

Issued: 22nd May 2012

MARKS AND SPENCER GROUP PLC
FULL YEAR RESULTS 2011/12 - 52 WEEKS ENDED 31 MARCH 2012

Marks & Spencer performed well in a challenging economic environment and made good progress in delivering our strategy

Final results:

- Group sales up 2.0% at £9.9bn
- Total UK sales +1.5%: Food +3.9%; General Merchandise -0.9% (Clothing +0.2%, Home -10.0%)
- Like-for-like UK sales +0.3%: Food +2.1%; General Merchandise -1.8%
- International sales +5.8%
- Multi-channel sales +18%
- Underlying profit before tax¹ £705.9m (last year £714.3m)
- Underlying basic earnings per share¹ 34.9p (last year 34.8p)
- Full year dividend 17.0p per share (last year 17.0p)
- Net debt £1.86bn (last year £1.90bn)

Statutory results:

- Profit before tax £658.0m (last year £780.6m)
- Basic earnings per share 32.5p (last year 38.8p)

Marc Bolland, Chief Executive, said:

“Marks & Spencer performed well in a challenging economic environment, growing group sales by 2% and holding market share. We also made good progress with our strategic plans.

“We managed the business prudently with tight control of costs and capital investment, delivering earnings in line with last year, and substantial efficiency savings in our capital investment plans.

“Whilst the economic environment has deteriorated since we first set out our strategic plans, we have made significant progress. Our UK pilot stores are delivering good results, which has given us the confidence to launch phase two of the programme. We are well on track to become a truly international multi-channel retailer. By the end of this year we will be transacting from 10 websites worldwide and opening around 100 international stores per year.”

Robert Swannell, Chairman said:

“We have a clear strategy for the business. We remain focused on delivering this strategy effectively and efficiently.

“In line with the dividend policy set out last year, the Board is recommending a final dividend of 10.8p per share, resulting in an unchanged full year dividend of 17p per share.”

Operational highlights:

- Maintained market share² in Clothing and Food
- Managed our operating cost base tightly
- Overall £300m saving in capital investment over three years
- Strong LFL growth in key strategic International markets
- Food availability up 2%, net waste down 10%
- Good progress with supply chain and IT programme implementation

Pilot stores

- Pilot stores delivering 2.5% sales uplift and 13% IRR
- Strong customer feedback
- Phase two launches today including new Beauty department

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Waterside House
35 North Wharf Road
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Progress against the three year plan

- New 'Only at Your M&S' ranges introduced including exclusive collaborations with Conran and Richard James
- Store segmentation model completed; roll-out by mid 2013
- Selective new space additions planned with focus on Shop Your Way
- M&S brand and all clothing sub-brands re-launched; roll-out by mid 2013
- Delivered more choice in GM through new fast fashion collections
- New home concept developed; rolling out from Q2
- Reinforced Food specialist positioning through innovation with 1,900 new lines and 100 international food brands
- Enabled fuller Food shop with increase in SKUs from 6,000 to 7,000
- 37 new international stores opened; 100 openings per year planned going forward
- International websites launched in France and Republic of Ireland; 10 websites in place by the end of the year

We will update on our first quarter sales on 10 July 2012.

¹ Underlying results are consistent with how the business is measured internally. Adjustments to derive underlying profit include profit and loss on property disposals, one-off impairment charges, fair value movements on financial instruments and embedded derivatives, one-off pension credits and strategic programme costs which are not considered normal operating costs of the business.

² Kantar Worldpanel 52 weeks ended 15 April 2012: Clothing value share 11.7%; Food and Drink share 3.8%

2011/12 full year operating review:

Against an increasingly challenging consumer backdrop, we took action to manage the business prudently. In a highly promotional market we invested in giving our customers great value at a time when they are managing their budgets carefully. We managed our costs, capital investment and stocks tightly. As a result we delivered earnings in line with last year, and made substantial efficiency savings in our capital investment plans.

