of retirement benefit schemes	-	-	-	-	-	-	-	200.9	200.9	-	200.9
Tax charge on items that will not be reclassified	-	-	-	-	-	-	-	(39.0)	(39.0)	-	(39.0)
Revaluation of available for sale asset	-	-	-	-	-	-	-	6.9	6.9	-	6.9
Cash flow and net investment hedges											
- fair value movements in other comprehensive income	-	-	-	(211.0)	-	-	-	2.3	(208.7)	-	(208.7)
- reclassified and reported in net profit	-	-	-	51.0	-	-	-	34.0	85.0	-	85.0
- amount recognised in inventories	-	-	-	57.5	-	-	-	-	57.5	-	57.5
Tax on cash flow hedges and net investment hedges	-	-	-	19.7	-	-	-	-	19.7	-	19.7
Other comprehensive (expense)/income	-	-	-	(82.6)	-	-	(59.8)	205.1	62.7	-	62.7
Total comprehensive (expense)/income	-	-	-	(82.6)	-	-	(59.8)	230.8	88.4	3.4	91.8
Transactions with owners:											
Dividends	-	-	-	-	-	-	-	(303.4)	(303.4)	-	(303.4)
Purchase of shares held by employee trusts	-	-	-	-	-	-	-	(3.1)	(3.1)	-	(3.1)
Credit for share-based payments	-	-	-	-	-	-	-	18.5	18.5	-	18.5
As at 31 March 2018	406.2	416.4	2,210.5	(65.3)	-	(6,542.2)	(29.3)	6,560.4	2,956.7	(2.5)	2,954.2

[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.

Condensed consolidated statement of cash flows

	Notes	26 weeks ended 29 Sep 2018 (Unaudited) £m	26 weeks ended 30 Sep 2017 (Unaudited) £m	52 weeks ended 31 March 2018 (Audited) £m
Cash flows from operating activities				
Cash generated from operations	12	457.9	364.7	944.1
Income tax paid		(24.0)	(31.8)	(94.3)
Net cash inflow from operating activities		**433.9**	**332.9**	**849.8**
Cash flows from investing activities				
Proceeds on property disposals		2.0	1.2	3.2
Purchase of property, plant and equipment		(120.6)	(150.2)	(274.9)
Purchase of intangible assets		(36.5)	(32.1)	(74.3)
Purchase of current financial assets		(0.8)	(3.3)	0.8
Purchase of investment in joint venture		(2.5)	-	-
Interest received		2.8	3.8	6.0
Proceeds on disposal of Hong Kong business		-	-	22.9
Net cash used in investing activities		**(155.6)**	**(180.6)**	**(316.3)**
Cash flows from financing activities				
Interest paid[1]		(32.7)	(48.0)	(112.2)
Cash (outflow)/inflow from borrowings		(45.5)	(1.6)	43.8
Issuance/(redemption) of medium term notes net of hedging instruments		1.6	-	(328.2)
Decrease in obligations under finance leases		(0.8)	(1.1)	(2.6)
Payment of liability to the Marks and Spencer UK Pension Scheme		(61.6)	(59.6)	(59.6)
Equity dividends paid	7	(193.1)	(193.1)	(303.4)
Shares issued on exercise of employee share options		0.3	-	0.1
Purchase of own shares by employee trust		(5.5)	(3.2)	(3.1)
Net cash used in financing activities		**(337.3)**	**(306.6)**	**(765.2)**
Net cash outflow from activities		**(59.0)**	**(154.3)**	**(231.7)**
Effects of exchange rate changes		(0.6)	(0.9)	(3.5)
Opening net cash		171.0	406.2	406.2
Closing net cash		**111.4**	**251.0**	**171.0**

[1] Includes interest on the partnership liability to the Marks and Spencer UK Pension Scheme.

Reconciliation of net cash flow to movement in net debt

	Notes	26 weeks ended 29 Sep 2018 (Unaudited) £m	26 weeks ended 30 Sep 2017 (Unaudited) £m	52 weeks ended 31 March 2018 (Audited) £m
Opening net debt		**(1,827.5)**	**(1,934.7)**	**(1,934.7)**
Net cash outflow from activities		(59.0)	(154.3)	(231.7)
Decrease/(increase) in current financial assets		0.8	3.3	(0.8)
Decrease in debt financing		106.3	62.4	346.6
Exchange and other non cash movements		(1.7)	(2.7)	(6.9)
Movement in net debt		**46.4**	**(91.3)**	**107.2**
Closing net debt	13	**(1,781.1)**	**(2,026.0)**	**(1,827.5)**

Notes to the financial statements (Unaudited)

1 General information and basis of preparation

General information

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

The summary of results for the year ended 31 March 2018 is an extract from the published Annual Report and Financial Statements which were approved by the board of Directors on 22 May 2018, have been reported on by the Group's auditors and delivered to the Registrar of Companies. The audit report on the Annual Report and Financial Statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under s498 (2) or (3) of the Companies Act 2006.

Basis of preparation

The financial information has been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) interpretations, as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The condensed financial statements for the 26 weeks ended 29 September 2018 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34 'Interim Financial Reporting' as adopted by the European Union.

The comparative figures for the financial year ended 31 March 2018 and the half year ended 30 September 2017 are consistent with the Group's annual financial statements and half year financial statements respectively.

Going concern basis

Based on the Group's cash flow forecasts and projections, the Board is satisfied that the Group will be able to operate within the level of its bank facilities for the foreseeable future. For this reason the Group continues to adopt the going concern basis in preparing its financial statements.

Accounting policies

The results for the first half of the financial year have been reviewed, not audited and are prepared on the basis of the accounting policies set out in the Group's 2018 Annual Report and Financial Statements, except as described below. Accounting policies which have been amended during the half year ended 29 September 2018 can be seen in the sub-section "Amended accounting policies" below.

