This announcement contains inside information

Issued: 8 November 2016

Press Release

MARKS AND SPENCER GROUP PLC
HALF YEAR RESULTS FOR 26 WEEKS ENDED 1 OCTOBER 2016
AND STRATEGIC UPDATE

	26 weeks to 1 Oct 16	26 weeks to 26 Sep 15	Change on LY %
Group revenue	£4,993.5m	£4,951.3m	0.9
Underlying profit before tax [1]	£231.3m	£284.0m	-18.6
Non-underlying items[2]	£(206.2)m	£(68.0)m	-203.2
Statutory profit before tax	£25.1m	£216.0m	-88.4
Underlying basic earnings per share [1]	11.5p	14.1p	-18.4
Basic earnings per share	1.0p	10.5p	-90.5
Free cash flow pre shareholder returns	£173.9m	£256.5m	-32.2
Net debt	£2.24bn	£2.20bn	2.0
Dividend per share	6.8p	6.8p	-

[1] *Underlying results are consistent with how business performance is measured internally.* [2] *Refer to note 3 for further details.*

Summary

- Good progress against strategic priorities set out in May.
- As expected, underlying profits down in the half due to lower Clothing & Home sales. Non-underlying items include significant charge relating to pension changes.
- Proposal to focus International business on a franchise model, exiting our loss-making owned business across ten markets, at a non-underlying cost of £150m-£200m over the coming 12 month period, thereby eliminating annual losses of £45m.
- Five-year plan to improve productivity of UK Store Estate by repositioning c.25% of Clothing & Home space with costs of c. £50m per annum for the first three years and continued rollout of our Simply Food stores. Total number of M&S stores will increase.
- Interim dividend maintained.
- Decision not to make an additional return of cash to shareholders in the second half given costs of strategic change and uncertain market conditions.

CEO Statement:

Steve Rowe, M&S CEO, said: "In May, we laid out a number of questions which we would answer as part of our strategic review. We committed to creating a simpler business with customers at its heart, and taking action to start to recover our Clothing & Home business and continue to grow in Food.

"Our aim is to build a sustainable business which will delight our customers, provide a robust foundation for future growth and deliver value for our shareholders in the long term. We have made good progress on our plans and customers are already noticing a difference, particularly in Clothing & Home.

"In addition, we have made major steps towards fairer pay and pension arrangements, streamlined our senior management team and our plans to implement a simpler Head Office structure are well underway.

"We have now completed a forensic review of our estate both in the UK and in our International markets. Over the next five years we will transform our UK estate with c.60 fewer Clothing & Home stores, whilst continuing to increase the number of our Simply Food stores. In the future, we will have more inspiring stores in places where customers want to shop that complement our growing digital offer.

"Internationally, we propose to cease trading in ten loss making owned markets, but intend to continue to develop our presence through our strong franchise partners.

"These are tough decisions, but vital to building a future M&S that is simpler, more relevant, multi-channel and focused on delivering sustainable returns."

HALF YEAR REVIEW

Group Revenue – constant currency

Change on LY %	Q1	Q2	H1
Total Food	4.0	4.1	**4.0**
- Like-for-like	-0.9	-0.9	**-0.9**
Total Clothing & Home	-8.3	-2.4	**-5.3**
- Like-for-like	-8.9	-2.9	**-5.9**
M&S.com[1]	*0.2*	*0.4*	***0.3***
Total UK sales	-1.1	1.3	**0.1**
- Like-for-like	-4.3	-1.7	**-3.0**
International	0.7	-2.5	**-1.0**
Total Group	-0.9	0.9	**0.0**

[1] Memo only on a constant currency basis.
Like-for-like is the movement in sales from stores that have traded continuously and where there has been no significant change in footage for at least 52 weeks; includes online sales

Recovering and growing Clothing & Home

In a tough market, we are seeing early signs that our actions to recover our Clothing & Home business are working. We are restoring our price integrity and have seen strong volume improvements, particularly in opening price points, as we ensure we are price competitive. Nevertheless, total sales declined 5.3%.

We moved the summer sale to quarter two and reduced promotions to focus on full price sales. In the most recent 12 week period to 25 September 2016, full price value share was up by over 30bps with further improvements in volume share, although we saw a 20bps decline in overall value share. (Figures according to Kantar World Panel).

Product is key to recovering and growing Clothing & Home and we are focused on delivering contemporary wearable style and being famous for quality wardrobe essentials. We now have 10% fewer clothing lines that we have bought with greater authority and we have introduced a more contemporary colour palette for autumn. We also delivered on our commitment to improve the 'fit' of wardrobe essentials and saw strong performances in core areas such as bras and T-shirts.

For autumn launch, availability was up eight percentage points and we made further improvements to core availability. This is making a difference even in areas where we already lead the market. For example, school uniform sales were up c.10% year-on-year in quarter two.

We've also changed the layout of our stores to reflect how our customers like to shop, with more of our clothes grouped together in product categories, rather than in brand co-ordinated departments. We've hired 3,300 new customer assistants to work in areas that really matter to our customers such as fitting rooms and till points. As a result, our customer satisfaction levels are the highest they have been for over three years.

We continue to improve our core M&S brand and simplify product choices by focusing on the brands that are most relevant to our customers, such as Autograph, per una and Blue Harbour. As a result, we will remove Indigo, Collezione and North Coast sub-brands.

Clothing & Home gross margin was up 10bps to 56.7%. Gains from buying and reduced promotions more than offset increased currency pressure and higher markdown costs as difficult market conditions resulted in a greater level of sale stock.

Continuing to grow Food

We delivered another good performance from our Food business as we continue to outperform the market. Our market share increased by 20 basis points in the most recent 12 week period ending 9 October 2016. (Figures according to Kantar World Panel). Total sales increased by 4.0% with like-for-like sales down 0.9% in a competitive market. We also further improved availability.

Every year around 25% of our Food catalogue is comprised of new or improved products. During the period we relaunched our 'Cook' range and introduced more options to tap into the consumer trend for healthy but convenient meals. We also continued to expand our offer of gluten and lactose free products as we meet our customers' demands for specialist dietary ranges.

Our Food to Order - entertaining and gifting products - continued to perform well with sales up double digits on the year.

We opened 21 net new stores as we continue to expand the reach of our food offer. The performance of new Simply Food stores was ahead of expectations with stores opened in the past year exceeding sales forecasts by 17%.

Food gross margin was up 10bps on the year at 32.6%. Buying margin was slightly down partly driven by an increase in promotional sales. This was more than offset by benefits realised from volume growth and ongoing efficiencies within our supply chain.

Full year guidance 2016/17

- Given the further depreciation of sterling, we now expect to deliver year-on-year growth in Clothing & Home gross margin of between 0 and 50 basis points
- Capex is now expected to be c.£400m
- Non underlying costs are expected to include a charge relating to our proposed exit of a number of International markets of between £150m and £200m
- All other full year guidance remains unchanged

STRATEGY UPDATE

We have concluded the review that we started in April and now have a more complete picture of the actions needed to return M&S to sustainable profitable growth. M&S remains a strongly cash generative business and we have reviewed our approach to capital investment to improve the reliability of delivering projected returns.

Building a sustainable, profitable International business

- Focusing on developing our customer proposition with our established franchise partners
- Commitment to JVs in India & Greece and owned stores in Ireland, Hong Kong & Czech Republic
- Proposal to close 53 stores as we exit 10 loss-making owned markets

In 2015/16 our owned International business delivered a loss of £31.5m and in total our International operating profits were down 39.6% to £55.8m. This is not sustainable and we have undertaken a comprehensive review of our International business.

Our International business consists of two parts: an owned business that is loss making in a number of markets and a profitable franchise business which made a profit of £87.3m last year. Our review has looked at the performance and potential of each of our international markets.

In the future, we propose to operate with fewer wholly-owned markets and have a greater focus on our established joint ventures and franchise partnerships. We will use our local market customer insights to build a more sustainable international business by focusing on improving our customers' experience and driving profitability.

We have 267 franchise stores in 34 markets, as well as established joint ventures in Greece and India. Working together with our partners here, we will leverage their scale, infrastructure and local expertise. We will also continue to develop our franchised Food business in France where there is demand for our quality, innovative products at convenient locations.

We will continue to operate owned businesses in the Republic of Ireland, Hong Kong and Czech Republic, which are profitable with strong brand awareness, established store estates and loyal customers.

