

Issued: Tuesday 25 May 2010

**Marks and Spencer Group plc
Final Results 2009/10
53 weeks ended 3 April 2010***

Final results:

	53 Weeks Ended 3 April 2010	% change on LY	52 Weeks Ended 27 March 2010	% change on LY
Revenue: Group	£9.5bn	+5.2	£9.3bn	+3.2
UK	£8.6bn	+4.9	£8.4bn	+2.9
International	£1.0bn	+7.9	£0.9bn	+5.7
Operating Profit¹	£843.9m	+9.8	£779.3m	+1.4
Adjusted Profit before tax¹	£694.6m	+14.9	£632.5m	+4.6
Adjusted basic EPS¹	33.0p	+17.9	30.0p	+7.1

¹ Before property disposals

*2009/10 was a 53 week reporting period. We believe that the 52 week results better reflect the underlying performance of the business. More details can be found in the Financial Review.

- UK like-for-like sales +0.9%: General Merchandise +1.6%; Food +0.3% (52 weeks)
- Net debt down by £422.4m to £2.1bn (28 March 2009 £2.5bn)
- Final dividend 9.5p; total dividend 15.0p (last year 17.8p)

Statutory results:

- Profit before tax £702.7m (last year £706.2m)
- Basic EPS 33.5p (last year 32.3p)

Business highlights:

- Increase in Clothing market share of 30bps² to 11% with growth across all areas
- GM gross margin up 70 bps
- Food sales return to positive like-for-like following six quarters of improvement
- Improved customer price perceptions in Clothing and Food
- Direct sales up 27% to £413m; on-line market share up from 5.3% to 5.6%
- International sales up 5.7% to £949m; 31 new stores opened
- £145m underlying cost saving delivered
- £411.7m cash generated; net debt reduced to £2.1bn from £2.5bn
- All employees shared £81m bonus
- Pension deficit funding plan agreed
- Project 2020 on plan
- Plan A target to become world's most sustainable retailer by 2015

² Kantar Worldpanel data 52 weeks 28 March 2010

Sir Stuart Rose, Chairman, said:

“Marks & Spencer has had a good year. We have improved performance in all core areas, demonstrating the resilience of the M&S brand. We took action to guide M&S through the recession without losing sight of what matters most to our customers – quality and value.

“In Clothing, we grew market share in all areas and catered for customers looking for both great value wardrobe staples and quality investment pieces. In Food, we returned to positive like-for-like growth for the first time in two years as we improved our value and innovation while maintaining our unrivalled quality.

“I am delighted that Marc Bolland has now joined us as Chief Executive. I look forward to working with him to ensure a smooth transition, and with the Board to identify a new Chairman.

“With the worst effects of the recession behind us, strong foundations in place, and our core values intact, I am confident that M&S is well set for growth under Marc’s direction.

“We have had a satisfactory start to the first quarter. Consumers are naturally concerned about any impact of the Budget on 22 June. We therefore remain cautious about the outlook for the year ahead.”

We will update on our first quarter sales on 7 July 2010.

Further to the announcement of his resignation on 5 May, Ian Dyson, Group Finance and Operations Director, will leave the Company on 31 August 2010 to join Punch Taverns as Group Chief Executive.

Business review*:

* All references to financial performance are stated on a 52 week basis

Group sales grew 3.2% to £9.3bn. Adjusted profit before tax was £632.5m, up 4.6% on last year. The 53rd week contributed £62.1m of profit before tax.

We listened and responded to our customers’ changing needs by sticking to our core values of Quality, Value, Service, Innovation and Trust, reminding our customers of what makes M&S special. We invested in our margins to give customers the extra value they were looking for without compromising on quality. M&S stands for value and not price – an approach that is serving us well as consumer confidence returns.

We remain committed to building a world-class retailer through increasing the pace of change and driving operational excellence in the business, in particular through: investment in supply chain and IT, building our multi-channel capabilities, growing our international portfolio and reinvigorating our brand communications.

We know environmental issues matter to our customers and that the recession has not altered their level of concern. They continue to look to M&S to lead the way. This year we extended Plan A and made a new commitment to become the world’s most sustainable retailer by 2015.

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General Merchandise

General Merchandise sales were up 4.0% and we maintained our position as the UK's leading clothing retailer by value and volume. Last year we increased our value market share by 30 basis points to 11.0% and held our volume share at 11.2% (*Kantar Worldpanel: 52 weeks ended 28 March 2010*). Gross margin was up 70 basis points with better sourcing and tight controls over stock and markdown helping to mitigate adverse currency pressure.

We continued to provide our customers with strong fashion trends at great value, further developing our brands to deliver more clarity and newness. Consolidating all General Merchandise buying under the leadership of Kate Bostock and her team has helped us build closer links between our design teams, resulting in more co-ordinated ranges, faster response times, and improved style credentials.

We remain the nation's favourite **womenswear** retailer and over the last 12 months we've grown our market share from 10.5% to 10.7% as women of all ages shop with us for great value, stylish clothing.

Our customers have begun to show signs that they feel more confident about spending on their wardrobes again, searching out investment pieces such as coats and leather boots as well as versatile wardrobe staples such as tunics, leggings, and casual shirt dresses. We responded to this trend by increasing the proportion of our higher priced ranges, whilst maintaining our opening price point competitiveness.

We have also continued to work hard to ensure that each brand has a clear identity, serving a different customer and addressing specific needs. We launched Indigo Collection, growing our share of the casualwear market. We have attracted new, younger customers through the success of Limited Collection. We have re-launched per una, and continue to work on improving newness and careful editing of our ranges.

In **lingerie** we have grown our market share from 25.2% to 25.9%. We have better aligned lingerie with our womenswear brands, with Limited Collection replacing Ceriso and Portfolio replacing Adored, giving more consistent brand identity, as well as improved product availability.

In **menswear** we continued to improve our styling, sharpened our tailoring offer and strengthened our brands. Market share was up 20 basis points to 10.4%. We are beginning to attract younger customers to M&S, with lines such as slimfit shirts and suits proving popular. We also re-launched Collezione, taking it back to its smart Italian roots.

Kidswear had a strong year, growing share to 6.1%, up from 5.4% last year. We are number one for schoolwear, reflecting our high quality and durability. Over the last 12 months we have worked to make our Kidswear brands easier for parents to identify.

Home performed well. We sold more home products in a lifestyle setting alongside our food and clothing ranges, such as the collaboration with Lingerie on the new Spa range for Mother's Day, and with Kidswear on the launch of the new Kids at Home. Customers also embraced our 'improve don't move' campaign. Two standalone M&S Home stores opened in Aberdeen and Cheltenham, with Tunbridge Wells due to open this autumn.

M&S Energy grew strongly with nearly 300,000 customers now signed up, from 65,000 last year. We have now extended our service further, launching a new Home Energy Services division, offering a range of energy efficient products such as loft insulation, solar panels and heat pumps.

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Food

Total Food sales were up 1.8%. We delivered like-for-like sales growth over the year - the first time since summer 2007. We were the only food retailer lowering prices in what has been an inflationary market. As a result our market share decreased from 3.9% to 3.8% (*Kantar Worldpanel: 52 weeks ended 21 Mar 2010*). Food gross margin was down 95 basis points reflecting further planned investment in prices and increased promotional activity. This was offset by better buying and a reduction in food waste.