New standards and interpretations effective as of 1 January 2018 are listed below:

- IFRS 9 *Financial Instruments*;
- IFRS 15 *Revenue from Contracts with Customers*;
- Amendments to IFRS 4 *Insurance contracts* regarding the implementation of IFRS 9, *Financial instruments;*
- Interpretation IFRIC 22 *Foreign Currency Transactions and Advance Consideration;*
- Amendments to IAS 40 *Transfer of Investment Property;*
- Amendments to IFRS 2 Share based payments, on clarifying how to account for certain types of share-based payment transactions; and
- Annual improvements to IFRS Standards 2014-2016 Cycle (certain items effective from 1 January 2017).

Except for the adoption of IFRS 9 and IFRS 15, the above standards and interpretations have 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.

IFRS 15 'Revenue from Contracts with Customers' is effective for periods beginning on or after 1 January 2018 and therefore has been implemented with effect from 1 April 2018. The standard establishes a principles-based approach for revenue recognition and is based on the concept of recognising revenue for performance obligations only when they are satisfied and the control of goods or services is transferred. In doing so, the standard applies a five-step approach to the timing of revenue recognition and applies to all contracts with customers, except those in the scope of other standards. It replaces the separate models for goods, services and construction contracts under the previous accounting standard. Following an assessment of the impact of IFRS 15 and based on the straightforward nature of the Group's revenue streams with the recognition of revenue at the point of sale and the absence of significant judgement required in determining the timing of transfer of control, the adoption of IFRS 15 has not had a material impact on the timing or nature of the Group's revenue recognition.

Under IFRS 15 a right of return is not a separate performance obligation and the Group is required to recognise revenue net of estimated returns. A refund liability and a corresponding asset representing the right to recover products from the customer is also recognised. There is no change to the Group's revenue recognition under IFRS 15, however the refund provision was previously recorded on a net basis within Current Liabilities and therefore on adoption of IFRS 15 the Group was required to adjust inventories and the refund provision to a gross basis. The Group has adopted IFRS 15 using the modified transition approach and has therefore not restated the prior period comparatives for the separate recognition of the refund asset and the increase in the refund provision.

IFRS 9 'Financial Instruments' replaces IAS 39 'Financial Instruments: Recognition and Measurement'. The standard was effective for periods beginning on or after 1 January 2018 and therefore has been implemented with effect from 1 April 2018. The standard introduces changes to three key areas:

- new requirements for the classification and measurement of financial instruments;
- a new impairment model based on expected credit losses for recognising provisions; and
- simplified hedge accounting through closer alignment with an entity's risk management methodology.

The adoption of IFRS 9 has not had a material impact on either the Consolidated Income Statement or the Consolidated Statement of Financial Position. The Group has adopted IFRS 9 using the modified transition approach and has therefore adjusted opening retained earnings for the impact of IFRS 9 on the opening bad debt provision and has not restated the prior period comparatives. The Group will require additional disclosures relating to hedge accounting, credit risk management and impairment of financial assets in the annual report and the financial statements for the year ending 30 March 2019.

The Group has an economic interest in M&S Bank which entitles the Group to a 50% share of the profits of M&S Bank after appropriate deductions. M&S Bank adopted IFRS 9 with effect from 1 January 2018. The Group's share of profits for the period includes the post implementation impact of adopting the expected credit loss model for provisioning in accordance with the requirements of IFRS 9.

New standards and interpretations effective as of 1 January 2019 are listed below:

- Annual improvements to IFRS Standards 2015-2017 Cycle;
- Amendments to IFRS 9 *Financial instruments*, on prepayment features with negative compensation;
- Amendments to IAS 28 *Investments in associates*, on long term interests in associates and joint ventures;
- Amendments to IAS 19 *Employee benefits* on plan amendment, curtailment or settlement;
- IFRIC 23 *Uncertainty over Income Tax Treatments*; and
- IFRS 16 *Leases*.

Except for the adoption of IFRS 16, the above standards and interpretations will not lead to any changes to the Group's accounting policies or have any other material impact on the financial position or performance of the Group.

IFRS 16 'Leases' is effective for periods beginning on or after 1 January 2019 and therefore will be effective in the Group financial statements for the 52 weeks ending 28 March 2020. Transition to IFRS 16 will take place for the Group on 31 March 2019. The standard introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees and will replace the current lease accounting requirements including IAS 17 Leases and the related interpretations. The standard represents a significant change in the accounting and reporting of leases for lessees as it provides a single lessee accounting model, and as such, requires lessees to recognise assets and liabilities for all leases unless the underlying asset has a low value or the lease term is 12 months or less. The standard may also require the capitalisation of a lease element of contracts held by the Group which under the existing accounting standard would not be considered a lease. Accounting requirements for lessors are substantially unchanged from IAS 17.

The Group established a working group to assess the impact of the new standard. Work performed includes assessing the accounting impacts of the change, the process of collecting the required data from across the business and the necessary changes to systems and processes. Implementation of the new standard will have a significant impact on both the Consolidated Income Statement or the Consolidated Statement of Financial Position. On adoption, lease agreements will give rise to both a right of use asset and a lease liability for future lease payables. Depreciation of the right of use asset will be recognised in the income statement on a straight line basis, with interest recognised on the lease liability resulting in a front loading of total charge in the income statement.

The Group continues to assess the full impact of IFRS 16, however the impact will greatly depend on the facts and circumstances at the time of adoption. It is therefore not yet practicable to provide a reliable estimate of the financial impact on the Group's consolidated results. Further update will be provided in the annual report and the financial statements for the year ending 30 March 2019.

Amended accounting policies

Revenue
Revenue comprises sales of goods to customers outside the Group less an appropriate deduction for actual and expected returns, discounts and loyalty scheme vouchers, and is stated net of value added tax and other sales taxes. Revenue is recognised when performance obligations are satisfied and goods are delivered to our franchise partners or the customer and the control of goods is transferred to the buyer.

Financial instruments
Financial assets and liabilities are recognised in the Group's Statement of Financial Position when the Group becomes a party to the contractual provisions of the instrument.