We also trade online in 21 markets reaching customers through our fully localised owned and operated websites, via established marketplaces such as Myntra in India and Zalando in Europe and with our established franchise partners.

Last year our owned businesses in ten other markets made a loss of £45m on revenues of £171m, some markets have now been loss making for at least five years. Our review has found this is due to a number of factors including our fragmented owned-store portfolio and lack of scale. Additionally, there is limited opportunity for future growth in these markets.

We are proposing to close all of our 53 wholly-owned stores in these ten markets, including ten in China and seven in France, as well as all of our stores in Belgium, Estonia, Hungary, Lithuania, the Netherlands, Poland, Romania and Slovakia. We are therefore today starting consultation with c.2,100 employees about our proposals.

We are fully committed to complying with all local employment legislation. This includes informing and consulting with employees and/or the appropriate bodies, for example, the European Works Council, national unions and employee work councils in each country about these proposals.

If, following the outcome of the consultation, we go ahead with these proposals, we will incur estimated non-underlying costs in the range of c.£150m to £200m, of which the vast majority will be cash, largely driven by property-related costs and redundancy costs.

In summary we remain fully committed to an international strategy and we believe our proposals would create a more sustainable, profitable and customer-focused International business for M&S.

Improving our UK Store Estate

- Continue to expand our successful Simply Food business with over 200 new stores by the end of 2018/19
- Improve the quality and productivity of our Clothing & Home space by trading from fewer, better locations

Stores are and will remain important to our customers alongside a fully integrated online offer. We aim to give customers a relevant and convenient UK store estate and have therefore carried out a full review of our UK store portfolio.

We will continue with our previously announced Simply Food store opening plans which will see us opening over 200 new stores by the end of 2018/19.

We have 304 'full line' stores selling both Clothing & Home and Food. Together with our Outlet stores, these account for around two thirds of our UK selling space. As customer shopping patterns change and customers migrate online, we need to manage our estate proactively to ensure that our Clothing & Home space is relevant for our customers and profitable for our shareholders.

We have developed a five year programme to improve our store estate to better meet our customers' needs. The result will be fewer, more inspirational Clothing & Home stores that offer customers better range authority in more convenient locations with higher space productivity.

Our programme will touch more than 100 stores, accounting for 25% of our space. This will result in a net reduction of c.10% of Clothing & Home space with 60 fewer full line stores.

These changes will include a combination of approximately 30 full line closures, and downsizing or replacing around 45 full line stores to Simply Food stores. We will relocate some of our other stores and also open some new full line stores in underserved areas. We will improve the quality of the remaining Clothing & Home estate by rebalancing our space allowing us to offer greater range authority.

The associated costs include exiting leases and the write down of store equipment. We therefore expect non-underlying costs of this programme to be c.£50m per annum for the next three years rising to c.£100m in years four and five. About half of these costs will be cash. Opening a new store typically takes around three years and as a result costs are weighted towards the end of the programme. The exact phasing will depend upon market conditions. This programme replaces the store closure programme announced in November 2015. The net capital investment required for new stores, relocations and upgrading our full line stores is c.£50m per annum over five years which will be delivered within previous capex guidance.

Uncertain market conditions require more disciplined investment decisions, so going forward we will be assessing investments with a greater emphasis on payback. In addition, we will be looking to shorten our lease terms to provide additional strategic flexibility in the context of changing customer shopping patterns.

In summary, at the end of five years, we will operate from fewer, better Clothing & Home stores, but from substantially more Simply Food stores. In total, M&S expects to have more stores, in more convenient locations for our customers, offering greater employment opportunities for employees.

All store numbers are quoted as at 1st October 2016.

Simplifying our organisation:

- Plans well underway to reduce our UK Head Office costs
- Good progress on implementation of pay and pension plans
- New operating model with clear Clothing & Home and Food Business Unit accountability

During the half we outlined proposals to simplify our UK Head Office structure and lower our costs. We are reducing headcount by c.525 and also the number of roles based in central London by c.400. We have reported a non-underlying cost of £16m for changes to our management structure and UK Head Office in the period. Annualised cost savings are expected to be c.£30m of which around half is included in this year's cost guidance.

In May we announced proposals for a fairer, simpler and more consistent approach to pay and pensions. We have now completed the group consultation and over 99% of colleagues have accepted the changes. As part of these plans we will be closing the UK defined benefit pension scheme to future accrual. We have reported a non-underlying cost of £154.2m in the period to reflect these changes. The Group anticipates making further transition payments in relation to the closure of the defined benefit scheme, expected to be c.£25m over the next three years.

We have implemented a new operating model giving clear accountability to our Clothing & Home and Food businesses and made changes to our senior management structure, which is now leaner and more efficient.

Shareholder returns

We have continued to improve our investment disciplines and remain committed to a strong balance sheet and maintaining an investment grade credit rating. We are announcing an unchanged interim dividend of 6.8p today. We returned £74.5m to shareholders in the first half in the form of a special dividend. However, given the potential cash costs associated with our strategic changes and uncertain market conditions we believe it is prudent not to make an additional return of cash to shareholders in the second half under our enhanced shareholder returns programme.

M&S is a strongly cash generative business and we remain committed to delivering sustainable shareholder returns.

-Ends-

We will update on our third quarter sales on 12 January 2017.

For further information, please contact:
Investor Relations:
Fraser Ramzan: +44 (0)20 8718 4625
Helen Cox: +44 (0)20 8718 8491

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

Investor & Analyst webcast:
Investor and analyst presentation will be held at 10.30am on 8 November 2016. This presentation can be viewed live on the Marks and Spencer Group plc website.

Fixed Income Investor Conference Call:
This will be hosted by Helen Weir, Chief Finance Officer at 2pm on 8 November 2016:

Dial in number: +44 (0)20 3427 1904 Access code: 8600945
A recording of this call will be available until 18 November 2016:
Dial in number: +44 (0)20 3427 0598 Access code: 8600945

FINANCIAL REVIEW

Summary of Results	26 weeks ended 1 Oct 16 £m	26 weeks ended 26 Sep 15 £m	Change on LY %
Group revenue[1]	**4,993.5**	**4,951.3**	**0.9**
UK	4,448.6	4,444.7	0.1
International[1]	544.9	506.6	7.6
Underlying operating profit	**268.7**	**330.9**	**-18.8**
UK	250.3	306.2	-18.3
International	18.4	24.7	-25.5
Underlying profit before tax	**231.3**	**284.0**	**-18.6**
Non-underlying items	(206.2)	(68.0)	-203.2
Profit before tax	**25.1**	**216.0**	**-88.4**
Underlying basic earnings per share	11.5p	14.1p	-18.4
Basic earnings per share	1.0p	10.5p	-90.5
Dividend per share	**6.8p**	**6.8p**	-

1 On reported currency basis

UK OPERATING COSTS

	26 weeks ended		
	1 Oct 16	26 Sep 15	Change
	£m	£m[1]	on LY %
Store staffing	483.0	480.0	0.6
Other store costs	496.2	485.0	2.3
Distribution	243.0	229.3	6.0
Marketing	84.1	93.1	-9.7
Central costs	345.0	334.7	3.1
Total	**1,651.3**	**1,622.1**	**1.8**

1 Prior year numbers have been reclassified to reflect changes in UK organisation structure

UK operating costs were up by £29.2m (1.8%), with higher depreciation accounting for £12.8m of the increase.

Staffing costs were up slightly as the costs associated with the increase in selling space and the annual pay review were mostly offset by cost initiatives implemented in the second half of last year.

Other store costs reflect the costs of new space and rental inflation partly offset by savings from lower interchange fees.

Distribution costs were up as a result of higher food volumes due to new store openings and also slightly higher Clothing & Home warehousing costs from the dual running of our newly opened Bradford warehouse.

The decrease in marketing costs was due to the annualisation of the Sparks launch last year and lower costs of the spring/summer campaign this year.

Central costs were up largely due to increases in IT costs and higher depreciation.

UNDERLYING UK OPERATING PROFIT

Underlying UK operating profit was £250.3m, 18.3% down on last year, driven by a reduction in Clothing & Home gross profit as well as higher operating costs as we open new space.

M&S Bank profits were down £7.8m as a result of the reduction in interchange fees which came into effect during the second half of last year.