Despite investing in significantly better value, we maintained or improved our quality. Our Wise Buys range underpins our value proposition, whilst retaining the highest M&S quality credentials. Dine-in promotions remain one of the key footfall drivers and we continued to look at new ways of extending this promotional format, from everyday meal combinations, such as pizza, salad and garlic bread for just £5, to special occasions such as a Mother's Day roast dinner for four at £15.

We continue to be the leader in product innovation (*Millward Brown*) and are committed to refreshing 25% of our total food range every year. Last year we launched 1,700 new lines including pioneering first to market ranges, such as Simply Fuller Longer. We also updated old favourites, including our entire confectionary range.

We broadened our food offer in order to help customers do more of their weekly shop with us. We extended our own label ranges in ingredients, groceries and frozen goods, and rolled out a selection of 400 must-have branded products to 280 stores. This roll out will be completed by the end of the summer. Branded goods have driven an increase in the average number of items bought during each visit and we are seeing strong like-for-like growth in the original trial stores.

Service remains a key priority. In the Autumn we launched fresh meat and fish counters at Meadowhall and Bluewater. These are a great way of showcasing the quality of our fresh meat and fish, as well as offering our customers a more personalised service and better in-store ambience.

We have improved on shelf availability through better merchandising and distribution. We have also reduced levels of waste. Next year we will be introducing new forecasting systems which will ensure we display our food ranges to customers in the best possible way, further improving on shelf availability so that our customer service proposition matches the high quality of our food offer.

We are proud of our environmental and ethical credentials. This year we became the first UK company to sign the World Wildlife Foundation (WWF) Seafood Charter to work towards our objective of sourcing all of our seafood from Marine Stewardship Council or other sustainable fisheries by 2012. We have continued to source our fresh produce from the UK, and wherever possible, locally. We are the first retailer to offer 100% British bacon, sausages and eggs.

Multi-channel

Direct sales were up 27% to £413m. We outperformed the on-line clothing market, and grew share to 5.6% from 5.3% (*Kantar Worldpanel: 52 weeks ended 28 Mar 2010*). Site traffic grew by 30%.

This year we consolidated all of our shopping channels in order to become a seamless multi-channel business, providing customers with the same high quality service every time and whichever way they choose to shop with us.

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We replaced our old in-store ordering system, with a new click and collect service called 'Shop your Way'. It allows customers to order either at home or in store and have merchandise delivered to any location. It is now available in over 300 stores, and will be in all stores by the end of this year, including a trial in selected Simply Food stores. The new service is proving very popular with customers.

We have also re-launched our website, responding to customer demands for a more engaging, interactive web experience. The refresh included the introduction of catwalk videos, a more powerful search facility, and stock availability information. Following the upgrade, the site was ranked the UK's most user-friendly retail website in the 2009 Webcredible survey, up from 8th in 2008. Our customers have reacted positively to the new design and features and conversion has increased since the re-launch. This month we became the first high street retailer to deliver a fully mobile enabled website, so customers can shop easily from their mobile phones.

International

International sales grew by 5.7%, accounting for 10.2% of total Group revenues. Operating profits were up 16.5% to £135.3m. We opened 34 new stores and now have 327 stores in 41 territories.

Whilst Greece and Ireland have both been heavily impacted by the economic downturn, we continued to make sure our pricing is competitive and stock controlled tightly to provide flexibility as markets recover.

We have continued to develop our business in Central and Eastern Europe, opening 16 new stores across the Czech Republic, Greece, Poland, Slovakia and Estonia.

In India, with our partner Reliance Retail, we have focused on opening bigger stores and realigning prices through local sourcing. We opened four new stores giving us a total of 16. We now have a strong platform in place in this market.

In China, we put in place a stronger infrastructure to support sustainable growth including a new warehouse and a stronger head office team. We will open two new stores in Shanghai by the end of 2010/11. Our Hong Kong stores performed well. This month we opened a standalone food store offering a comprehensive range of chilled products, a first for M&S in the international market.

Our franchise businesses have also performed well over the year, although the Gulf region has been more difficult. We opened 13 stores including Turkey, the Ukraine and Russia, and the franchise model remains an important part of our international business.

Improvements in our supply chain have resulted in a better product offer for individual markets and enabled us to move products throughout our network faster and more efficiently. We now move over 20% of our stock through our four international hubs in Hong Kong, Singapore, Sri Lanka and Istanbul direct to its destination, and we plan to increase this significantly in the coming year.

Supply Chain and IT

Last year, through Project 2020, we set out the key elements of our plan to restructure our supply chain, implement new information systems and improve operational execution. Over the course of last year we have begun to accelerate the pace of activity to fundamentally transform the way M&S does business.

In 2009/10 we delivered £35m of savings through warehouse consolidation and implementation of a number of efficiency projects.

The first phase of our warehouse consolidation programme is now well under way with the closure of 21 of the 110 sites. Our new one million sq ft warehouse in Bradford opened this month, on time and on budget. We have identified a second site in the Midlands which will be a combined National Distribution Centre and a dedicated e-commerce facility. Subject to planning permission, we will start construction in the new year, and plan to open in Summer 2012.

We have focused on simplifying our supply chain and have trialled a simplified 'single touch' process in Kidswear which enables us to move products more quickly, reducing lead times and the number of times stock is handled.

In IT we are making good progress with the overhaul of our systems. In stores, we are implementing an improved stock management system, which will provide more accurate real-time stock level information. We will also roll-out the new Point of Sale System (POS), to all stores, due to be completed in 2011. The new software will deliver cost efficiencies as well as an enhanced customer experience.

We are well underway with the roll-out of SAP, which will be our core business system. Over the last few months Phase 1 of SAP has been successfully implemented in Foods, and we have begun its roll-out into General Merchandise.

Plan A

Over the past three years Plan A has helped us improve our environmental performance, develop more sustainable products and services and improve the lives of people in communities where we trade. As well as being the right thing to do, Plan A has also been good for business and has delivered £50 million of savings from a wide range of 'eco' efficiencies by, for example, generating less waste and using less energy and less packaging.

Building on this success, we have committed to extend Plan A and become the world's most sustainable major retailer by 2015. We have launched 80 new Plan A commitments including ensuring all M&S products become 'Plan A products' with at least one sustainable quality, enabling our 2,000 suppliers to adopt Plan A best practice and encouraging M&S customers and employees to live 'greener' lifestyles.

We have also extended our existing overall Plan A goals to send no waste to landfill; make our operations in the UK and Ireland carbon neutral; ensure the raw materials we use come from sustainable sources; set new standards in ethical trading and promote active healthy lifestyles to customers and employees.

Current trading and outlook

We have had a satisfactory start to the first quarter. Consumers are naturally concerned about any impact of the Budget on 22 June. We therefore remain cautious about the outlook for the year ahead.