A. Trade and other receivables Trade receivables are recorded initially at fair value and subsequently measured at amortised cost. This results in their recognition at nominal value less an allowance for any doubtful debts.

B. Other financial assets Other financial assets consist of investments in debt and equity securities and short-term investments and are classified as either 'fair value through other comprehensive income' or 'fair value through profit and loss'.

Financial assets held at fair value through other comprehensive income are initially measured at fair value, including transaction costs directly attributable to the acquisition of the financial asset.

Financial assets held at fair value through profit and loss are initially recognised at fair value and transaction costs are expensed.

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

For equity investments at 'Fair value through comprehensive income', gains or losses arising from changes in fair value are recognised in other comprehensive income, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is included directly in retained earnings and is not recycled to the income statement.

For debt instruments at 'Fair value through comprehensive income', gains and losses arising from changes in fair value are recognised in other comprehensive income, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is included in the income statement for the period.

Equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured by other means are held at cost.

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

D. Bank borrowings Interest-bearing bank loans and overdrafts are initially recorded at fair value, which equals the proceeds received, net of direct issue costs. They are subsequently held at amortised cost. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for using an effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

E. Loan notes Long-term loans are initially measured at fair value net of direct issue costs and are subsequently held at amortised cost unless the loan is designated in a hedge relationship, in which case hedge accounting treatment will apply.

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

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

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

The Group designates certain hedging derivatives as either:

- A hedge of a highly probable forecast transaction or change in the cash flows of a recognised asset or liability (a cash flow hedge);
- A hedge of the exposure to change in the fair value of a recognised asset or liability (a fair value hedge); or
- A hedge of the exposure on the translation of net investments in foreign entities (a net investment hedge).

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

A. Cash flow hedges Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised in other comprehensive income. The element of the change in fair value which relates to the currency spread is recognised in the cost of hedging reserve, with the remaining change in fair value recognised in the hedging reserve. Any ineffective portion is recognised immediately in the income statement. If the firm commitment or forecast transaction that is the subject of a cash flow hedge results in the recognition of a non-financial asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in other comprehensive income are included in the initial measurement of the asset or liability.

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

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

C. Net investment hedges Changes in the fair value of derivative or non-derivative financial instruments that are designated and effective as hedges of net investments are recognised in other comprehensive income in the hedging reserve and any ineffective portion is recognised immediately in the income statement.

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

D. Discontinuance of hedge accounting Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, the hedge relationship no longer qualifies for hedge accounting, the forecast transaction is no longer expected to occur or the Group de-designates the hedge relationship.

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

When a fair value hedge is discontinued, the fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to the income statement from that date.

When a net investment hedge is discontinued, the subsequent changes in fair value of a derivative (or foreign exchange gains/losses on recognised financial liabilities) are recognised in the income statement. The gain or loss on the hedging instrument recognised in other comprehensive income is reclassified to the income statement only on disposal of the net investment. The Group does not use derivatives to hedge income statement translation exposures.

Alternative performance measures

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

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

The key APMs that the Group uses include: like-for-like sales; gross margin; profit before tax and adjusting items; adjusted earnings per share; net debt and free cash flow. Each of these APMs, and others used by the Group are set out in the glossary on page(s) 39 to 41, including explanation of how they are calculated, why they are used 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 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 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 to be significant in both nature and/or quantum or are consistent with items that were treated as adjusting in prior periods. Treatment as an adjusting item provides stakeholders with additional useful information to assess the year-on-year or period-on-period trading performance of the group. On this basis, the following items were included within adjusting items for the 26 week period ended 29 September 2018:

- Net charges associated with the strategic programme in relation to the review of the UK store estate.
- Significant restructuring costs and other associated costs arising from strategy changes that are not considered by the Group to be part of the normal operating costs of the business.
- Significant pension charges arising as a result of the historical changes to the UK defined benefit scheme practices.
- 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.

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

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

2 Segmental Information

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

The chief operating decision maker has been identified as the Operating Committee. The Operating Committee reviews the Group's internal reporting in order to assess performance and allocate resources across each operating segment. The operating segments are UK and International which are reported in a manner consistent with the internal reporting to the Operating Committee.

The UK segment consists of the UK retail business and UK franchise operations. The International segment consists of Marks & Spencer owned businesses in Europe and Asia and the international franchise operations.

The Operating Committee assesses the performance of the operating segments based on a measure of operating profit. This measurement basis excludes the effects of adjusting items from the operating segments. The Operating Committee also monitors revenue within the segments and gross profit within the UK segment. To increase transparency, the Group has decided to include an additional voluntary disclosure analysing revenue within the reportable segments by sub-category and gross profit within the UK segment by sub-category.

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

	(Unaudited) 26 weeks ended 29 September 2018			
	Management	Logistics adjustment[1]	Adjusting items[2]	Statutory
	£m	£m	£m	£m
Food revenue	2,813.2	-	-	2,813.2
Clothing & Home revenue	1,702.5	-	-	1,702.5
UK revenue[3]	4,515.7	-	-	4,515.7
Franchise revenue	203.5	-	-	203.5
Owned revenue	247.7	-	-	247.7
International revenue	451.2	-	-	451.2
Group revenue[4]	**4,966.9**	**-**	**-**	**4,966.9**
Food gross profit	877.1			
Clothing & Home gross profit	989.0			
UK gross profit[3]	1,866.1	(186.3)	-	1,679.8
UK operating costs	(1,684.4)	186.3	(78.6)	(1,576.7)
M&S Bank	18.7	-	(15.3)	3.4
UK operating profit	200.4	-	(93.9)	106.5
International operating profit	62.1	-	(2.9)	59.2
Group operating profit[4]	**262.5**	**-**	**(96.8)**	**165.7**
Finance income	15.8	-	-	15.8
Finance costs	(54.8)	-	-	(54.8)
Profit before tax	**223.5**	**-**	**(96.8)**	**126.7**

[1]Management gross profit for the UK segment excludes certain expenses resulting in an adjustment between cost of sales and selling and administrative expenses of £186.3m (last half year £178.9m, last full year £370.0m).
[2]Management profit excludes the adjustments (income or charge) made to the reported profit before tax that are significant in value and/or nature (see note 3). Please refer to the Glossary on pages 39 to 41 for the definition of these adjustments.
[3]During the half year the reporting of cards and gift-wrap has been transferred from Clothing & Home to Food for both revenue and gross profit. The prior period half year and full year comparatives have been restated to reflect this, £23.3m and £70.0m of revenue has been transferred from Clothing & Home to Food in half year 17/18 and full year 17/18 respectively with a corresponding transfer of gross profit of £10.1m and £26.2m respectively.
[4]In common with many retailers, revenue and adjusted operating profit are subject to seasonal fluctuations and are weighted towards the second half of the year which includes the key Christmas period for the business.