INTERNATIONAL

	26 weeks ended		
	1 Oct 16 £m	26 Sep 15 £m	Change on LY %
Sales	**544.9**	**506.6**	**7.6**
Owned	393.2	343.0	14.6
Franchise	151.7	163.6	-7.3
Operating Profit	**18.4**	**24.7**	**-25.5**
Owned[1]	(20.5)	(21.3)	3.8
Franchise[1]	38.9	46.0	-15.4

[1]Prior year numbers have been restated for a revised allocation of overheads to more accurately reflect business drivers

Profits in our franchise business were down primarily reflecting lower shipments and support given to our franchise partners in several markets. Losses in our owned business reduced as lower pre-opening costs and better buying helped offset transactional currency pressures.

The markets we have announced that we are proposing to exit generated sales of £91.2m and made a loss of £24.4m in the half.

NET FINANCE COSTS

	26 weeks ended		
	1 Oct 16 £m	26 Sep 15 £m	Change on LY £m
Interest payable	(49.4)	(49.8)	0.4
Interest income	4.0	2.6	1.4
Net interest payable	**(45.4)**	**(47.2)**	**1.8**
Pension net finance income	14.7	7.5	7.2
Unwind of discount on partnership liability	(6.2)	(7.2)	1.0
Unwind of discounts on financial instruments and provisions	(0.5)	-	-0.5
Net finance cost	**(37.4)**	**(46.9)**	**9.5**

Net finance costs reduced by 20.3% or £9.5m largely due to increased pension net finance income as a result of the higher net retirement benefit surplus at the start of the year. Net interest payable was down 3.8% to £45.4m due to a decrease in the average cost of funding to 5.2% (last year 5.6%).

PROFIT BEFORE TAX

Group underlying profit before tax was £231.3m, down 18.6% on last year. Profit before tax was £25.1m, down from £216.0m last year.

NON-UNDERLYING ITEMS

	26 weeks ended		
	1 Oct 16	26 Sep 15	Change on LY
	£m	£m	£m
Net M&S Bank charges incurred in relation to the insurance mis-selling provision	(22.7)	(27.5)	4.8
Changes to pay and pensions	(154.2)	-	-154.2
Strategic programmes – organisation and logistics	(15.4)	7.3	-22.7
Strategic programmes – UK store estate	(10.6)	(25.3)	14.7
International store closures and impairments	(3.3)	(22.0)	18.7
IAS 39 fair value movement of embedded derivative	-	(0.5)	0.5
Adjustment to operating profit and profit before tax	**(206.2)**	**(68.0)**	**-138.2**

The Group continues to incur charges in relation to M&S Bank insurance mis-selling provision.

During the period, the Group completed a consultation with respect to our pay and pensions arrangements. We will be closing our UK defined benefit (DB) pension scheme to future accrual effective from 2 April 2017. This has resulted in a one-off income statement charge of £127.0m.

In respect of pay where we will be increasing our base level of pay to £8.50 per hour as well as harmonising premia, the Group has committed to transition payments of £24.0m. A provision for these payments has been taken in the half.

On 5 September 2016, the Group announced proposed changes to the UK Head Office structure. The proposals will result in a net reduction of c.525 Head Office roles. The anticipated cost recognised in the period of implementing these changes is c.£16m.

A £10.6m charge has been recognised in relation to UK store closures as part of our previous programme to improve the quality of the store estate. Going forward, this programme will be incorporated into our five year plan to improve the productivity of the UK Store Estate announced today.

As a result of underperformance £7.5m of International store impairments have been recognised in the period, partially offset by the reversal of impairment charges (£4.2m) previously recognised within Ireland.

TAXATION

The underlying effective tax rate was 20.0% (last year 19.0%). After non-underlying items the effective tax rate was 36.7% (last year 21.0%). The statutory effective tax rate was higher than last year mainly due to the impact of disallowable non-underlying costs.

UNDERLYING EARNINGS PER SHARE

Underlying basic earnings per share decreased by 18.4% to 11.5p. The weighted average number of shares in issue during the period was 1,622.4m (last year 1,644.2m).

CAPITAL EXPENDITURE

	26 weeks ended		
	1 Oct 16	26 Sep 15	Change on LY
	£m	£m	£m
UK store environment	9.6	12.7	(3.1)
New UK stores	41.1	49.9	(8.8)
International	7.8	11.3	(3.5)
Supply chain and technology	74.0	100.5	(26.5)
Maintenance	26.2	25.4	0.8
Proceeds from property disposals	(26.0)	(29.1)	3.1
Total	**132.7**	**170.7**	**(38.0)**

UK store environment spend was down due to completion of a number of instore schemes last year, primarily in Lingerie and Kidswear. This year spend included investment in increasing the flexibility of our in-store layout and new store fascias.

New UK store spend was slightly down as a result of phasing of spend. In the first half we opened 18 owned stores and expect the pace of openings to ramp up in the second half of the year.

The greatest proportion of our investment continues to be on improving our supply chain and IT infrastructure. The total spend has reduced as we have completed some of our larger infrastructure projects and commercial systems development. During the half we invested in our Food supply chain, opening a new logistics depot in Enfield to support our ongoing growth.

Going forward, we expect our annual capital investment to be c. £450m p.a.

CASH FLOW AND NET DEBT

	26 weeks ended		
	1 Oct 16 £m	26 Sep 15 £m	Change on LY £m
Underlying EBITDA	**555.8**	**603.2**	**(47.4)**
Non cash pension and share charges	53.0	63.9	(10.9)
Non underlying items	(37.8)	(28.4)	(9.4)
Working capital	(63.2)	(10.0)	(53.2)
Pension funding	(52.2)	(43.4)	(8.8)
Capex and disposals	(197.1)	(232.4)	35.3
Interest and taxation	(90.0)	(89.1)	(0.9)
Share transactions	5.4	(7.3)	12.7
Free cash flow pre shareholder returns	**173.9**	**256.5**	**(82.6)**
Dividends paid	(192.7)	(190.8)	(1.9)
Enhanced shareholder returns	(74.5)	(39.8)	(34.7)
Free cash flow	**(93.3)**	**25.9**	**(119.2)**
Opening net debt	**(2,138.3)**	**(2,223.2)**	**84.9**
Exchange and other non-cash movements	(11.6)	(2.8)	(8.8)
Closing net debt	**(2,243.2)**	**(2,200.1)**	**(43.1)**

The business delivered free cash flow pre shareholder returns of £173.9m. After the payment of dividends to shareholders, including a special dividend of £74.5m, overall net debt was up £43.1m on last half year. The reduction in free cash flow reflects the weaker business performance, with underlying EBITDA of £555.8m, down £47.4m (-7.9%) on last year. Working capital outflow increased by £53.2m on last year driven by higher inventory levels in Clothing & Home, together with an increase in pension funding of £8.8m and higher non-underlying cash outflows of £9.4m. These movements are partially offset by capital expenditure cash payments which reduced by £35.3m. Capital expenditure cash payments are higher than reported capital expenditure due to year end accruals which are paid in the first half of the year.

PENSION

At 1 October 2016, the IAS 19 net retirement benefit surplus was £571.2m (last full year £824.1m). The decrease in the net surplus is largely due to an increase in the present value of the UK defined benefit liabilities. This is a result of two factors; a decrease in the discount rate from 3.4% to 2.3% which reflects the reduction in corporate bond yields; and the changes that we have announced to the UK Defined Benefit scheme. The decision to close the scheme to future service accrual triggers a one-off curtailment charge in the period of £127.0m. This is largely because when current active members become deferred members, the annual increase in their pensionable salary is linked to CPI as opposed to being capped at 1%.

Statements made in this announcement that look forward in time or that express management's beliefs, expectations or estimates regarding future occurrences and prospects are "forward-looking statements" within the meaning of the United States federal securities laws. These forward-looking statements reflect Marks & Spencer's current expectations concerning future events and actual results may differ materially from current expectations or historical results. Any such forward-looking statements are subject to various risks and uncertainties, including failure by Marks & Spencer to predict accurately customer preferences; decline in the demand for products offered by Marks & Spencer; competitive influences; changes in levels of store traffic or consumer spending habits; effectiveness of Marks & Spencer's brand awareness and marketing programmes; general economic conditions or a downturn in the retail or financial services industries; acts of war or terrorism worldwide; work stoppages, slowdowns or strikes; and changes in financial and equity markets.