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Our strategy to transform M&S into a leading international, multi-channel retailer remains unchanged and has been validated by strong sales growth in these areas over the last year. We are making good progress but successful execution of our strategy requires us to adapt to both market opportunities and current market conditions. In November 2010 we set out a target to grow our revenues by £1.5bn to £2.5bn over the next three years. As a result of the deterioration in the economic environment since we set out our plan, we now expect to achieve £1.1bn to £1.7bn increase in revenues. While conditions in the UK are predicted to be more difficult than originally forecast, we are on track to deliver both international and multi-channel targets.

Sales

Group sales were up 2.0% driven by strong performances in our Food and International businesses.

General Merchandise sales were down 0.9% with like-for-like sales down 1.8%. Customers appreciated our interpretations of seasonal trends, underpinned by our continued focus on great value and quality. We delivered strong performances across Lingerie, Menswear and Kidswear but saw a more mixed performance in both Womenswear and Home, with the latter impacted by our decision to exit from the technology market.

Food performed strongly in a tough market with total sales up 3.9% to £4.7bn and like-for-like sales up 2.1%. We maintained our focus on freshness, speciality and convenience and continued to lead the way with high quality, first to market products. Our customers benefited from greater choice across all our ranges – and our commitment to innovation kept our offer fresh and exciting.

International sales were up 5.8%. Our key priority markets of India, China and Hong Kong saw strong growth, driven by good like-for-like growth and new space. We returned to France in November, opening our first store in Paris, and launching our first international website. Trading conditions were difficult in Greece and the Republic of Ireland. We took full management control of our Czech and Eastern European business and are currently restructuring it. We also took greater control of the Greek and Balkans business at the end of the year. Our franchise business continued to perform well, with the Far East and the Middle East regions growing strongly.

UK gross margin

UK gross margin was down 30 basis points at 40.8%. General merchandise gross margin was down 80 basis points at 51.4% as a result of increased promotional activity, input price inflation and adverse currency pressure. Food gross margin was up 50 basis points at 31.4% with better management of promotions and waste, as well as early benefits from new systems implementation, helping to offset commodity price increases.

UK operating costs

UK operating costs were up 1.5% on last year. We continued to manage costs tightly with a real focus on savings against a backdrop of a challenging trading environment. Retail staffing, occupancy and distribution costs were well controlled, despite growth in selling space, the annual pay review and other inflationary pressures.

Underlying operating profit

Underlying group operating profit was £810.0m (last year £824.9m). Within this, UK operating profit was £676.6m (last year £677.9m) and International operating profit was £133.4m (last year £147.0m).

Net debt and cash flow

Net debt at year end was £1.86bn. Our working capital was well managed with a £161.9m inflow. Inventory levels were down £3m on last year largely due to our tight management of stock more than offsetting increased cost prices and the ongoing move from Full Service Vendor to Direct sourcing in General Merchandise.

Capital expenditure, net of disposals, was £720.7m (last year £450.3m) reflecting increased investment in our supply chain and IT programme, new space growth and the implementation of the new store format.

On 21 May 2012 the Group changed the terms of the Scottish Limited Partnership (the Partnership) to waive the Group's limited discretionary right over the annual distributions from the Partnership to the Pension Trustee. These discretionary rights were agreed with our Trustee in 2009, the time of the last triennial valuation.

This change will not have any impact on the cash flows of the Group, but will, prospectively from 21 May 2012, result in a change in the accounting treatment. The change will reflect (i) the recognition of a financial liability, representing the present value of the remaining 10 years of distributions of £71.9m per annum, and (ii) an increase in the Group's annual interest charge of c. £17m to reflect the unwinding of the discount on the liability. In Financial Year 2012/13 the change will result in an increase in the Group's reported net debt of £537m and a decrease in total net assets of £551m. The Group's obligations to the Pension Trustee remain unchanged and this will not have any material impact on the Group's credit rating.

2011/12 full year business review:

In November 2010 we set out our three year plan to transform M&S into a truly international, multi-channel retailer. We have made strong progress against our medium and long term objectives in the first year of the plan.

1) Focus on the UK

Our first priority, from 2010 to 2013, is to focus on the UK. We are doing this by developing the M&S brand, improving our stores, and focusing on our Clothing, Home and Food businesses.