2 Segmental information (continued)

	(Unaudited) Restated 26 weeks ended 30 September 2017			
	Management	Logistics adjustment[1]	Adjusting items[2]	Statutory
	£m	£m	£m	£m
Food revenue	2,817.6	-	-	2,817.6
Clothing & Home revenue	1,750.3	-	-	1,750.3
UK revenue[3]	4,567.9	-	-	4,567.9
Franchise revenue	168.5	-	-	168.5
Owned revenue	389.2	-	-	389.2
International revenue	557.7	-	-	557.7
Group revenue[4]	**5,125.6**	**-**	**-**	**5,125.6**
Food gross profit	885.7			
Clothing & Home gross profit	1,019.7			
UK gross profit[3]	1,905.4	(178.9)	-	1,726.5
UK operating costs	(1,720.2)	178.9	(82.5)	(1,623.8)
M&S Bank	20.6	-	(17.9)	2.7
UK operating profit	205.8	-	(100.4)	105.4
International operating profit	60.3	-	(0.4)	59.9
Group operating profit[4]	**266.1**	**-**	**(100.8)**	**165.3**
Finance income	12.1	-	-	12.1
Finance costs	(59.1)	-	-	(59.1)
Profit before tax	**219.1**	**-**	**(100.8)**	**118.3**

2 Segmental Information (continued)

	(Audited) Restated 52 weeks ended 31 March 2018			
	Management	Logistics adjustment[1]	Adjusting items[2]	Statutory
	£m	£m	£m	£m
Food revenue	5,939.9	-	-	5,939.9
Clothing & Home revenue	3,671.1	-	-	3,671.1
UK revenue[3]	9,611.0	-	-	9,611.0
Franchise revenue	360.6	-	-	360.6
Owned revenue	726.6	-	-	726.6
International revenue	1,087.2	-	-	1,087.2
Group revenue[4]	**10,698.2**	**-**	**-**	**10,698.2**
Food gross profit	1,854.9			
Clothing & Home gross profit	2,090.5			
UK gross profit[3]	3,945.4	(370.0)	-	3,575.4
UK operating costs	(3,450.3)	370.0	(477.5)	(3,557.8)
M&S Bank	40.3	-	(34.7)	5.6
UK operating profit	535.4	-	(512.2)	23.2
International operating profit	135.2	-	(1.9)	133.3
Group operating profit[4]	**670.6**	**-**	**(514.1)**	**156.5**
Finance income	24.1	-	-	24.1
Finance costs	(113.8)	-	-	(113.8)
Profit before tax	**580.9**	**-**	**(514.1)**	**66.8**

Other segmental information

	As at 29 Sep 2018 (Unaudited)	As at 30 Sep 2017 (Unaudited)	As at 31 March 2018 (Audited)
	£m	£m	£m
UK assets[1]	7,116.6	7,548.7	7,242.4
International assets	300.6	364.4	307.8
Total assets	**7,417.2**	**7,913.1**	**7,550.2**

[1] UK assets include centrally held assets largely relating to IT systems that support the International business of £23.4m (last half year; £28.7m, last full year; £24.9m)

Other information	As at 29 Sep 2018 (Unaudited)	As at 30 Sep 2017 (Unaudited)	As at 31 March 2018 (Audited)
	£m	£m	£m
Write-down of inventories to net realisable value	95.5	112.0	220.5

3 Adjusting items

The total adjusting items reported for the 26 week period ended 29 September 2018 is a net charge of £96.8m. The adjustments made to reported profit before tax to arrive at adjusted profit are:

	26 weeks ended		Year ended
	29 Sep 2018 (Unaudited) £m	30 Sep 2017 (Unaudited) £m	31 Mar 2018 (Audited) £m
Strategic programmes - UK store estate	(47.6)	(6.1)	(321.1)
Strategic programmes - Organisation	(11.1)	(26.5)	(30.7)
Strategic programmes - IT restructure	(8.3)	-	(15.5)
Strategic programmes - UK logistics	(9.0)	-	(13.1)
Strategic programmes - Changes to pay and pensions	(3.2)	(6.7)	(12.9)
Strategic programmes - International store closures and impairments	(2.3)	2.2	(5.0)
UK store impairments, asset write-offs and onerous lease charges	-	(45.8)	(63.4)
M&S Bank charges incurred in relation to the insurance mis-selling provision	(15.3)	(17.9)	(34.7)
Other	-	-	(17.7)
Adjustment to profit before tax	(96.8)	(100.8)	(514.1)

Strategic programmes - UK store estate (£47.6m)
In November 2016, the Group announced a five-year strategic programme to transform the UK store estate. During FY17/18 the Group announced its intention to accelerate this programme in line with the strategic aim of significantly growing the online share of sales, as well as better than expected levels of sales transfer achieved from recent store closures. This acceleration of the UK store estate programme resulted in an acceleration of the timing of recognition of the associated costs, primarily driven by a shortening of the useful economic life, for impairment testing purposes, of those stores identified as part of the transformation plans.

The Group has recognised a charge of £47.6m in the period in relation to those stores identified as part of its transformation plans. The charge primarily relates to accelerated depreciation and impairment of buildings and fixtures & fittings.