- Ends –

Principal risks and uncertainties

The principal risks and uncertainties which could impact the Group's long-term performance remain those detailed on pages 27-29 of the Group's 2016 Annual Report and Financial Statements. Information on financial risk management is also set out on pages 112-115 of the Annual Report, a copy of which is available on the Group's website www.marksandspencer.com. These key risks are:

- Clothing and home transformation;
- Changing consumer behaviours;
- Business transformation;
- Clothing and home supply chain and logistics network;
- IT integration;
- Food competition;
- Food safety and integrity;
- Clothing and home ethical sourcing;
- Cyber/information security;
- International; and
- M&S.com business resilience

On 23 June 2016, the United Kingdom (UK) held a referendum on its membership of the European Union (EU), resulting in a vote for the UK to leave the EU. The impact of exit on the economic outlook for the UK and for the Group remains uncertain. The implications for the Group could include, but are not limited to:

- 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 the Group’s ongoing trading performance;
- tightening of the labour market arising from changes to the EU principles of freedom of movement; and
- uncertainty on international trade tariffs.

The Board continues to monitor the risks and uncertainties associated with the exit of the UK from the EU and the impact on the Group’s results and financial position in the current and future financial years.

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 and profit or loss of the issuer, or the 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.

The directors of Marks and Spencer Group plc are consistent with those listed in the Group's 2016 Annual Report and financial statements with the exception of Laura Wade-Gery who resigned from the board on 12 September 2016. A list of current directors is maintained on the Group’s website: www.marksandspencer.com.

By order of the Board
Steve Rowe
Chief Executive

Consolidated income statement

		26 weeks ended					
		1 Oct 2016			26 Sept 2015		
		Underlying	Non-underlying	Total	Underlying	Non-underlying	Total
	Notes	£m	£m	£m	£m	£m	£m
Revenue	2	**4,993.5**	**-**	**4,993.5**	**4,951.3**	**-**	**4,951.3**
Operating profit	2, 3	**268.7**	**(206.2)**	**62.5**	**330.9**	**(68.0)**	**262.9**
Finance income	4	18.7	-	18.7	10.1	-	10.1
Finance costs	4	(56.1)	-	(56.1)	(57.0)	-	(57.0)
Profit before tax		**231.3**	**(206.2)**	**25.1**	**284.0**	**(68.0)**	**216.0**
Income tax (expense)/credit	5	(46.2)	37.0	(9.2)	(53.9)	8.6	(45.3)
Profit for the period		**185.1**	**(169.2)**	**15.9**	**230.1**	**(59.4)**	**170.7**
Attributable to:							
Owners of the parent		186.1	(169.2)	16.9	232.1	(59.4)	172.7
Non-controlling interests		(1.0)	-	(1.0)	(2.0)	-	(2.0)
		185.1	**(169.2)**	**15.9**	**230.1**	**(59.4)**	**170.7**
Basic earnings per share (pence)	6	11.5p	(10.5p)	1.0p	14.1p	(3.6p)	10.5p
Diluted earnings per share (pence)	6	11.5p	(10.5p)	1.0p	14.0p	(3.6p)	10.4p

Consolidated statement of comprehensive income

		26 weeks ended		53 weeks ended
		1 Oct 2016	26 Sept 2015	2 April 2016
	Notes	£m	£m	£m
Profit for the year		**15.9**	**170.7**	**404.4**
Other comprehensive income/(expense):				
Items that will not be reclassified to profit or loss				
Remeasurements of retirement benefit schemes	8	(141.4)	35.3	346.2
Tax credit/(charge) on retirement benefit schemes		31.5	(7.0)	(45.6)
		(109.9)	28.3	300.6
Items that may be reclassified subsequently to profit or loss				
Foreign currency translation differences		21.8	(9.7)	7.3
Cash flow and net investment hedges				
- fair value movements in other comprehensive income		91.2	(71.2)	(30.1)
- reclassified and reported in net profit		(56.0)	55.2	(22.1)
- amount recognised in inventories		(26.1)	(47.3)	5.9
Tax credit on cash flow hedges and net investment hedges		4.1	12.6	6.5
		35.0	(60.4)	(32.5)
Other comprehensive (expense)/income for the period, net of tax		(74.9)	(32.1)	268.1
Total comprehensive (expense)/income for the period		**(59.0)**	**138.6**	**672.5**
Attributable to:				
Owners of the parent		(58.0)	140.6	675.0
Non-controlling interests		(1.0)	(2.0)	(2.5)
		(59.0)	**138.6**	**672.5**

Consolidated statement of financial position

	Notes	As at 1 Oct 2016 £m	As at 26 Sept 2015 £m	As at 2 April 2016 £m
Assets				
Non-current assets				
Intangible assets		764.5	875.0	802.8
Property, plant and equipment		4,957.3	4,926.5	5,027.1
Investment property		15.5	15.7	15.5
Investment in joint ventures		6.9	12.7	6.9
Other financial assets		3.0	3.0	3.0
Retirement benefit asset	8	614.2	496.1	851.0
Trade and other receivables		237.3	263.2	234.7
Derivative financial instruments	10	143.2	60.7	74.0
		6,741.9	**6,652.9**	**7,015.0**
Current assets				
Inventories		900.7	853.8	799.9
Other financial assets		19.1	14.7	19.1
Trade and other receivables		301.0	351.6	321.1
Derivative financial instruments	10	134.2	49.6	72.1
Current tax assets		-	-	1.6
Cash and cash equivalents		157.1	246.6	247.6
		1,512.1	**1,516.3**	**1,461.4**
Total assets		**8,254.0**	**8,169.2**	**8,476.4**
Liabilities				
Current liabilities				
Trade and other payables		1,622.1	1,724.6	1,617.7
Partnership liability to the Marks & Spencer UK Pension Scheme	9	71.9	71.9	71.9
Borrowings and other financial liabilities		368.6	355.7	297.5
Derivative financial instruments	10	37.3	10.5	28.5
Provisions		45.1	33.1	14.0
Current tax liabilities		69.0	74.7	75.2
		2,214.0	**2,270.5**	**2,104.8**
Non-current liabilities				
Retirement benefit deficit	8	43.0	11.7	26.9
Trade and other payables		361.2	332.0	353.0
Partnership liability to the Marks & Spencer UK Pension Scheme	9	318.1	376.4	383.8
Borrowings and other financial liabilities		1,859.1	1,737.8	1,774.7
Derivative financial instruments	10	-	21.6	0.2
Provisions		55.6	52.2	52.0
Deferred tax liabilities		281.5	305.8	337.6
		2,918.5	**2,837.5**	**2,928.2**
Total liabilities		**5,132.5**	**5,108.0**	**5,033.0**
Net assets		**3,121.5**	**3,061.2**	**3,443.4**
Equity				
Issued share capital		406.2	410.3	405.8
Share premium account		416.3	395.7	411.3
Capital redemption reserve		2,210.5	2,204.6	2,210.5
Hedging reserve		56.7	10.7	32.3
Other reserve		(6,542.2)	(6,542.2)	(6,542.2)
Retained earnings		6,576.8	6,584.9	6,927.5
Total shareholders' equity		**3,124.3**	**3,064.0**	**3,445.2**
Non-controlling interests in equity		(2.8)	(2.8)	(1.8)
Total equity		**3,121.5**	**3,061.2**	**3,443.4**

The notes on pages 23 to 35 form an integral part of the condensed consolidated interim financial information.

Consolidated statement of changes in equity

	Ordinary share capital	Share premium account	Capital redemption reserve	Hedging reserve	Other reserve[1]	Retained earnings	Total	Non-controlling interest	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m
As at 3 April 2016	405.8	411.3	2,210.5	32.3	(6,542.2)	6,927.5	3,445.2	(1.8)	3,443.4
Profit/(loss) for the period	-	-	-	-	-	16.9	16.9	(1.0)	15.9
Other comprehensive income/(expense):									
Foreign currency translation	-	-	-	(2.2)	-	24.0	21.8	-	21.8
Remeasurements of retirement benefit schemes	-	-	-	-	-	(141.4)	(141.4)	-	(141.4)
Tax credit on retirement benefit schemes	-	-	-	-	-	31.5	31.5	-	31.5
Cash flow and net investment hedges									
- fair value movements in other comprehensive income	-	-	-	104.6	-	(13.4)	91.2	-	91.2
- reclassified and reported in net profit	-	-	-	(56.0)	-	-	(56.0)	-	(56.0)
- amount recognised in inventories	-	-	-	(26.1)	-	-	(26.1)	-	(26.1)
Deferred tax on cash flow hedges and net investment hedges	-	-	-	4.1	-	-	4.1	-	4.1
Other comprehensive income/(expense)	**-**	**-**	**-**	**24.4**	**-**	**(99.3)**	**(74.9)**	**-**	**(74.9)**
Total comprehensive income/(expense)	**-**	**-**	**-**	**24.4**	**-**	**(82.4)**	**(58.0)**	**(1.0)**	**(59.0)**
Transactions with owners:									
Dividends	-	-	-	-	-	(267.2)	(267.2)	-	(267.2)
Shares issued on exercise of employee share options	0.4	5.0	-	-	-	-	5.4	-	5.4
Credit for share-based payments	-	-	-	-	-	4.4	4.4	-	4.4
Deferred tax on share schemes	-	-	-	-	-	(5.5)	(5.5)	-	(5.5)
As at 1 October 2016	**406.2**	**416.3**	**2,210.5**	**56.7**	**(6,542.2)**	**6,576.8**	**3,124.3**	**(2.8)**	**3,121.5**