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Financial Review

<u>Summary of Results</u>	2009/10 £m (53 wks)	2009/10 £m (52 wks)	2008/09 £m (52 wks)	change % (52 wks)
Group revenue	9,536.6	9,347.6	9,062.1	+3.2
UK	8,567.9	8,398.2	8,164.3	+2.9
International	968.7	949.4	897.8	+5.7
Operating profit before property disposals	843.9	779.3	768.9	+1.4
UK	701.2	644.0	652.8	-1.3
International	142.7	135.3	116.1	+16.5
Profit before tax and property disposals	694.6	632.5	604.4	+4.6
Profit on property disposals	8.1	8.1	6.4	+26.6
Exceptional pension credit	-	-	231.3	-
Exceptional costs	-	-	(135.9)	-
Profit before tax	702.7	640.6	706.2	-9.3
Adjusted EPS	33.0p	30.0p	28.0p	+7.1
Dividend per share (declared)	15.0p	15.0p	17.8p	-15.7

2009/10 was a 53 week reporting period. In order to make a comparison to last year, all reported income statement numbers in the Financial Review are stated on a 52 week basis unless specified otherwise. The 52 week results exclude UK revenue of £169.7m (£76.6m General Merchandise and £93.1m Food) and UK variable operating costs of £13.4m, that relate only to the 53rd week, as well as International operating profits of £7.4m and a net interest charge of £2.5m. The 52 week UK operating costs stated include annual costs on the same basis as reported in any 52 week reporting period.

Revenues

Total revenues were up 3.2% driven by an improvement in like-for-like sales as well as the addition of new space in the UK and a strong performance in our International business. Revenue growth by area, by period, in the UK was:

Total revenue	Q1%	Q2%	Q3%	Q4%	FY% (52 wks)
Clothing	1.4	2.7	4.0	10.1	4.3
Home	0.1	-1.8	-0.7	13.3	2.1
General Merchandise	1.2	2.2	3.2	10.6	4.0
Food	2.0	1.7	1.3	2.6	1.8
Total	1.7	1.9	2.3	6.2	2.9

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<u>Like-for-like revenue</u>	<u>Q1%</u>	<u>Q2%</u>	<u>Q3%</u>	<u>Q4%</u>	<u>FY%</u> (52 wks)
General Merchandise	-2.4	-0.8	1.2	9.1	1.6
Food	-0.5	0.0	0.4	1.8	0.3
Total	-1.4	-0.5	0.8	5.1	0.9

UK revenues were up 2.9% in total with a like-for-like increase of 0.9%, reflecting both the actions we have taken over the last year to manage the business through the downturn and an improvement in market conditions and consumer spending. During the year, we added c.3.2% of space, representing 1.9% in Food and 3.9% in General Merchandise.

International revenues were up 5.7%, with a 2.7% positive impact from the movement in the exchange rates. Whilst some of our overseas businesses were impacted by the continued global economic downturn, particularly in the Republic of Ireland and Greece, many delivered good growth in the year, with areas such as India, Hong Kong and the Czech Republic particularly strong. Our franchise business also continued to perform well despite the slowdown in the Middle East, with countries including Turkey and Russia growing strongly.

Operating profit

Operating profit before property disposals and exceptional items was £779.3m, up 1.4%.

In the UK, operating profit before property disposals was down 1.3% at £644.0m. Gross margin was down 5 basis points at 41.2%. General merchandise gross margin was up 70 basis points at 52.5%, with better sourcing and tight control over stock and markdowns, mitigating the adverse currency pressures. Food gross margin was down 95 basis points at 30.6% reflecting further investment in price and increased promotional activity, offset by better buying and a reduction in food waste.

UK operating costs before bonus were up 1.0% to £2,769.3m. A breakdown of UK operating costs is shown below:

	<u>52 weeks ended</u>		<u>% inc</u>
	<u>27 Mar 10</u> <u>£m</u>	<u>28 Mar 09</u> <u>£m</u>	
Retail staffing	858.4	863.3	-0.6
Retail occupancy	972.7	948.0	+2.6
Distribution	394.4	410.3	-3.9
Marketing and related	122.9	127.4	-3.5
Support	420.9	391.6	+7.5
Total before bonus	2,769.3	2,740.6	+1.0
Bonus	80.9	2.8	-
Total including bonus	2,850.2	2,743.4	+3.9

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Retail staffing costs were tightly managed, with improved productivity offsetting the impact of space growth and the annual pay review. The increase in occupancy costs reflects an increase in both the depreciation charge and space growth. Despite the increase in volumes and space, and strong growth in Direct, distribution costs were down 3.9% as a result of ongoing initiatives under Project 2020 to make our warehousing and distribution network more cost efficient. We generated underlying savings of £35m in this area in 2009/10. Marketing spend was down due to a reduced number of external marketing campaigns. Support costs, which include non-store related overheads, increased due to depreciation related to the ongoing overhaul of our IT systems.

The bonus payment of £80.9m (last year £2.8m) reflects the out-performance of the business against our operating plan.

The UK operating profit includes a contribution of £30.4m (last year £24.8m) from the Group's continuing economic interest in M&S Money.

International operating profit before property disposals was up 16.5% at £135.3m (last year £116.1m). Owned store operating profits were £57.7m, up 26.0%, reflecting growth in Ireland and Hong Kong, offset by small losses in China, India and Greece. Franchise operating profits were up 10.4% to £77.6m due to continuing strong sales performance.

Profit on property disposals

Profit on property disposals was £8.1m (last year £6.4m). This mainly relates to the sale of retail space adjacent to our store in Dublin Grafton Street.

Net finance costs

	52 weeks ended	
	27 Mar 10	28 Mar 09
	£m	£m
Interest payable	(133.7)	(166.0)
Interest income	2.1	14.6
Net interest payable	(131.6)	(151.4)
Unwinding of discount on partnership liability to the Marks and Spencer UK Pension Scheme	(4.0)	(38.0)
One-off premium on repurchase of debt	(13.5)	-
Pension finance income (net)	10.8	35.4
Fair value movement on financial instruments	(8.5)	(10.5)
Net finance costs	(146.8)	(164.5)

Net interest payable was down 13.1% at £131.6m reflecting a decrease in the average net debt over the year, offset by a £13.5m one-off premium on repurchase of debt. Net finance costs were down £17.7m after pension finance income of £10.8m (last year £35.4m), and the unwinding of the discount on the partnership liability to the pension scheme. The Group's average cost of funding was down to 5.9% (last year 6.5%).

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Taxation

The taxation charge is based on a full year pre-exceptional effective tax rate of 25.6% (last year 27.0%).

Earnings per share

Adjusted earnings per share from continuing operations, which excludes the effect of property disposals, increased by 17.9% to 33.0p per share. The weighted average number of shares in issue during the period was 1,572.2m (last year 1,573.2m).

Dividend

In May 2009 the Board took the decision to rebase the Group's dividend payment for 2009/10 to 15p per share. In line with this decision a final dividend of 9.5p per share (last year 9.5p) has been approved. Having re-built cover to two times, the Board's policy is to grow dividends in line with adjusted earnings per share.

Capital expenditure

	<u>Year ended</u>	
	3 Apr 10	28 Mar 09
	£m	£m
Store modernisation programme	75	216
New stores	50	150
International	29	40
Supply chain and technology	194	188
Maintenance	41	58
Total capital expenditure	389	652

Group capital expenditure for the year was £389m. We continued to invest in our supply chain and technology in line with our strategy to build an infrastructure fit to support the future growth of the business.