Whilst costs relating to the closure and re-configuration of the UK store estate will recur across future financial years, the Group considers that they should be treated as an adjusting item given they are part of a strategic programme and are significant in value to the results of the Group.

Strategic programmes – Organisation (£11.1m)
During FY16/17 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.

The Group has now conducted a review of the retail field and management team organisational structure. The proposals will result in a net reduction of c.700 retail roles achieved through a combination of natural attrition and redundancies. A charge of £6.7m has been recognised in the period for redundancy costs associated with these changes.

In addition a further £4.4m of costs have been recognised in the period relating to accelerated depreciation associated with centralising the Group's London Head Office functions.

These costs are considered to be an adjusting item as the cost is significant in value, and is consistent with the disclosure of other similar charges in prior years.

Strategic programmes – IT restructure (£8.3m)
In FY17/18 as part of the five-year transformation strategy, the Group announced a technology transformation programme to create a more agile, faster and commercial technology function. A charge of £8.3m has been recognised in the period relating primarily to transition costs associated with the implementation of a new technology operating model and accelerated depreciation of IT assets which the Group expects to retire early as a result of the transformation strategy. Further costs will be incurred in respect of this reorganisation in the second half of this financial year.

These costs are considered to be an adjusting item as they relate to a significant strategic initiative of the Group and are significant in value, both in the year and in total for the programme.

Strategic programmes – UK logistics (£9.0m)
In FY17/18 as part of the previously announced long-term strategic programme to transition to a single-tier UK distribution network, the Group announced the opening of a new Clothing & Home distribution centre in Welham Green in 2019. As a direct result, the Group announced the closure of two existing distribution centres. A net charge of £9.0m has been recognised in the period for redundancy, accelerated depreciation and project costs.

The Group considers these costs to be adjusting items as they are significant in value and relate to a significant strategic initiative of the Group. Further costs will be incurred in respect of this reorganisation in the second half of this financial year. Treatment of the costs as being adjusting items is consistent with the treatment of charges in previous periods in relation to the creation of a single-tier logistics network.

Strategic programmes – Changes to pay and pensions (£3.2m)
In May 2016, the Group announced proposals for a fairer, simpler and more consistent approach to pay and premia as well as proposals to close the UK defined benefit (DB) pension scheme to future accrual effective from 1 April 2017. As part of these proposals the Group committed to making transition payments to impacted employees in relation to the closure of the UK DB scheme, expected to be c. £25m in total over the three years commencing FY17/18. The charge in the period in relation to these transition payments to employees is £3.2m.

As previously disclosed, the Group considers the costs directly associated with the closure of the UK DB scheme to be an adjusting item on the basis that they relate to a significant cost, impacting the Group results. Treatment of the transition payments made in the period within adjusting items is consistent with disclosure of the same costs in FY17/18 and the original disclosure of the UK DB scheme closure costs in FY16/17.

Strategic programmes – International store closures and impairments (£2.3m)
In FY16/17 the Group announced its intention to close its owned stores in ten international markets. A net charge of £2.3m has been recognised in the period reflecting an updated view of the estimated final closure costs for certain markets and those costs which can only be recognised as incurred.

The net charge is considered to be an adjusting item as it is part of a strategic programme which over the three years of charges has been significant in both value and nature to the results of the Group.

M&S Bank charges incurred in relation to the insurance mis-selling provision (£15.3m)
The Group has an economic interest in M&S Bank, a wholly owned subsidiary of HSBC, 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 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 fee income from M&S Bank has been reduced by the deduction of the estimated liability in both the current and prior years. The deduction in the period is £15.3m. The Group considers this cost to be an adjusting item, despite its recurring nature, as the charges are significant in nature and value in each period to the results of the Group.

4 Finance income/(costs)

	26 weeks ended 29 Sep 2018 (Unaudited) £m	26 weeks ended 30 Sep 2017 (Unaudited) £m	52 weeks ended 31 March 2018 (Audited) £m
Bank and other interest receivable	2.8	3.1	6.0
Pension net finance income	12.8	8.9	17.7
Other finance income	0.2	0.1	0.4
Finance income	**15.8**	**12.1**	**24.1**
Interest on bank borrowings	(0.3)	(1.0)	(1.2)
Interest payable on syndicated bank facility	(1.2)	(1.2)	(2.3)
Interest payable on medium-term notes	(38.8)	(48.3)	(90.0)
Interest payable on finance leases	(0.8)	(0.9)	(1.9)
Unwinding of discount on partnership liability to the Marks and Spencer UK Pension Scheme (see note 9)	(4.4)	(5.4)	(10.9)
Unwind of discount on provisions	(8.5)	(2.3)	(5.2)
Ineffectiveness on financial instruments	(0.8)	-	(2.3)
Finance costs	**(54.8)**	**(59.1)**	**(113.8)**
Net finance costs	**(39.0)**	**(47.0)**	**(89.7)**

5 Taxation

The taxation charge in the income statement for the half year is based on a forecast full year tax rate on profit before adjusting items of 22.0% (last half year 21.0% and last full year 21.6%) and tax on adjusting items arising in the period to 29 September 2018 to give an effective tax rate on profit before taxation of 29.1% (last half year 28.5% and last full year 56.4%).

The effective tax rate on profit before taxation is higher than the statutory UK tax rate of 19% primarily due to the Marks and Spencer Scottish Limited Partnership structure (where historical tax relief is partly recaptured) and disallowable property charges included in adjusting items.

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 value (see note 3). These have been presented to provide shareholders with an additional measure of the Group's year-on-year performance.