	Ordinary share capital	Share premium account	Capital redemption reserve	Hedging reserve	Other reserve[1]	Retained earnings	Total	Non-controlling interest	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m
As at 29 March 2015	412.0	392.4	2,202.6	64.3	(6,542.2)	6,670.5	3,199.6	(0.8)	3,198.8
Profit/(loss) for the period	-	-	-	-	-	172.7	172.7	(2.0)	170.7
Other comprehensive (expense)/income:									
Foreign currency translation	-	-	-	(0.3)	-	(9.4)	(9.7)	-	(9.7)
Remeasurements of retirement benefit schemes	-	-	-	-	-	35.3	35.3	-	35.3
Tax charge on retirement benefit schemes	-	-	-	-	-	(7.0)	(7.0)	-	(7.0)
Cash flow and net investment hedges									
- fair value movements in other comprehensive income	-	-	-	(73.8)	-	2.6	(71.2)	-	(71.2)
- reclassified and reported in net profit	-	-	-	55.2	-	-	55.2	-	55.2
- amount recognised in inventories	-	-	-	(47.3)	-	-	(47.3)	-	(47.3)
Deferred tax on cash flow hedges and net investment hedges	-	-	-	12.6	-	-	12.6	-	12.6
Other comprehensive (expense)/income	**-**	**-**	**-**	**(53.6)**	**-**	**21.5**	**(32.1)**	**-**	**(32.1)**
Total comprehensive (expense)/income	**-**	**-**	**-**	**(53.6)**	**-**	**194.2**	**140.6**	**(2.0)**	**138.6**
Transactions with owners:									
Dividends	-	-	-	-	-	(190.8)	(190.8)	-	(190.8)
Shares issued on exercise of employee share options	0.3	3.3	-	-	-	-	3.6	-	3.6
Purchase of own shares held by employee trusts	-	-	-	-	-	(10.9)	(10.9)	-	(10.9)
Shares purchased in buy-back	(2.0)	-	2.0	-	-	(90.0)	(90.0)	-	(90.0)
Credit for share-based payments	-	-	-	-	-	14.3	14.3	-	14.3
Deferred tax on share schemes	-	-	-	-	-	(2.4)	(2.4)	-	(2.4)
As at 26 September 2015	**410.3**	**395.7**	**2,204.6**	**10.7**	**(6,542.2)**	**6,584.9**	**3,064.0**	**(2.8)**	**3,061.2**

	Ordinary share capital	Share premium account	Capital redemption reserve	Hedging reserve	Other reserve[1]	Retained earnings	Total	Non-controlling interest	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m
As at 29 March 2015	412.0	392.4	2,202.6	64.3	(6,542.2)	6,670.5	3,199.6	(0.8)	3,198.8
Profit/(loss) for the year	-	-	-	-	-	406.9	406.9	(2.5)	404.4
Other comprehensive (expense)/income:									
Foreign currency translation	-	-	-	(0.5)	-	7.8	7.3	-	7.3
Remeasurements of retirement benefit schemes	-	-	-	-	-	346.2	346.2	-	346.2
Tax charge on items that will not be reclassified	-	-	-	-	-	(45.6)	(45.6)	-	(45.6)
Cash flow and net investment hedges									
- fair value movements in other comprehensive income	-	-	-	(21.8)	-	(8.3)	(30.1)	-	(30.1)
- reclassified and reported in net profit	-	-	-	(22.1)	-	-	(22.1)	-	(22.1)
- amount recognised in inventories	-	-	-	5.9	-	-	5.9	-	5.9
Tax on cash flow hedges and net investment hedges	-	-	-	6.5	-	-	6.5	-	6.5
Other comprehensive (expense)/income	**-**	**-**	**-**	**(32.0)**	**-**	**300.1**	**268.1**	**-**	**268.1**
Total comprehensive (expense)/income	**-**	**-**	**-**	**(32.0)**	**-**	**707.0**	**675.0**	**(2.5)**	**672.5**
Transactions with owners:									
Dividends	-	-	-	-	-	(301.7)	(301.7)	-	(301.7)
Transactions with non-controlling shareholders	-	-	-	-	-	-	-	1.5	1.5
Shares issued on exercise of employee share options	1.7	18.9	-	-	-	-	20.6	-	20.6
Purchase of shares held by employee trusts	-	-	-	-	-	(10.9)	(10.9)	-	(10.9)
Shares purchased in buy-back	(7.9)	-	7.9	-	-	(150.7)	(150.7)	-	(150.7)
Debit for share-based payments	-	-	-	-	-	17.2	17.2	-	17.2
Deferred tax on share schemes	-	-	-	-	-	(3.9)	(3.9)	-	(3.9)
As at 2 April 2016	**405.8**	**411.3**	**2,210.5**	**32.3**	**(6,542.2)**	**6,927.5**	**3,445.2**	**(1.8)**	**3,443.4**

[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.

Consolidated statement of cash flows

	Notes	26 weeks ended 1 Oct 2016 £m	26 weeks ended 26 Sept 2015 £m	53 weeks ended 2 April 2016 £m
Cash flows from operating activities				
Cash generated from operations	12	455.6	585.3	1,311.3
Income tax paid		(43.0)	(39.0)	(99.3)
Net cash inflow from operating activities		**412.6**	**546.3**	**1,212.0**
Cash flows from investing activities				
Proceeds on property disposals		26.0	29.1	30.6
Purchase of property, plant and equipment		(180.3)	(177.9)	(363.3)
Purchase of intangible assets		(42.8)	(83.6)	(186.8)
Purchase of current financial assets		-	(3.1)	(7.2)
Interest received		3.8	2.9	6.8
Acquisition of subsidiary		-	-	(56.2)
Net cash used in investing activities		**(193.3)**	**(232.6)**	**(576.1)**
Cash flows from financing activities				
Interest paid[1]		(50.8)	(53.0)	(113.5)
Cash inflow from borrowings		64.9	109.9	3.1
Drawdown/(repayment) of syndicated loan notes		7.9	(94.4)	(19.9)
Decrease in obligations under finance leases		(1.1)	(1.3)	(2.4)
Payment of liability to the Marks & Spencer UK Pension Scheme		(57.9)	(56.1)	(56.0)
Equity dividends paid		(267.2)	(190.8)	(301.7)
Shares issued on exercise of employee share options		5.4	3.6	20.6
Purchase of own shares by employee trust		-	(10.9)	(10.9)
Shareholder returns		-	(39.8)	(150.7)
Net cash used in financing activities		**(298.8)**	**(332.8)**	**(631.4)**
Net cash (outflow)/inflow from activities		**(79.5)**	**(19.1)**	**4.5**
Effects of exchange rate changes		4.7	(1.5)	3.7
Opening net cash		196.0	187.8	187.8
Closing net cash		**121.2**	**167.2**	**196.0**

[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 1 Oct 2016 £m	26 weeks ended 26 Sept 2015 £m	53 weeks ended 2 April 2016 £m
Opening net debt		**(2,138.3)**	**(2,223.2)**	**(2,223.2)**
Net cash (outflow)/inflow from activities		(79.5)	(19.1)	4.5
Increase in current financial assets		-	3.1	7.2
(Increase)/decrease in debt financing		(13.8)	41.9	75.2
Exchange and other non cash movements		(11.6)	(2.8)	(2.0)
Movement in net debt		**(104.9)**	**23.1**	**84.9**
Closing net debt	13	**(2,243.2)**	**(2,200.1)**	**(2,138.3)**

Notes to the financial statements

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 2 April 2016 is an extract from the published Annual Report and Financial Statements which were approved by the board of Directors on 24 May 2016, 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 (IFRS IC) 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 statement for the 26 weeks ended 1 October 2016 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 2 April 2016 and the half year ended 26 September 2015 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 not been audited and are prepared on the basis of the accounting policies set out in the Group's 2016 Annual Report and Financial Statements, except as described below.