We added 3.2% of trading space in the UK, trading from 15.4m square feet at the end of March 2010. We opened 24 stores during the year, including 16 Simply Foods, mainly franchises.

Cash flow and net debt

	<u>Year ended</u>	
	3 Apr 10	28 Mar 09
	£m	£m
Cash flow from operations	1,349.7	1,371.9
Capex and disposals	(408.6)	(604.1)
Interest and taxation	(281.4)	(265.7)
Dividends and share issues	(223.6)	(349.3)
Share buyback	-	(40.9)
Other movements	(24.4)	(4.4)
Net cash flow	411.7	107.5

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Opening net debt	(2,490.8)	(3,077.7)
Partnership liability to the UK Pension Scheme	-	539.6
Exchange and other non-cash movements	10.7	(60.2)
Closing net debt	(2,068.4)	(2,490.8)

The Group reported a net cash inflow of £411.7m (last year – inflow £107.5m). Cash inflow from operations decreased by £22.2m, reflecting growth in profits offset by a working capital inflow of £77.9m compared with a £194.0m inflow last year. Inventory levels were higher due to a further increase in direct buying, as well as an improved sales performance. Capital expenditure, net of disposals, was £408.6m (last year - £604.1m) reflecting further investment in our supply chain and IT as well as new space growth. Net debt was £2,068.4m, down £422.4m on last year.

Pensions

At 3 April 2010 the IAS 19 net retirement benefit deficit was £366.5m (28 March 2009 £152.2m). The increase is due to a decrease in the discount rate from 6.75% to 5.5%, as well as the increase in the inflation rate from 2.9% to 3.6%, which have increased the pension liability by c£1.2bn. This increase has been offset in part by a c£1.0bn increase in the market value of the scheme's assets.

On 12 May 2010 the Group announced the outcome of its triennial actuarial valuation which showed a deficit of £1.3bn at 31 March 2009. The Group and the Trustees of the UK defined benefit pension scheme have agreed a funding plan with a present value of £800m. The funding plan includes the following contributions from M&S:

- Cash contributions of £35m per annum for the first three years of the funding plan increasing to £60m per annum until 2018. This has a present day cash value of £376m.
- £300m of value through the granting of a further interest in the property-backed partnership established between M&S and the Pension Scheme in 2007. This new interest entitles the Pension Scheme to a fixed annual distribution of c£36m for 15 years, commencing in 2017, and a capital sum in 2031 equal to the lower of £350m or any funding deficit in the Pension Scheme at that point in time.
- £124m of value through the transfer of assets from existing US\$ debt hedge contracts held by M&S.

The funding plan does not have a material impact on the Group's net assets or income statement.

Guidance

Guidance for financial year 2010/11:

- Gross margin is expected to be broadly level with last year.
- Operating costs before bonus are expected to increase by 4% to 5%, as a result of space growth, increased depreciation and cost inflation.
- The planned opening of new footage will add around 2% to total space, representing a c. 1.5% increase in general merchandise and c. 2.5% increase in food footage, on a weighted average basis. Total square footage at 3 April 2010 was c.15.3m square feet.
- Capital expenditure for 2010/11 is expected to be in the range of £500-£550m.
- Pension finance income, based on the 31 March 2009 valuation of the pension fund, is expected to be c. £38m (last year £10.8m).
- The effective tax rate is expected to be 28% (last year 25.6%)

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Investor & Analyst webcast:

Investor and analyst presentation will be held at 9.00am on 25 May 2010. This presentation can be viewed live on the Marks and Spencer Group plc website on:

www.marksandspencer.com/thecompany.

Video interviews with Stuart Rose, Chairman and Ian Dyson, Group Finance and Operations Director will be available on the above website. The interviews are also available in audio and transcript.

Fixed Income Investor Conference Call:

This will be hosted by Ian Dyson at 14.30pm on Tuesday 25 May 2010:

Dial in number: +44 (0) 207 190 1232

A recording of this call will be available until Wednesday 2 June 2010:

Dial in number: +44 (0) 207 959 6720 Access Code: 142923#

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.

Marks and Spencer Group plc
Registered Office:
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Registered No. 4256886
(England and Wales)

Consolidated income statement

		53 weeks ended 3 April 2010	52 weeks ended 28 March 2009
	Notes	£m	£m
Revenue	2	9,536.6	9,062.1
Operating profit	2	852.0	870.7
Finance income	3	12.9	50.0
Finance costs	3	(162.2)	(214.5)
Profit on ordinary activities before taxation		702.7	706.2
Analysed between:			
Before property disposals and exceptional items		694.6	604.4
Profit on property disposals		8.1	6.4
Exceptional costs		-	(135.9)
Exceptional pension credit	2,7	-	231.3
Income tax expense	4	(179.7)	(199.4)
Profit for the year		523.0	506.8
Attributable to:			
Equity shareholders of the Company		526.3	508.0
Minority interests		(3.3)	(1.2)
		523.0	506.8
Basic earnings per share	5A	33.5p	32.3p
Diluted earnings per share	5B	33.2p	32.3p
Non-GAAP measure:			
Adjusted profit before taxation (£m)	1	694.6	604.4
Adjusted basic earnings per share	5A	33.0p	28.0p
Adjusted diluted earnings per share	5B	32.7p	28.0p

Consolidated statement of comprehensive income

		53 weeks ended 3 April 2010	52 weeks ended 28 March 2009
		£m	£m
Profit for the year		523.0	506.8
Other comprehensive income			
Foreign currency translation differences		(17.4)	33.1
Actuarial losses on retirement benefit schemes		(251.6)	(927.1)
Cash flow and net investment hedges			
- fair value movements in equity		52.1	304.8
- reclassified and reported in net profit		(119.8)	(206.8)
- amount recognised in inventories		4.8	(8.6)
Tax on items taken directly to equity		97.6	225.6
Other comprehensive income for the year, net of tax		(234.3)	(579.0)
Total comprehensive income/(loss) for the year		288.7	(72.2)
Attributable to:			
Equity shareholders of the Company		292.0	(71.0)
Minority interests		(3.3)	(1.2)
		288.7	(72.2)

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Consolidated statement of financial position

Notes	As at 3 April 2010 £m	As at 28 March 2009 £m
ASSETS		
Non-current assets		
Intangible assets	452.8	400.3
Property, plant and equipment	4,722.0	4,834.0
Investment property	22.4	24.8
Investment in joint ventures	11.5	13.8
Other financial assets	3.0	3.0
Trade and other receivables	287.7	336.8
Derivative financial instruments	132.9	254.0
Deferred tax assets	0.7	1.6
	5,633.0	5,868.3
Current assets		
Inventories	613.2	536.0
Other financial assets	171.7	53.1
Trade and other receivables	281.4	285.2
Derivative financial instruments	48.1	92.6
Cash and cash equivalents	405.8	422.9
	1,520.2	1,389.8
Total assets	7,153.2	7,258.1
LIABILITIES		
Current liabilities		
Trade and other payables	1,153.8	1,073.5
Borrowings and other financial liabilities	482.9	942.8
Partnership liability to the Marks & Spencer UK Pension Scheme	71.9	71.9
Derivative financial instruments	27.1	76.2
Provisions	25.6	63.6
Current tax liabilities	129.2	78.9
	1,890.5	2,306.9
Non-current liabilities		
Retirement benefit deficit	7	366.5
Trade and other payables	280.3	243.8
Borrowings and other financial liabilities	2,278.0	2,117.9
Partnership liability to the Marks & Spencer UK Pension Scheme	-	68.0
Derivative financial instruments	-	3.0
Provisions	25.5	40.2
Deferred tax liabilities	126.5	225.5
	3,076.8	2,850.6
Total liabilities	4,967.3	5,157.5
Net assets	2,185.9	2,100.6
EQUITY		
Called-up share capital - equity	395.5	394.4
Share premium account	247.5	236.2
Capital redemption reserve	2,202.6	2,202.6
Hedging reserve	11.6	62.6
Other reserve	(5,970.5)	(5,970.5)
Retained earnings	5,281.9	5,156.4
Total shareholders' equity	2,168.6	2,081.7
Minority interests in equity	17.3	18.9
Total equity	2,185.9	2,100.6