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

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

	26 weeks ended		52 weeks ended
	29 Sep 2018 (Unaudited) £m	30 Sep 2017 (Unaudited) £m	31 March 2018 (Audited) £m
Profit attributable to equity share holders of the Company	**87.9**	**84.7**	**25.7**
Add/(less) (net of tax):			
Strategic programmes - UK store estate	44.7	5.5	264.7
Strategic programmes - Organisation	9.1	22.1	28.0
Strategic programmes - IT restructure	6.7	-	12.5
Strategic programmes - UK logistics	7.3	-	10.7
Strategic programmes - Changes to pay and pensions	2.6	5.4	10.4
Strategic programmes - International store closures and impairments	1.7	(4.0)	(4.1)
UK store impairments, asset write-offs and onerous lease charges	-	45.0	61.6
M&S Bank charges incurred in relation to the insurance mis-selling provision	12.4	14.5	28.1
Other	-	-	14.5
Profit before adjusting items attributable to equity shareholders of the Company	**172.4**	**173.2**	**452.1**
	Million	Million	Million
Weighted average number of ordinary shares in issue	1,624.0	1,624.3	1,624.0
Potentially dilutive share options under Group's share option schemes	2.5	6.2	5.4
Weighted average number of diluted ordinary shares	**1,626.5**	**1,630.5**	**1,629.4**
	Pence	Pence	Pence
Basic earnings per share	5.4	5.2	1.6
Diluted earnings per share	5.4	5.2	1.6
Adjusted basic earnings per share	10.6	10.7	27.8
Adjusted diluted earnings per share	10.6	10.6	27.8

7 Dividends

	26 weeks ended 29 Sep 2018 (Unaudited) £m	26 weeks ended 30 Sep 2017 (Unaudited) £m	52 weeks ended 31 March 2018 (Audited) £m
Final dividend of 11.9p per share (last year 11.9p per share)	193.1	193.1	193.1
Prior period interim dividend of 6.8p per share	-	-	110.3
	193.1	**193.1**	**303.4**

The directors have approved an interim dividend of 6.8p per share (last half year 6.8p per share) which, in line with the requirements of IAS 10 - Events after the Reporting Period, has not been recognised within these results. This interim dividend of £110.5m (last half year £110.3m) will be paid on 11 January 2019 to shareholders whose names are on the Register of Members at the close of business on 16 November 2018. The ordinary shares will be quoted ex dividend on 15 November 2018.

A dividend reinvestment plan (DRIP) is available to shareholders who would prefer to invest their dividends in the shares of the Company. For those shareholders electing to receive the DRIP, the last date for receipt of a new election is 18 December 2018.

8 Retirement benefits

	26 weeks ended 29 Sep 2018 (Unaudited) £m	26 weeks ended 30 Sep 2017 (Unaudited) £m	52 weeks ended 31 Mar 2018 (Audited) £m
Opening net retirement benefit surplus	**948.2**	**692.8**	**692.8**
Current service cost	(0.1)	(0.1)	(0.3)
Administration costs	(2.0)	(1.6)	(3.5)
Net interest income	12.8	8.9	17.7
Employer contributions	38.8	38.1	40.7
Remeasurements	(26.6)	(99.3)	200.9
Exchange movement	(0.2)	(0.4)	(0.1)
Closing net retirement benefit surplus	**970.9**	**638.4**	**948.2**
Total market value of assets	9,628.3	9,801.3	9,989.3
Present value of scheme liabilities	(8,645.9)	(9,154.0)	(9,029.6)
Net funded pension plan asset	982.4	647.3	959.7
Unfunded retirement benefits	(3.6)	(1.1)	(3.6)
Post-retirement healthcare	(7.9)	(7.8)	(7.9)
Net retirement benefit surplus	**970.9**	**638.4**	**948.2**
Analysed in the Statement of Financial Position as:			
Retirement benefit asset	987.0	653.0	970.7
Retirement benefit deficit	(16.1)	(14.6)	(22.5)
Net retirement benefit surplus	**970.9**	**638.4**	**948.2**

In addition to the amounts disclosed above the Group made payments of £35.1m (last half year £34.0m and last full year £68.8m) relating to the Your M&S Pension Saving Plan (a defined contribution arrangement).

Financial assumptions

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

The most significant of these are the discount rate and the inflation rate which are 2.90% (last half year 2.70% and last full year 2.65%) and 3.25% (last half year 3.25% and last full year 3.15%) respectively. The inflation rate of 3.25% reflects the Retail Price Index (RPI) rate. Certain benefits have been calculated with reference to the Consumer Price Index (CPI) as the inflationary measure and in these instances a rate of 2.25% (last half year 2.25% and last full year 2.15%) has been used.

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 £70m (last half year decrease by £65m and last full year decrease by £70m). If the inflation rate decreased by 0.25%, the surplus would decrease by £25m (last half year decrease by £15m and last full year decrease of £25m). A one year decrease in life expectancy would increase the schemes surplus by £290m (last half year increase by £360m and last full year increase by £305m).

We have reached agreement with the Marks and Spencer plc (the Company) UK Defined Benefit Pension Scheme Trustee with regards to the triennial actuarial valuation of the scheme. The valuation as at 31 March 2018 has resulted in a statutory surplus of £652m. This is an improvement on the previous position at 31 March 2015 (statutory surplus of £204m), primarily due to lower assumed life expectancy. The Company and Trustee have confirmed, in line with the current funding arrangement, that no further contributions will be required to fund past service as a result of this valuation (other than those already contractually committed under the existing Marks and Spencer Scottish Limited Partnership arrangements – see note 9).

On 26 October 2018, the High Court issued a judgement in a claim involving Lloyds Banking Group's defined benefit pension schemes. This judgement concluded the schemes should be amended in order to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgement have a potential consequence for many other defined benefit pension schemes and are likely to result in an increase in the liabilities of the Marks and Spencer UK Defined Benefit Pension Scheme. This increase has not been reflected in either the actuarial surplus agreed with the Trustee or the interim results.