There have been no significant changes to accounting under IFRS which have affected the Group's results. The only changes to the IFRS, IFRS IC interpretations and amendments that are effective for the first time in this financial year and impact the Group are the Annual Improvements to IFRSs: 2012-2014 cycle. These have not had a material impact on the financial statements.

The following IFRS have been issued but are not yet effective:

- IFRS 16 'Leases' was issued on 13 January 2016 and is effective for periods beginning on or after 1 January 2019. Early adoption is permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied. The standard is yet to be endorsed by the EU. 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. Accounting requirements for lessors are substantially unchanged from IAS 17. The impact of the standard on the Group is currently being assessed and it is not yet practicable to quantify the effect of IFRS 16 on these consolidated financial statements;

- IFRS 9 'Financial Instruments' replaces all phases of the financial instruments project and IAS 39 'Financial Instruments: Recognition and Measurement'. The standard is effective from 1 January 2018 and introduces: new requirements for the classification and measurement of financial assets and financial liabilities; a new model based on expected credit losses for recognising provisions; and provides for simplified hedge accounting by aligning hedge accounting more closely with an entities risk management methodology. It is not yet practicable to quantify the effect of IFRS 9 on the Group. Work on the impact of the new recognition, impairment and general hedge accounting requirements is in its early stages and we expect new processes and changes to the existing IT systems may be required to aid the Group's implementation of the standard; and

- IFRS 15 'Revenue from Contracts with Customers' is effective for periods beginning on or after 1 January 2018 with early adoption permitted. It has not yet been endorsed by the EU. The standard establishes principles based approach for revenue recognition and is based on the concept of recognising revenue for obligations only when they are satisfied and the control of goods or services is transferred. It 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 current accounting standards. Based on the Group's preliminary assessment from work performed to date, the Group believes that the adoption of IFRS 15 will not have a material impact on the consolidated results but work is still ongoing to fully quantify its impact.

1 General information and basis of preparation (continued)

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 non-underlying items.

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

- Profits and losses on the disposal of properties or impairments of properties where a commitment to close has been demonstrated;
- Restructuring costs;
- Significant and one-off impairment charges and provisions that distort underlying trading;
- Fair value movements in financial instruments;
- Costs relating to strategy changes that are not considered normal operating costs of the underlying business;
- Adjustment in income from HSBC in relation to 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; and
- Pension curtailment charge in relation to the closure to the future accrual of the UK Defined Benefit pension scheme.

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 review 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 the Republic of Ireland, Europe and Asia, together with international franchise operations.

The Operating Committee assess the performance of the operating segments based on a measure of operating profit. This measurement basis excludes the effects of non-underlying items from the operating segments. Central costs are all classified as UK costs and presented within UK operating profit. The Operating Committee also monitor 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 subcategory and gross profit within the UK segment by subcategory.

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

	26 weeks ended 1 October 2016			
	Management	Adjustment[1]	Non-underlying items[2]	Statutory
	£m	£m	£m	£m
Clothing & Home	1,772.9	-	-	1,772.9
Food revenue	2,675.7	-	-	2,675.7
UK revenue	4,448.6	-	-	4,448.6
Franchised	151.7	-	-	151.7
Owned	393.2	-	-	393.2
International revenue	544.9	-	-	544.9
Group revenue[3]	**4,993.5**	**-**	**-**	**4,993.5**
Clothing & Home gross profit	1,004.4			
Food gross profit	871.4			
UK gross profit	1,875.8	(159.0)	-	1,716.8
UK operating costs	(1,651.3)	159.0	(178.7)	(1,671.0)
M&S Bank	25.8	-	(22.7)	3.1
UK operating profit	250.3	-	(201.4)	48.9
International operating profit	18.4	-	(4.8)	13.6
Group operating profit[3]	**268.7**	**-**	**(206.2)**	**62.5**
Finance income	18.7	-	-	18.7
Finance costs	(56.1)	-	-	(56.1)
Profit before tax	**231.3**	**-**	**(206.2)**	**25.1**

[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 £159.0m (last half year £148.7m, last full year £300.9m).

[2]Management profit excludes the adjustments made to reported profit before tax that are one-off in nature, significant and distort the Group's underlying performance (see note 3).

[3]In common with many retailers, revenue and underlying 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)

	26 weeks ended 26 September 2015			
	Management	Adjustment[1]	Non-underlying items[2]	Statutory
	£m	£m	£m	£m
Clothing & Home	1,872.7	-	-	1,872.7
Food revenue	2,572.0	-	-	2,572.0
UK revenue	4,444.7	-	-	4,444.7
Franchised	163.6	-	-	163.6
Owned	343.0	-	-	343.0
International revenue	506.6	-	-	506.6
Group revenue[3]	**4,951.3**	**-**	**-**	**4,951.3**
Clothing & Home gross profit	1,059.6			
Food gross profit	835.1			
UK gross profit	1,894.7	(148.7)	-	1,746.0
UK operating costs	(1,622.1)	148.7	(19.5)	(1,492.9)
M&S Bank	33.6	-	(27.5)	6.1
UK operating profit	306.2	-	(47.0)	259.2
International operating profit	24.7	-	(21.0)	3.7
Group operating profit[3]	**330.9**	**-**	**(68.0)**	**262.9**
Finance income	10.1	-	-	10.1
Finance costs	(57.0)	-	-	(57.0)
Profit before tax	**284.0**	**-**	**(68.0)**	**216.0**

2 Segmental Information (continued)

	53 weeks ended 2 April 2016			
	Management	Adjustment[1]	Non-underlying items[2]	Statutory
	£m	£m	£m	£m
Clothing & Home revenue	3,961.3	-	-	3,961.3
Food revenue	5,509.5	-	-	5,509.5
UK revenue	9,470.8	-	-	9,470.8
Franchised	329.7	-	-	329.7
Owned	754.9	-	-	754.9
International revenue	1,084.6	-	-	1,084.6
Group revenue[3]	**10,555.4**	**-**	**-**	**10,555.4**
Clothing & Home gross profit	2,180.7			
Food gross profit	1,806.2			
UK gross profit	3,986.9	(300.9)	-	3,686.0
UK operating costs	(3,320.1)	300.9	(49.1)	(3,068.3)
M&S Bank	59.9	-	(50.3)	9.6
UK operating profit	726.7	-	(99.4)	627.3
International operating profit	58.2	-	(101.4)	(43.2)
Group operating profit[3]	**784.9**	**-**	**(200.8)**	**584.1**
Finance income	21.1	-	-	21.1
Finance costs	(116.4)	-	-	(116.4)
Profit before tax	**689.6**	**-**	**(200.8)**	**488.8**

Other segmental information

	As at 1 Oct 2016	As at 26 Sept 2015	As at 2 April 2016
	£m	£m	£m
UK assets[1]	7,856.0	7,736.6	8,062.3
International assets	398.0	432.6	414.1
Total assets	**8,254.0**	**8,169.2**	**8,476.4**

[1]UK assets include centrally held assets largely relating to IT systems that support the International business of £39.1m (last half year; £56.3m, last full year; £43.4m)

3 Non-underlying items

The adjustments made to reported profit before tax to arrive at underlying profit are:

	26 weeks ended		53 weeks ended
	01 Oct 2016 £m	26 Sept 2015 £m	2 April 2016 £m
Net M&S Bank charges incurred in relation to the insurance mis-selling provision	(22.7)	(27.5)	(50.3)
Changes to pay and pensions	(154.2)	-	-
Strategic programmes - organisation and logistics	(15.4)	7.3	9.2
Strategic programmes - UK store estate	(10.6)	(25.3)	(37.0)
International store closures and impairments	(3.3)	(22.0)	(31.6)
Other impairments	-	-	(94.5)
IAS 39 Fair value movement of embedded derivative	-	(0.5)	(2.0)
Net gain on acquisition of joint venture holding Bradford warehouse	-	-	5.4
Adjustment to profit before tax	**(206.2)**	**(68.0)**	**(200.8)**

In order to provide shareholders with a measure of the true underlying performance of the business and to allow a more understandable assessment of its position, the Group makes certain adjustments to the reported profit before tax. These adjustments for non-underlying items are made in accordance with the Group's accounting policy and are one-off in nature, material by size or are considered to be distortive of the true underlying performance of the business.