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Consolidated statement of changes in equity

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Other reserve £m	Retained earnings £m	Total £m	Minority interest £m	Total equity £m
As at 30 March 2008	396.6	231.4	2,199.9	(36.9)	(6,542.2)	5,707.9	1,956.7	7.3	1,964.0
Profit/(loss) for the year	-	-	-	-	-	508.0	508.0	(1.2)	506.8
Other comprehensive income:									
Foreign currency translation	-	-	-	(0.8)	-	33.9	33.1	-	33.1
Actuarial losses on retirement benefit schemes	-	-	-	-	-	(927.1)	(927.1)	-	(927.1)
Cash flow and net investment hedges									
- fair value movement in equity	-	-	-	317.2	-	(12.4)	304.8	-	304.8
- reclassified and reported in net profit	-	-	-	(206.8)	-	-	(206.8)	-	(206.8)
- amount recognised in inventories	-	-	-	(8.6)	-	-	(8.6)	-	(8.6)
Tax on items taken directly to equity	-	-	-	(29.3)	-	254.9	225.6	-	225.6
Total comprehensive income	-	-	-	71.7	-	(142.7)	(71.0)	(1.2)	(72.2)
Transactions with owners:									
Dividends	-	-	-	-	-	(354.6)	(354.6)	(0.2)	(354.8)
Derecognition of financial liability	-	-	-	-	571.7	-	571.7	-	571.7
Transactions with minority shareholders	-	-	-	-	-	-	-	13.0	13.0
Transfer of exchange on net investment hedges	-	-	-	27.8	-	(27.8)	-	-	-
Shares issued on exercise of employee share options	0.5	4.8	-	-	-	-	5.3	-	5.3
Shares purchased in buy-back	(2.7)	-	2.7	-	-	(40.9)	(40.9)	-	(40.9)
Charge for share-based payments	-	-	-	-	-	14.3	14.3	-	14.3
Deferred tax on share schemes	-	-	-	-	-	0.2	0.2	-	0.2
As at 28 March 2009	394.4	236.2	2,202.6	62.6	(5,970.5)	5,156.4	2,081.7	18.9	2,100.6
As at 29 March 2009	394.4	236.2	2,202.6	62.6	(5,970.5)	5,156.4	2,081.7	18.9	2,100.6
Profit/(loss) for the year	-	-	-	-	-	526.3	526.3	(3.3)	523.0
Other comprehensive income:									
Foreign currency translation	-	-	-	0.1	-	(17.5)	(17.4)	-	(17.4)
Actuarial losses on retirement benefit schemes	-	-	-	-	-	(251.6)	(251.6)	-	(251.6)
Cash flow and net investment hedges									
- fair value movement in equity	-	-	-	38.0	-	14.1	52.1	-	52.1
- reclassified and reported in net profit	-	-	-	(119.8)	-	-	(119.8)	-	(119.8)
- amount recognised in inventories	-	-	-	4.8	-	-	4.8	-	4.8
Tax on items taken directly to equity	-	-	-	25.9	-	71.7	97.6	-	97.6
Total comprehensive income	-	-	-	(51.0)	-	343.0	292.0	(3.3)	288.7
Transactions with owners:									
Dividends	-	-	-	-	-	(236.0)	(236.0)	-	(236.0)
Transactions with minority shareholders	-	-	-	-	-	-	-	1.7	1.7
Shares issued on exercise of employee share options	1.1	11.3	-	-	-	-	12.4	-	12.4
Purchase of own shares held by employee trusts	-	-	-	-	-	(19.0)	(19.0)	-	(19.0)
Charge for share-based payments	-	-	-	-	-	28.5	28.5	-	28.5
Deferred tax on share schemes	-	-	-	-	-	9.0	9.0	-	9.0
As at 3 April 2010	395.5	247.5	2,202.6	11.6	(5,970.5)	5,281.9	2,168.6	17.3	2,185.9

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Consolidated cash flow information

STATEMENT OF CASH FLOWS

	Notes	53 weeks ended 3 April 2010 £m	52 weeks ended 28 March 2009 £m
Cash flows from operating activities			
Cash generated from operations	9	1,349.7	1,371.9
Tax paid		(120.7)	(81.3)
Net cash inflow from operating activities		1,229.0	1,290.6
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		(5.4)	-
Purchase of property, plant and equipment		(352.0)	(540.8)
Proceeds from sale of property, plant and equipment		20.9	58.3
Purchase of intangible assets		(77.5)	(121.6)
Purchase of non-current financial assets		-	(4.4)
Purchase of current financial assets		(118.3)	(1.1)
Interest received		2.7	12.7
Net cash outflow from investing activities		(529.6)	(596.9)
Cash flows from financing activities			
Interest paid		(163.4)	(197.1)
Cash inflow/(outflow) from borrowings		30.7	(25.8)
(Repayment)/drawdown of syndicated bank facility		(529.4)	108.1
Issue of medium term notes		397.2	-
Redemption of medium-term notes		(200.4)	-
Payment of liability to the Marks & Spencer UK Pension Scheme		(68.0)	(15.1)
Decrease in obligations under finance leases		(17.0)	(1.0)
Equity dividends paid		(236.0)	(354.6)
Shares issued on exercise of employee share options		12.4	5.3
Shares purchased in buy back		-	(40.9)
Purchase of own shares held by employee trust		(19.0)	-
Net cash outflow from financing activities		(792.9)	(521.1)
Net cash (outflow)/inflow from activities		(93.5)	172.6
Effects of exchange rate changes		(2.1)	7.8
Opening net cash		298.3	117.9
Closing net cash		202.7	298.3

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

		53 weeks ended 3 April 2010 £m	52 weeks ended 28 March 2009 £m
Opening net debt		(2,490.8)	(3,077.7)
Net cash (outflow)/inflow from activities		(93.5)	172.6
Increase in current financial assets		118.3	1.1
Decrease/(increase) in debt financing		386.9	(66.2)
Partnership liability to the Marks & Spencer UK Pension Scheme (non-cash)		-	539.6
Exchange and other non-cash movements		10.7	(60.2)
Movement in net debt		422.4	586.9
Closing net debt	10	(2,068.4)	(2,490.8)

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1 General information and basis of preparation

The financial information which comprises the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated cash flow statement and related notes do not constitute full accounts within the meaning of s435 (1) and (2) of the Companies Act 2006. The auditors have reported on the Group's statutory accounts for each of the years 2009/10 and 2008/09, which do not contain statements under s498(2) or (3) of the Companies Act 1985 and are unqualified. The statutory accounts for 2008/09 have been delivered to the Registrar of Companies and the statutory accounts for 2009/10 will be filed with the Registrar in due course.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, IFRIC interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified by the use of valuations for certain financial instruments, share-based payments and retirement benefits.