9 Marks and Spencer Scottish Limited Partnership

Marks and Spencer plc is a general partner and the Marks and 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 £1.5bn (last full year £1.5bn) of properties which have been leased back to Marks and Spencer plc. The Group retains control over these properties, including the flexibility to substitute alternative properties into the Partnership. The first limited partnership interest (held by the Marks and Spencer UK Pension Scheme), entitles the Pension Scheme to receive an annual distribution of £71.9m until June 2022 from the Partnership. The second partnership interest (also held by the Marks and Spencer UK Pension Scheme) entitles the Pension Scheme to receive a further £36.4m annually from 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 £268.0m (last full year £335.5m) is valued at the net present value of the future expected distributions from the Partnership and is included as a liability in the Group's financial statements as it is a transferrable financial instrument. During the period to 29 September 2018 an interest charge of £4.4m (last half year £5.4m and last full year £10.9m) was recognised in the income statement representing the unwinding of the discount included in this obligation. The first limited partnership interest of the Pension Scheme is included within the UK DB pension scheme assets valued at £275.3m (last full year £345.4m).

The second partnership interest is not a transferable financial instrument and therefore is not included as a plan asset within the UK DB pension scheme surplus reported in accordance with IAS 19. The associated liability is not included on the Group's statement of financial position.

10 Financial Instruments

Fair Value Hierarchy

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

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

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

				(Unaudited) As at 29 September 2018				(Audited) As at 31 March 2018
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets measured at fair value								
Financial assets at fair value through profit or loss								
- Trading derivatives	-	0.1	-	0.1	-	2.0	-	2.0
Derivatives used for hedging	-	62.5	-	62.5	-	32.2	-	32.2
Short term investments	-	14.5	-	14.5	-	13.7	-	13.7
Liabilities measured at fair value								
Financial liabilities at fair value through profit and loss								
- Trading derivatives	-	(0.8)	-	(0.8)	-	(0.2)	-	(0.2)
Derivatives used for hedging	-	(10.4)	-	(10.4)	-	(104.3)	-	(104.3)

There were no transfers between the levels of the fair value hierarchy during the period. In addition to the above, the Group has £9.9m (last half year £3.0m and last full year £9.9m) in unlisted equity securities measured at cost.

Fair value of financial instruments

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

The carrying value of the Group's fixed rate bond debt (Level 1 equivalent) was £1,685.5m (last half year £2,075.5m and last full year £1,659.9m); the fair value of this debt was £1,740.7m (last half year £2,175.1m and last full year £1,761.0m) which has been calculated using quoted market prices. The carrying value of the Partnership liability to the Marks and Spencer UK Pension scheme is £268.0m (last half year £330.0m and last full year £335.5m) and the fair value of this liability, which represents only the principal value excluding accrued interest is £266.2m (last half year £327.8m and last full year £327.8m).

11 Capital expenditure and contingencies

A Capital expenditure

Additions to the cost of property, plant and equipment, investment property and intangible assets are £115.5m (last half year £132.4m) and for the year ended 31 March 2018 were £335.6m. Disposals in net book value of property, plant and equipment, investment property and intangible assets are £0.4m (last half year £3.0m) and for the year ended 31 March 2018 were £17.5m.

B Capital commitments

	As at 29 Sep 2018 (Unaudited) £m	As at 30 Sep 2017 (Unaudited) £m	As at 31 Mar 2018 (Audited) £m
Commitments in respect of properties in the course of construction	123.5	150.2	121.8
Software capital commitments	10.1	7.2	17.2
	133.6	**157.4**	**139.0**

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

	26 weeks ended		52 weeks ended
	29 Sep 2018 (Unaudited) £m	30 Sep 2017 (Unaudited) £m	31 March 2018 (Audited) £m
Profit on ordinary activities after taxation	89.8	84.6	29.1
Income tax expense	36.9	33.7	37.7
Finance costs	54.8	59.1	113.8
Finance income	(15.8)	(12.1)	(24.1)
Operating profit	165.7	165.3	156.5
Increase in inventories	(65.6)	(169.0)	(38.2)
Decrease in receivables	8.2	3.3	28.8
Increase / (decrease) in payables	70.9	120.0	(87.4)
Adjusting items net cash outflows	(43.9)	(96.0)	(153.1)
Depreciation, amortisation and write-offs before adjusting items	268.1	286.4	580.6
Non-cash share-based payment charges	9.8	12.3	18.9
Defined benefit pension funding	(36.8)	(40.5)	(41.4)
Adjusting items non-cash	(15.3)	(17.9)	(34.7)
Adjusting operating profit items	96.8	100.8	514.1
Cash generated from operations	457.9	364.7	944.1

Adjusting items net cash outflows relate to the utilisation of the provisions for international store closures, strategic programme costs associated with the UK store estate, Organisation, UK logistics, IT restructure and changes to pay and pensions. Adjusting items non-cash relate to the reduction in M&S Bank charges for the impact of the financial product mis-selling provision.

13 Reconciliation of net debt to statement of financial position

	As at 29 Sep 2018 (Unaudited) £m	As at 30 Sep 2017 (Unaudited) £m	As at 31 March 2018 (Audited) £m
Statement of financial position and related notes			
Cash and cash equivalents	180.7	313.8	207.7
Current financial assets	14.5	17.8	13.7
Bank loans and overdrafts	(75.5)	(68.9)	(88.4)
Medium term notes - net of hedging derivatives	(1,640.1)	(1,973.9)	(1,621.7)
Finance lease liabilities	(48.1)	(48.8)	(48.0)
Partnership liability to the Marks and Spencer UK Pension Scheme (note 9)	(268.0)	(330.0)	(335.5)
	(1,836.5)	**(2,090.0)**	**(1,872.2)**
Interest payable included within related borrowing and the partnership liability to the Marks and Spencer UK Pension Scheme	55.4	64.0	44.7
Total net debt	**(1,781.1)**	**(2,026.0)**	**(1,827.5)**

14 Related party transactions

The Group's significant related parties are disclosed in the Group's 2018 Annual Report.

Key management compensation

Transactions between the Group and key management personnel in the period relate only to remuneration consistent with the policy set out in the Directors' Remuneration Report within the Group's 2018 Annual Report.