Net M&S Bank charges incurred in relation to the insurance mis-selling provision

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 fees received from HSBC although future income may be impacted by significant one-off deductions.

Since the year ended 31 December 2012, 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 £22.7m.

Changes to pay and pensions

On 25 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 2 April 2017. Both of these changes were subject to consultation with impacted employees. The Group completed consultation during the period.

The closure of the DB pension scheme to future accrual has resulted in a one-off income statement charge of £127.0m as all active members transition to deferred status. All future pensionable increases will be in line with inflation (CPI) as opposed to the lower 1% salary cap that was applied to the active members.

Following the completion of the consultation in respect of pay and premia, the Group has committed to transition payments of £24.0m in respect of the premia. The full amount of £24.0m has been recognised as a liability at 1 October 2016 as the criteria for recognition under IAS 37 are considered to have been met at this date. The Group anticipates making further transition payments in relation to the closure of the DB scheme, expected to be c. £25m over the next three years.

Other costs primarily relate to third party advisory costs.

Strategic programmes – organisation and logistics

On 25 May 2016, the Group announced a wide-ranging strategic review across a number of areas of the business including customer, brand, UK organisation, UK store estate and International.

On 5 September 2016, the Group announced proposed changes to the UK Head Office structure following completion of a detailed review of the UK organisation. The proposals will result in a net reduction of c. 525 Head Office roles achieved through a combination of fewer contractors, natural attrition and redundancies. The anticipated costs of this strategic programme amount to £16.0m.

These costs are partially offset in the period by a net credit relating to an updated view of the estimated closure costs of legacy logistics sites associated with the transition to a single tier distribution network.

3 Non-underlying items (continued)

Strategic programmes – UK store estate

The UK store review relates to a strategic multi-year programme in relation the UK store estate announced in 2015. As part of this programme, three UK stores have been closed or announced for closure in the period. Closure costs of £9.8m relating to dilapidations, sublet shortfalls, accelerated depreciation of fixtures and fittings and impairment of assets have been recognised in the period.

As a result of historic store closures, the Group has a small non-operating portfolio of properties. The strategy is to market the properties for sale (or lease assignment) or to explore sub-let opportunities where a sale or assignment is not achievable. The ongoing review of assumptions associated with these properties has resulted in further one-off charges in the period of £0.8m.

International store closures and impairments

The international store impairment tests have identified a number of stores across the portfolio where current and anticipated future performance will not support their carrying value. As a result one-off impairment charges of £7.5m have been incurred, primarily in Asia and Western Europe.

These impairments have been partially offset by a £4.2m reversal of impairment charges previously recognised in relation to five stores in Ireland. The reversal of the impairment charge reflects an updated view of the future cash flows from these stores primarily due to reductions in cost of goods following the significant appreciation of the Euro relative to Sterling during the period.

Other impairments

The £94.5m of other impairments in the previous full year related to UK and International one-off impairment costs including the write-off of elements of the new buying and merchandising system (£23.7m), goodwill relating to the Czech and Hungarian businesses (£19.1m), the Mode brand used across European markets (£32.4m) and the E-SAP enterprise management system (£19.3m).

IAS 39 Fair value movement of embedded derivative

The embedded derivative arose in respect of a lease contract for the Bradford distribution warehouse held within the Lima (Bradford) S.à r.l. joint venture. The lease contained both a rental increase cap and floor resulting in an embedded derivative being recognised on the balance sheet and fair valued each reporting period. The fair value movement in the derivative in the prior year until acquisition was a £2.0m charge. The asset was derecognised from the balance sheet following the Group's acquisition of the joint venture holding the Bradford warehouse and as a result no charge is recognised in the current period.

Net gain on acquisition of joint venture holding Bradford warehouse

On 29 February 2016, the Group purchased the remaining 50% of the Lima (Bradford) S.à r.l. joint venture for cash consideration of £56.2m. In accordance with IFRS 3 'Business Combinations' this acquisition was treated as a stepped acquisition resulting in a one-off fair value gain of £27.1m.

Following the Group's acquisition, the embedded derivative in respect of the lease contract for the warehouse (see note above 'IAS 39 Fair value movement of embedded derivative) has been derecognised from the balance sheet, resulting in a one-off cost of £21.7m.

4 Finance income/(costs)

	26 weeks ended		53 weeks ended
	1 Oct 2016	26 Sept 2015	2 April 2016
	£m	£m	£m
Bank and other interest receivable	4.0	2.6	5.8
Pension net finance income	14.7	7.5	15.3
Finance income	**18.7**	**10.1**	**21.1**
Interest on bank borrowings	(1.3)	(2.0)	(3.6)
Interest payable on syndicated bank facility	(3.0)	(2.8)	(5.5)
Interest payable on medium-term notes	(44.2)	(44.1)	(89.9)
Interest payable on finance leases	(0.9)	(0.9)	(1.9)
Unwind of discount on financial instruments	(0.2)	-	(0.4)
Unwind of discount on provisions	(0.3)	-	(0.4)
Unwind of discount on partnership liability to the Marks and Spencer UK Pension Scheme (note 9)	(6.2)	(7.2)	(14.7)
Finance costs	**(56.1)**	**(57.0)**	**(116.4)**
Net finance costs	**(37.4)**	**(46.9)**	**(95.3)**

5 Taxation

The taxation charge in the income statement for the half year is based on a forecast full year underlying tax rate of 20.0% (last half year 19.0% and last full year 17.2%) which is then adjusted for tax on non-underlying items arising in the period to 1 October 2016 to give an effective tax rate on profit before taxation of 36.7% (last half year 21% and last full year 17.3%).

The effective tax rate on profit before taxation is higher than the statutory UK tax rate of 20% primarily due to the disproportionate impact of disallowable non-underlying costs.

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 underlying earnings per share figures have also been calculated based on earnings before items that are one-off in nature, significant and are not considered normal operating costs of the underlying business (see note 3). These have been calculated to allow the shareholders to gain an understanding of the underlying trading performance of the Group.

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

6 Earnings per share

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

	26 weeks ended		53 weeks ended
	1 Oct 2016	26 Sept 2015	2 April 2016
	£m	£m	£m
Profit attributable to equity shareholders of the Company	**16.9**	**172.7**	**406.9**
Add/(less) (net of tax):			
Net M&S Bank income received/ (charges incurred) in relation to the insurance mis-selling provision	18.1	22.0	40.2
Changes to pay and pensions	127.3	-	-
Strategic programme costs- organisation and logistics	12.3	(5.9)	(7.3)
Strategic programme costs- UK store estate	8.7	20.9	30.5
International store closures and impairments	2.8	22.0	25.2
Other impairments	-	-	85.9
IAS 39 fair value movement of embedded derivative	-	0.4	1.6
Net gain on acquisition of joint venture holding Bradford warehouse	-	-	(9.7)
Underlying profit attributable to owners of the parent	**186.1**	**232.1**	**573.3**

	Million	Million	Million
Weighted average number of ordinary shares in issue	1,622.4	1,644.2	1,635.9
Potentially dilutive share options under Group's share option schemes	1.7	9.2	6.3
Weighted average number of diluted ordinary shares	**1,624.1**	**1,653.4**	**1,642.2**

	Pence	Pence	Pence
Basic earnings per share	1.0	10.5	24.9
Diluted earnings per share	1.0	10.4	24.8
Underlying basic earnings per share	11.5	14.1	35.0
Underlying diluted earnings per share	11.5	14.0	34.9

7 Dividends

	26 weeks ended		53 weeks ended
	1 Oct 2016 £m	26 Sept 2015 £m	2 April 2016 £m
Final dividend of 11.9p per share (last year 11.6p per share)	192.7	190.8	190.8
Special dividend of 4.6p per share	74.5	-	-
Prior period interim dividend of 6.8p per share	-	-	110.9
	267.2	**190.8**	**301.7**

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 results in an interim dividend of £110.5m (last half year £110.9m) which will be paid on 13th January 2017 to shareholders whose names are on the Register of Members at the close of business on 18th November 2016. The ordinary shares will be quoted ex dividend on 17th November 2016. Shareholders may choose to take this dividend in shares or in cash.