IFRS 8 'Operating Segments' was issued in November 2006. It replaces IAS 14 'Segmental Reporting' and requires operating segments to be disclosed on the same basis as that used for internal reporting. It has been implemented by the Group from 29 March 2009 and has had no impact on the results or net assets of the Group, but has resulted in revised disclosures. See Note 2 for further details.

IAS 1 (Revised) – 'Presentation of Financial Statements' is effective for the year ended 3 April 2010. The standard requires a change in the format and presentation of the Group's primary statements but has had no impact on reported profits or equity.

Amendment to IAS 23 'Borrowing Costs' was issued in March 2007. It removes the option of immediately expensing borrowing costs that are directly attributable to a qualifying asset and requires such costs to be capitalised. It has been adopted by the Group from 29 March 2009, and has had no impact on the results or net assets of the Group.

IFRS 7 – 'Finance Instruments – Disclosures' (amendment) is effective for the year ended 3 April 2010. The amendment requires enhanced disclosures about fair value measurement and liquidity risk.

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

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

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2 Segmental Information

Adoption of IFRS 8, Operating Segments

The Group has adopted IFRS 8 'Operating Segments' with effect from 29 March 2009. IFRS 8 requires operating segments to be identified on the basis of internal reporting about components of the Group that are regularly reviewed by the chief operating decision maker to allocate resources to the segments and to assess their performance. In contrast, the predecessor Standard (IAS 14 'Segment Reporting') required the Group to identify two sets of segments (business and geographical), using a risks and rewards approach, with the Group's system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments.

The chief operating decision maker has been identified as the executive directors. The executive directors review the Group's internal reporting in order to assess performance and allocate resources. The operating segments are UK and International which are reported in a manner consistent with the internal reporting to the executive directors.

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 executive directors assess the performance of the operating segments based on a measure of operating profit. This measurement basis excludes the effects of exceptional items from the operating segments as well as gains or losses on the disposal of assets. Central costs are all classified as UK costs and presented within UK Operating profit.

The executive directors also monitor revenue within the segments. To increase transparency, the Group has decided to include an additional voluntary disclosure analysing revenue within the reportable segments.

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

	53 weeks ended 3 April 2010		
	Management £m	Adjustment ² £m	Statutory £m
General Merchandise	4,186.2	(34.2)	4,152.0
Food	4,455.5	(39.6)	4,415.9
UK revenue	8,641.7	(73.8)	8,567.9
Wholesale	297.7	-	297.7
Retail	673.1	(2.1)	671.0
International revenue	970.8	(2.1)	968.7
Group revenue	9,612.5	(75.9)	9,536.6
UK operating profit ¹	701.2	-	701.2
International operating profit	142.7	-	142.7
Group operating profit (adjusted)	843.9	-	843.9
Profit on property disposals			8.1
Group operating profit			852.0
Finance income			12.9
Finance costs			(162.2)
Profit before tax			702.7

¹ UK operating profit includes a contribution of £30.4m (last year £24.8m) from M&S Money under the terms of our arrangement with HSBC.

² Adjustments relate to revenue items recognised in cost of sales for management accounting purposes.

2 Segmental Information continued

	52 weeks ended 28 March 2009		
	Management £m	Adjustment £m	Statutory £m
General Merchandise	3,944.4	(26.1)	3,918.3
Food	4,282.3	(36.3)	4,246.0
UK revenue	8,226.7	(62.4)	8,164.3
Wholesale	272.3	-	272.3
Retail	627.2	(1.7)	625.5
International revenue	899.5	(1.7)	897.8
Group revenue	9,126.2	(64.1)	9,062.1
UK operating profit	652.8	-	652.8
International operating profit	116.1	-	116.1
Group operating profit (adjusted)	768.9	-	768.9
Profit on property disposals			6.4
Exceptional costs			(135.9)
Exceptional pension credit			231.3
Group operating profit			870.7
Finance income			50.0
Finance costs			(214.5)
Profit before tax			706.2

Other segmental information

	2010		2009	
	UK	International	UK	International
		Total		Total
		£m		£m
Additions to tangible and intangible assets (excluding goodwill)	360.0	29.3	389.3	611.8
Depreciation and amortisation	398.7	29.2	427.9	384.4
Assets	6,242.7	910.5	7,153.2	6,530.8
			727.3	7,258.1

3 Finance income/(costs)

	53 weeks ended	52 weeks ended
	3 April 2010	28 March 2009
	£m	£m
Finance income		
Bank and other interest receivable	2.1	14.6
Pension finance income (net)	10.8	35.4
Finance income	12.9	50.0
Finance costs		
One-off premium on repurchase of debt	(13.5)	-
Interest on bank borrowings	(7.1)	(6.2)
Interest payable on syndicated bank facility	(5.9)	(41.0)
Interest payable on medium-term notes	(117.9)	(113.9)
Interest payable on finance leases	(5.3)	(4.9)
Fair value movements on financial instruments designated as fair value through profit and loss	(8.5)	(10.5)
Unwinding of discount on partnership liability to the Marks & Spencer UK Pension Scheme	(4.0)	(38.0)
Finance costs	(162.2)	(214.5)
Net finance costs	(149.3)	(164.5)

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4 Taxation

The post-exceptional effective tax rate was 25.6% (last year 28.2%) and the pre-exceptional effective tax rate was 25.6% (last year 27.0%).

5 Earnings per share

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

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

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has only one class of dilutive potential ordinary shares being those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year.

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

	53 weeks ended 3 April 2010 £m	52 weeks ended 28 March 2009 £m
Earnings after tax	526.3	508.0
Property disposals (net of tax)	(8.1)	(6.4)
Exceptional costs (net of tax)	-	105.7
Exceptional pension credit (net of tax)	-	(166.6)
Adjusted earnings after tax	518.2	440.7
	million	million
Weighted average number of ordinary shares in issue	1,572.2	1,573.2
Potentially dilutive share options under Group's share option schemes	14.3	0.8
Weighted average number of diluted ordinary shares	1,586.5	1,574.0
A Basic earnings per share	pence	pence
Basic earnings per share	33.5	32.3
Property disposals per share	(0.5)	(0.4)
Exceptional costs per share	-	6.7
Exceptional pension credit per share	-	(10.6)
Adjusted basic earnings per share	33.0	28.0
B Diluted earnings per share	pence	pence
Diluted earnings per share	33.2	32.3
Property disposals per share	(0.5)	(0.4)
Exceptional costs per share	-	6.7
Exceptional pension credit per share	-	(10.6)
Adjusted diluted earnings per share	32.7	28.0

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6 Dividends

	53 weeks ended 3 April 2010	52 weeks ended 28 March 2009
	£m	£m
Final dividend of 9.5p per share (last year 14.2p per share)	149.6	224.1
Interim dividend of 5.5p per share (last year 8.3p per share)	86.4	130.5
	236.0	354.6

In addition the directors have proposed a final dividend in respect of the year ended 3 April 2010 of 9.5p per share amounting to a dividend of £150.4m. It will be paid on 16 July 2010 to shareholders who are on the Register of Members on 4 June 2010. In line with the requirements of IAS 10 - 'Events after the Balance Sheet Date', this dividend has not been recognised within these results.