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

Glossary

<table>
<tr><th>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>Like-for-like revenue growth</td><td>Movement in revenue per the Income Statement</td><td>Sales from non like-for-like stores</td><td>The period on period change in revenue (excluding VAT) from stores which have been trading and where there has been no significant change in footage for at least 52 weeks and online sales. The measure is used widely in the retail industry as an indicator of sales performance. It excludes the impact of new stores, closed stores or stores with significant footage change.
<table>
<tr><th></th><th>HY 18/19
£m</th><th>HY 17/18
£m</th><th>%</th></tr>
<tr><td>UK Revenue</td><td></td><td></td><td></td></tr>
<tr><td>Like-for-like</td><td>4,324.1</td><td>4,421.9</td><td>(2.2)</td></tr>
<tr><td>Net new space</td><td>191.6</td><td>146.0</td><td></td></tr>
<tr><td>Statutory Total</td><td>4,515.7</td><td>4,567.9</td><td>(1.1)</td></tr>
</table>
</td></tr>
<tr><td>M&S.com revenue / Online revenue</td><td>None</td><td>Not applicable</td><td>Total revenue through the Group's online platforms. These revenues are reported within the relevant UK and International segment results. The growth in revenues on a year-on-year basis is a good indicator of the performance of the online channel.</td></tr>
<tr><td>Revenue growth at constant currency</td><td>None</td><td>Not applicable</td><td>The period on period change in revenue retranslating the previous year revenue at the average actual periodic exchange rates used in the current financial year. This measure is presented as a means of eliminating the effects of exchange rate fluctuations on the period-on-period reported results.
<table>
<tr><th></th><th>HY 18/19
£m</th><th>HY 17/18
£m</th><th>%</th></tr>
<tr><td>International Revenue</td><td></td><td></td><td></td></tr>
<tr><td>At constant currency</td><td>451.2</td><td>553.1</td><td>(18.4)</td></tr>
<tr><td>Impact of FX retranslation</td><td>-</td><td>4.6</td><td></td></tr>
<tr><td>At reported currency</td><td>451.2</td><td>557.7</td><td>(19.1)</td></tr>
</table>
</td></tr>
<tr><td>International retained owned and franchise revenue growth at constant currency</td><td>Movement in revenue per the Income Statement</td><td>Sales from closure markets</td><td>The period on period change in revenue relating to those international markets in which the Group continues to trade subsequent to the completion of the International exit strategy retranslating the previous year revenue at the average actual periodic exchange rates used in the current financial year. This measure is presented as a means of eliminating the effects of the International exit programme and exchange rate fluctuations on the period-on-period reported results.
<table>
<tr><th></th><th>HY 18/19
£m</th><th>HY 17/18
£m</th><th>%</th></tr>
<tr><td>International Revenue</td><td></td><td></td><td></td></tr>
<tr><td>At reported currency</td><td>451.2</td><td>557.7</td><td>(19.1)</td></tr>
<tr><td>Closure market revenue</td><td>-</td><td>(57.1)</td><td></td></tr>
<tr><td>Owned retained and franchise revenue at reported currency</td><td>451.2</td><td>500.6</td><td>(9.9)</td></tr>
<tr><td>Impact of FX translation</td><td>-</td><td>(4.8)</td><td></td></tr>
<tr><td>Owned retained and franchise revenue at constant currency</td><td>451.2</td><td>495.8</td><td>(9.0)</td></tr>
</table>
</td></tr>
</table>

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Gross margin	Gross profit margin[1]	Certain downstream logistics costs (See note 2)	Where referred to throughout the press release, gross margin is calculated as gross profit before adjusting items on a management basis divided by revenue. The gross profit used in this calculation is based on an internal measure of margin rather than the statutory margin, which excludes certain downstream logistics costs. This is a key internal management metric for assessing category performance.
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. Excluding these items from profit metrics provides readers with helpful additional information on the performance of the business across periods because it is consistent with how the business performance is planned by, and reported to the Board and the Operating Committee.
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 Operating Committee. This is a measure used within the Group's incentive plans. Refer to the Remuneration Report in the FY17/18 annual report for 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 in the FY17/18 annual report for explanation of why this measure is used.
Adjusted diluted earnings per share	Diluted earnings per share	Adjusting items (See note 3)	Profit 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.
Balance Sheet Measures			
Net debt	None	Reconciliation of net debt (see note 13)	Net debt comprises total borrowings (bank, bonds and finance lease liabilities net of accrued interest), net derivative financial instruments that hedge the debt and the Scottish Limited Partnership liability to the UK pension scheme less cash, cash equivalents and unlisted and short term investments. This measure is a good indication of the strength of the Group's balance sheet position and is widely used by credit rating agencies.
Cash Flow Measures			
Free cash flow	Net cash inflow from operating activities	See Financial Review	The cash generated from the Group's operating activities less capital expenditure, interest paid and dividends paid. This measure shows the cash retained by the Group in the year.
Free cash flow pre shareholder returns	Net cash inflow from operating activities	See Financial Review	Calculated as the cash generated from the Group's operating activities less capital expenditure and interest paid excluding returns to shareholders (dividends and share buyback). This measure shows the cash generated by the Group during the year that is available for returning to shareholders and is used within the Group's incentive plans.

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Other Measures			
Capital expenditure	None	Not applicable	Calculated as the purchase of property, plant and equipment, investment property and intangible assets during the year less proceeds of asset disposals excluding any assets acquired as part of a business combination.

[1] Gross profit margin is not defined within IFRS but is a widely accepted profit measure being derived from revenue less cost of sales divided by revenue.

INDEPENDENT REVIEW REPORT TO MARKS AND SPENCER GROUP PLC

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 29 September 2018 which comprises the condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of financial position, condensed consolidated statement of changes in equity, condensed consolidated statement of cash flows and related notes 1 to 14. 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.

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

Directors' responsibilities

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

As disclosed in note 1, the annual financial statements of the group 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.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 29 September 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Statutory Auditor
London, United Kingdom
6 November 2018