8 Retirement benefits

	26 weeks ended		53 weeks ended
	01 Oct 2016 £m	26 Sept 2015 £m	02 Apr 2016 £m
Opening net retirement benefit asset	**824.1**	**449.0**	**449.0**
Current service cost	(48.4)	(48.8)	(98.0)
Administration costs	(1.6)	(2.0)	(3.0)
Curtailment charge[1]	(128.0)	-	(1.0)
Net interest income	14.7	7.5	15.3
Employer contributions	53.4	43.4	118.4
Remeasurements	(141.4)	35.3	346.2
Exchange movement	(1.6)	-	(2.8)
Closing net retirement benefit asset	**571.2**	**484.4**	**824.1**

Total market value of assets	10,317.9	8,003.4	8,515.3
Present value of scheme liabilities	(9,737.3)	(7,507.3)	(7,682.3)
Net funded pension plan asset	580.6	496.1	833.0
Unfunded retirement benefits	(1.0)	(0.7)	(0.9)
Post-retirement healthcare	(8.4)	(11.0)	(8.0)
Net retirement benefit asset	**571.2**	**484.4**	**824.1**
Analysed in the Statement of Financial Position as:			
Retirement benefit asset	614.2	496.1	851.0
Retirement benefit deficit	(43.0)	(11.7)	(26.9)
Net retirement benefit asset	**571.2**	**484.4**	**824.1**

[1]The closure of the Defined Benefit pension scheme has resulted in a one-off curtailment charge of £127.0m in the period due to all current active members transferring to deferred status.

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 2.3% (last full year 3.4%) and 3.05% (last full year 2.95%) respectively. The inflation rate of 3.05% 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 2.05% (last full year 1.95%) 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 c.£100m (last full year decrease by c.£90m). If the inflation rate decreased by 0.25%, the surplus would increase by c.£40m (last full year increase by c.£20m).

9 Marks and Spencer Scottish Limited Partnership

Marks and Spencer plc is a general partner and the Marks & Spencer UK Pension Scheme is a limited partner of the Marks and Spencer Scottish Limited Partnership (the Partnership). As a result, the Partnership is consolidated into the results of the Group.

The Partnership holds £1.6bn (last full year £1.6bn) of properties which have been leased back to Marks and Spencer plc at market rates. The Group retains control over these properties, including the flexibility to substitute alternative properties. The limited partnership interest (held by the Marks & Spencer UK Pension Scheme) entitles the Pension Scheme to receive an annual distribution of £71.9m from the profits of the Partnership earned from rental income.

The Partnership liability to the Marks and Spencer UK pension scheme of £390.0m (last full year £455.7m) is valued at the net present value of the future expected distributions from the Partnership.

During the period to 1 October 2016 an interest charge of £6.2m (last half year £7.2m and last full year £14.7m) was recognised in the income statement representing the unwinding of the discount included in this obligation.

Under IAS 19, the Partnership interest of the Pension Scheme in the Marks and Spencer Scottish Limited Partnership is included within the UK pension scheme assets, valued at £410.1m (last full year £469.5m).

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:

1. Level 1: quoted (unadjusted) prices in active markets for identical assets and liabilities;
2. 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 over the counter (OTC) derivatives; and
3. 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.

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

				As at 1 October 2016				As at 2 April 2016
	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 and loss								
- Trading derivatives	-	3.3	-	3.3	-	1.4	-	1.4
Derivatives used for hedging	-	274.1	-	274.1	-	144.7	-	144.7
Embedded derivatives (see note 3)	-	-	-	-	-	-	-	-
Short term investments	-	19.1	-	19.1	-	19.1	-	19.1
Liabilities measured at fair value								
Financial liabilities at fair value through profit and loss								
- Trading derivatives	-	(3.7)	-	(3.7)	-	(1.8)	-	(1.8)
Derivatives used for hedging	-	(33.6)	-	(33.6)	-	(26.9)	-	(26.9)

There were no transfers between Level 1 and Level 2 fair value measurements, and no transfers out of Level 3 fair value measurements in the current reporting period. In addition to the above, the Group has £3.0m (last year £3.0m) 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 & 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 £1,810.0m (last half year £1,689.5m and last full year £1,726.4m); the fair value of this debt was £1,969.8m (last half year £1,818m and last full year £1,868.3m) which has been calculated using quoted market prices. The carrying value of the Partnership liability to the Marks & Spencer UK Pension scheme is £390.0m (last half year £448.3m and last full year £455.7m) and the fair value of this liability, which represents only the principal value excluding accrued interest is £387.4m (last half year £445.3m and last full year £445.3m).

11 Capital expenditure and contingencies

A Capital expenditure

Additions to the cost of property, plant and equipment, investment property and intangible assets are £171.3m (last half year £216.1m) and for the year ended 2 April 2016 were £651.1m. Disposals in net book value of property, plant and equipment, investment property and intangible assets are £1.0m (last half year £2.6m) and for the year ended 2 April 2016 were £5.6m.

B Capital commitments

	As at 1 Oct 2016 £m	As at 26 Sept 2015 £m	As at 2 April 2016 £m
Commitments in respect of properties in the course of construction	174.8	165.3	129.2
Software capital commitments	14.6	25.3	17.1
	189.4	**190.6**	**146.3**

C Other material contracts

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

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

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

	26 weeks ended		53 weeks ended
	1 Oct 2016	26 Sept 2015	2 April 2016
	£m	£m	£m
Profit on ordinary activities after taxation	**15.9**	**170.7**	**404.4**
Income tax expense	9.2	45.3	84.4
Finance costs	56.1	57.0	116.4
Finance income	(18.7)	(10.1)	(21.1)
Operating profit	**62.5**	**262.9**	**584.1**
Depreciation, amortisation and write-offs	287.1	272.3	576.8
Non-underlying operating profit items	206.2	68.0	200.8
Pension costs charged against operating profit	50.7	50.8	102.0
Share-based payment charge	2.3	13.1	16.0
Increase in inventories	(100.3)	(57.9)	(22.5)
Decrease/ (increase) in receivables	4.1	(35.1)	3.3
Increase in payables	33.0	83.0	32.4
Cash contributions to pension schemes	(52.2)	(43.4)	(118.4)
Non-underlying operating cash outflows	(15.1)	(0.9)	(12.9)
Non-underlying non-cash items	(22.7)	(27.5)	(50.3)
Cash generated from operations	**455.6**	**585.3**	**1,311.3**

13 Reconciliation of net debt to statement of financial position

	As at 1 Oct 2016 £m	As at 26 Sept 2015 £m	As at 2 April 2016 £m
Statement of financial position and related notes			
Cash and cash equivalents	157.1	246.6	247.6
Current financial assets	19.1	14.7	19.1
Bank loans and overdrafts	(368.3)	(355.7)	(297.3)
Medium term notes - net of hedging derivatives	(1,670.0)	(1,664.2)	(1,656.1)
Finance lease liabilities	(49.0)	(48.2)	(48.6)
Partnership liability to the Marks & Spencer UK Pension Scheme (note 9)	(390.0)	(448.3)	(455.7)
	(2,301.1)	**(2,255.1)**	**(2,191.0)**
Interest payable included within related borrowing and the partnership liability to the Marks and Spencer UK pension scheme	57.9	55.0	52.7
Total net debt	**(2,243.2)**	**(2,200.1)**	**(2,138.3)**

14 Related party transactions

There were no related party transactions for the half year to 1 October 2016. Last half year, supplier transactions occurred between the Group and a company controlled by Martha Lane Fox's partner. Martha was a non-executive director of the Group, retiring from the Board on 2 April 2016. These transactions amounted to £1.6m during the first half of last year with an outstanding trade payable at the last half year of £0.2m.

15. Subsequent Events

On 8 November 2016 the directors announced proposals to close 53 wholly-owned stores in 10 markets, including 10 in China and seven in France, as well as all of the Group's stores in Belgium, Estonia, Hungary, Lithuania, the Netherlands, Poland, Romania and Slovakia. These proposals are subject to consultation in each of the impacted markets. If, following the outcome of the consultations, the Group proceeds with these proposals, we will incur estimated non-underlying costs in the range of £150m to £200m, largely driven by property-related costs and redundancy costs.

In addition, the directors also announced proposals to make improvements to the Group's UK store estate. The planned store estate programme will affect more than 100 of the Group's stores including a mix of closures, relocations and replacement of some full line stores with Simply Food stores. The cost of the five year programme, which includes exiting leases and the write down of store equipment, will result in expected non-underlying costs of c.£50m per annum for the next three years rising to c.£100m per annum in years four and five of the programme.