7 Retirement benefits

	53 weeks ended 3 April 2010	52 weeks ended 28 March 2009
	£m	£m
Opening net retirement benefit (deficit)/asset	(152.2)	483.5
Current service cost	(56.3)	(72.2)
Exceptional pension credit	-	231.3
Curtailement (charge)/gain	(1.0)	5.0
Interest cost	(270.6)	(299.2)
Expected return on scheme assets	281.4	334.6
Employer contributions	82.7	92.1
Actuarial losses	(251.6)	(927.1)
Exchange movement	1.1	(0.2)
Closing net retirement benefit deficit	(366.5)	(152.2)
Total market value of assets	4,948.6	3,977.0
Present value of scheme liabilities	(5,298.6)	(4,112.4)
Net funded pension plan deficit	(350.0)	(135.4)
Unfunded retirement benefits	(0.9)	(1.0)
Post-retirement healthcare	(15.6)	(15.8)
Net retirement benefit deficit	(366.5)	(152.2)

The main financial assumptions used to assess the liabilities of the scheme have been updated by independent qualified actuaries to assess the liabilities of the scheme. The most significant of these are the discount rate and the inflation rate which are 5.5% (last year 6.8%) and 3.6% (last year 2.9%) respectively.

The amount of the deficit varies if the main financial assumptions change, particularly the discount rate. If the discount rate increased/decreased by 0.1% the IAS 19 deficit would decrease/increase by c.£90m.

8 Capital expenditure and contingencies

A Capital commitments

	As at 3 April 2010	As at 28 March 2009
	£m	£m
Commitments in respect of properties in the course of construction	69.0	52.1

B Other material contracts

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

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9 Cash flow analysis

	53 weeks ended 3 April 2010	52 weeks ended 28 March 2009
	£m	£m
Cash flows from operating activities		
Profit on ordinary activities after taxation	523.0	506.8
Income tax expense	179.7	199.4
Finance costs	162.2	214.5
Finance income	(12.9)	(50.0)
Operating profit	852.0	870.7
Increase in inventories	(74.3)	(46.0)
Decrease in receivables	25.3	55.0
Payments to acquire leasehold properties	-	(14.1)
Increase in payables	132.5	212.2
Exceptional operating cash outflow	(34.1)	(27.4)
Depreciation and amortisation	427.9	409.0
Share-based payments	28.5	14.3
Profit on property disposals	(8.1)	(6.4)
Exceptional costs	-	135.9
Exceptional pension credit	-	(231.3)
Cash generated from operations	1,349.7	1,371.9

10 Reconciliation of net debt to statement of financial position

	As at 3 April 2010	As at 28 March 2009
	£m	£m
Statement of financial position and related notes		
Cash and cash equivalents	405.8	422.9
Current financial assets	171.7	53.1
Bank loans and overdrafts	(267.4)	(159.1)
Syndicated bank facility	(219.8)	(781.2)
Medium-term notes - net of hedging derivatives	(2,048.2)	(1,848.1)
Finance lease liabilities	(89.8)	(101.9)
Partnership liability to the Marks & Spencer UK Pension Scheme	(71.9)	(139.9)
	(2,119.6)	(2,554.2)
Interest payable included within related borrowings	51.2	63.4
Total net debt	(2,068.4)	(2,490.8)

11 Business combinations

	£m
Net liabilities at fair value (100%)	(2.4)
Net liabilities acquired	(1.2)
Cash consideration	6.1
Transaction costs	0.9
Total consideration	7.0
Goodwill arising on acquisition	8.2

On 31 March 2009, Marks and Spencer Reliance India Pvt Limited, a 51% subsidiary of the Group, completed the acquisition of 100% of the issued share capital of Supreme Tradelinks Private Limited, which up until this date was the Group's franchisee in India, for cash consideration of £6.1m and transaction costs of £0.9m.

The acquisition has contributed £8.3m to sales and a £0.2m loss to operating profit in the period since acquisition, which is the same contribution had the acquisition taken place on the first day of the financial period.

Goodwill has arisen on the acquisition due to the opportunities to facilitate a faster rate of growth and greater operating efficiency that do not meet the criteria for recognition as an intangible asset at the date of acquisition.

12 Related party transactions

Supplier transactions occurred during the year between the Group and a company controlled by a close family member of Kate Bostock, an executive director of the Group. These transactions amounted to £6.5m during the year (last year £5.2m) with an outstanding trade payable of £0.4m at 3 April 2010 (last year £nil). The company was a supplier prior to Kate's employment by the Group.

Supplier transactions occurred during the year between the Group and a company controlled by Martha Lane Fox's partner. Martha is a non-executive director of the Group. These transactions amount to £1.7m during the year (last year £0.1m) with an outstanding trade payable of £0.8m at 3 April 2010 (last year £nil).

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Our principal risks

Our risk process is designed to identify, evaluate and manage key business risks. The table below gives examples of what we do to manage these risks. The Board considers these to be the most significant risks to achieving our business goals. The risks listed do not comprise all those associated with Marks & Spencer and are not set out in any order of priority. Additional risks not presently known to management, or currently deemed to be less material, may also have an adverse effect on the business.

<p>Strategy and finance</p> <p>Our current priorities place a greater emphasis on managing our business through the downturn, underpinning our strong financial position and continuing to invest for the long term, to be well placed when the market improves.</p>	
<p>Risk description and impact</p>	<p>Mitigating activities</p>
<p>Economic outlook: Poor outlook for the UK and global economy impacts our ability to deliver our market share and margin ambitions</p>	<ul style="list-style-type: none"> • Regular review of pricing, promotion and marketing strategies for appropriateness and their ability to adapt to a changing consumer market • Ongoing close working with suppliers to help them take cost out of their supply base • Adapting product ranges to meet changing customer needs
<p>Competition: Increasing competitor activity impacts our ability to increase or maintain UK market share across GM, Food and/or online</p>	<ul style="list-style-type: none"> • Comparative shops and feedback with core customer panels • Targeted marketing strategy in place to respond to new competitors in key locations • Maintenance of our opening price point values
<p>Financial position: Deterioration in our financial position limits our flexibility and ability to grow the business</p>	<ul style="list-style-type: none"> • Regular forecasting of debt capacity, financial covenants and other rating metrics within current rating bands • Key management and external advisors fully engaged in formulating strategy for agreeing the pension deficit and funding plan • Ongoing communication with rating agencies and brokers

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Brand and reputation

We are proud of our brand values of Quality, Value, Service, Innovation and Trust which differentiate our products and services.

We have also set ourselves the goal through Plan A to be the most sustainable major retailer in the world by 2015.

Risk description and impact**Mitigating activities**

Brand/reputation: Failure to meet customer and/or external stakeholder expectations impacts the M&S brand

- Brand values reinvigorated through 'quality worth every penny'
- Customer Insight Unit obtains monthly customer feedback and regularly presents findings to the Group Board, Management Board and the business to drive improvement
- Code of Ethics communicated to the Group and third parties to make sure business is carried out in line with our policies and procedures
- Clear communications plan in place to respond to a major crisis, which is tested annually

Plan A: Failure to meet our commitments reduces stakeholder trust and confidence

- Plan A team in place supported by a dedicated programme manager
- Clear accountabilities set at director level to ensure delivery against our Plan A commitments
- Regular reporting to the How we do business Committee and the Group Board with independent assurance from Ernst & Young

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<p>People and change As we increase the pace of change in the business and continue to invest for the future, it is important to keep strengthening our people and processes at every level.</p>	
Risk description and impact	Mitigating activities
<p>People: Failure to attract, develop and retain key employees (head office and stores) limits our ability to deliver our plans</p>	<ul style="list-style-type: none"> • Formalised objective setting in place for all employees, including behaviours aligned to the M&S brand values • Lead to Succeed leadership programme underway to develop and fast track current and potential leaders • Learning and development opportunities available and promoted across all business areas • Bonus scheme in place for all employees based on business and individual objectives
<p>Change projects: Failure to effectively deliver our major change projects and minimise disruption to day-to-day operations impacts our business</p>	<ul style="list-style-type: none"> • Governance structures and delivery teams in place with robust project management discipline across all major change programmes • 2020 Cross Workstream Dependency Management Forum in place to oversee major change projects • New Group Investment Committee and expenditure policy established for all investment and commitment between £1m-£15m • Regular updates to the Group Board on progress against key project milestones
<p>Day-to-day operation We are the UK's leading retailer of quality clothing, food and home products, with more than 21 million UK customers and over 2,000 suppliers.</p>	
Risk description and impact	Mitigating activities
<p>Stock management: Ineffective stock management impacts availability in stores and online (GM, Food and International)</p>	<ul style="list-style-type: none"> • Significant investment in IT and aligned business processes across the Group to improve forecasting, availability and stock control • New and improved commercial tools to enable business areas to manage stock better

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<p>IT security: Major breach in IT security results in severe service disruption or disclosure of personal customer information</p>	<ul style="list-style-type: none"> • Business crisis management team and processes in place to deal with significant IT security incidents that impact our ability to trade • Clear policies and agreements in place where data is shared or processed by third parties • Extensive controls in place in accordance with international standards for establishing and maintaining information security management
<p>Suppliers/third parties: Failure of a key supplier or third party provider impacts the service provided to our customers</p>	<ul style="list-style-type: none"> • Financial monitoring of all suppliers and flexible payment terms for major suppliers during difficult economic conditions • Dialogue with suppliers and third party providers to identify any issues early on and ensure good working relationships • Review of our supply base to reduce reliance on key suppliers where appropriate
<p>Supply chain: Major disruption to the supply chain impacts the delivery of the Group's objectives</p>	<ul style="list-style-type: none"> • Central IT and back up available to provide support in the event of a system failure at a key site • Business continuity and disaster recovery plans in place and tested at least annually
<p>Selling channels We have ambitious plans for our M&S Direct and International businesses as part of our commitment to broadening our multi-channel offer.</p>	
<p>Risk description and impact</p>	<p>Mitigating activities</p>
<p>M&S Direct: Failure to keep pace with customer expectations in a fast-developing sector inhibits our ability to compete and grow our Direct business</p>	<ul style="list-style-type: none"> • Clear growth strategy for Direct • Ongoing focus on performance of website platform, order fulfilment and customer service • Continual review against the market and our competitors

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<p>International: Failure to leverage our systems and processes limits growth of our International business through franchises, partnerships and wholly-owned businesses</p>	<ul style="list-style-type: none"> • New leadership, operating structure and people in place to support the International business • Regular executive business reviews and updates to the Group Board to ensure progress against key milestones and identification of emerging business opportunities • Plans underway to improve systems and processes supporting our International business
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Financial risks and uncertainties

The principal financial risks faced by the Group are liquidity/funding, interest rate, foreign currency and counterparty risks. The policies and strategies for managing these risks are summarised as follows:

(a) Liquidity/funding risk

The risk that the Group could be unable to settle or meet its obligations as they fall due at a reasonable price.

- The Group’s funding strategy ensures a mix of funding sources offering flexibility and cost effectiveness to match the requirements of the Group.
- Operating subsidiaries are financed by a combination of retained profits, bank borrowings, medium-term notes and committed syndicated bank facilities.

(b) Counterparty risk

Counterparty risk exists where the Group can suffer financial loss through default or non-performance by financial institutions.

Exposures are managed through Group treasury policy which limits the value that can be placed with each approved counterparty to minimise the risk of loss. The counterparties are limited to the approved institutions with secure long-term credit ratings A+/A2 or better assigned by Moody’s and Standard & Poor’s respectively, unless approved on an exceptional basis by a Board director. Limits are reviewed regularly by senior management. The credit risk of these financial instruments is estimated as the fair value of the assets resulting from the contracts.

The Group has very low retail credit risk due to transactions being principally of a high volume, low value and short maturity.

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(c) Foreign currency risk

Transactional foreign currency exposures arise from both the export of goods from the UK to overseas subsidiaries, and from the import of materials and goods directly sourced from overseas suppliers.

Group treasury hedge these exposures principally using forward foreign exchange contracts progressively covering up to 100% out to 18 months. Where appropriate hedge cover can be taken out longer than 18 months with Board approval. The Group is primarily exposed to foreign exchange in relation to sterling against movements in US dollar and euro.

Forward foreign exchange contracts in relation to the Group's forecast currency requirements are designated as cash flow hedges with fair value movements recognised directly in equity. To the extent that these hedges cover actual currency payables or receivables then associated fair value movements previously recognised in equity are recorded in the income statement in conjunction with the corresponding asset or liability.

The translation exposures arising on the overseas net assets are hedged with foreign currency debt.

The Group also hedges foreign currency intercompany loans where these exist.

Forward foreign exchange contracts in relation to the hedging of the Group's foreign currency intercompany loans are designated as held for trading with fair value movements being recognised in the income statement. The corresponding fair value movement of the intercompany loan balance results in an overall nil impact on the income statement.

(d) Interest rate risk

The Group is exposed to interest rate risk in relation to the sterling, US dollar, euro and Hong Kong dollar variable rate financial assets and liabilities.

The Group's policy is to use derivative contracts where necessary to maintain a mix of fixed and floating rate borrowings to manage this risk. The structure and maturity of these derivatives correspond to the underlying borrowings and are accounted for as fair value or cash flow hedges as appropriate.

Responsibility statement

The 2010 Annual Report, which will be issued on 10 June 2010, contains a responsibility statement in compliance with DTR 4.1.12. This states that on 24 May 2010, the date of approval of the Annual Report, the Directors confirm that to the best of their knowledge:

- the Group and Company financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Business review contained in the Annual report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

The Directors of Marks and Spencer Group plc are listed in the Group's 2009 Annual Report, with the exception of John Dixon and Marc Bolland who were appointed as executive directors with effect from 9 September 2009 and 1 May 2010 respectively. A list of current Directors is maintained on the Group's website: www.marksandspencer.com

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