Brand

In November 2010, we launched 'Only at Your M&S', a brand positioning which encapsulates our special qualities and highlights the lengths to which we go in order to deliver unique 'M&S only' products. 'Only at Your M&S' continued to underpin all our campaigns, reminding customers of the unique products that make M&S special. Last year we also launched our first ever sub-brand advertising to support the transformation of sub-brands including Autograph and Limited Collection, from 'labels' into distinctive, stand-alone brands. Our 2012 summer advertising is perfectly capturing the nation's celebratory mood. With its focus on special occasions – and spending time with family and friends – the campaign highlights our position as the UK's most trusted retailer.

Stores

In November 2011 we launched 15 pilot stores, designed to trial a more inspiring shopping environment, and make our stores easier to shop with a new approach to store segmentation and improved in-store navigation. The first phase of the new format has delivered more defined brand areas that reflect the unique handwriting of each clothing sub-brand, enabling customers to quickly identify which best suits their style. The refreshed Food Halls support our position as a speciality food retailer – with revamped artisan bakeries and fresh deli counters, as well as new international food brands.

We are pleased with the initial results in these stores. The sales performance over the first six months of trading has been 2.5% ahead of the control group, achieving a 13% internal rate of return, above our hurdle rate of 12%. Throughout this period we made enhancements to the format which have resulted in improved trend in sales. Those departments included in the first phase have shown material outperformance compared to departments yet to be tackled as part of phase two. There has also been a 9% pts improvement in brand perception in these stores. In addition we have identified £100m of efficiency savings in the programme, with no reduction in scope.

These results have given us the confidence to continue the roll out across the remainder of our store estate. The first phase of the new format has been rolled out to 92 stores to date, including 56 Simply Food stores, representing c. 15% of our space. From today, we are also rolling out the second phase of the new format, which includes new Beauty, Footwear and Home schemes. The target completion date of mid 2013 remains unchanged.

In line with plans outlined last year, we have continued our modernisation programme, designed to deliver an improved in-store environment in some 90 stores not modernised in the last programme. We completed work on 35 stores in the year.

We have also completed our work to better segment our stores according to local demographics. This has ensured that we have the right product mix in place and allocate the correct amount of space in store to individual ranges. The new segmentation is being rolled out alongside the new store format over the coming year.

Clothing

In a highly competitive market, M&S held its number one position in the UK market. Overall Clothing and Home sales were down 0.9% with Home impacted by our decision to exit from Technology. We held our share of the Clothing market at 11.7% with growth across Menswear, Lingerie and Kidswear. Customers appreciated our interpretations of seasonal trends, underpinned by our continued focus on great value and quality. We delivered strong performances across Lingerie, Menswear and Kidswear but saw a more mixed performance in both Womenswear and Home.

We consistently offered quality clothing at great prices for all our customers, whatever their style or budget. We catered to our customers' desire to trade up, by delivering more choice in our 'Better and Best' products. However our offer in 'Good' was not strong enough and we were impacted by merchandising issues in the last quarter of the year. In response, we have taken action to strengthen our merchandising and design teams and review our buying and merchandising processes.

In a highly promotional market we invested in giving our customers even better value by offering high impact promotions in selected areas, such as the 3 for £10 knicker offer, driving record performances on featured ranges such as our favoured Brazilian knickers, up 49%.

Our reputation for unbeatable quality helped drive growth in heartland areas such as men's everyday essentials, up 11%. Parents placed their trust in M&S quality and value resulting in record year in Kidswear. At the same time, we made the season's key looks work for the M&S customer and launched our first-ever core fast-fashion range under our M&S Woman brand which was delivered on a six week lead time.

Last year, we set out plans to increase the role of the M&S brand so it became a brand destination of choice in its own right. This represents around half of our offer and we took steps to revitalise the collection with the launch of M&S Woman and M&S Man brands, which are more modern and desirable and deliver more style credibility to the core M&S range. We have also re-launched all of our sub-brands to give them more distinctive values and identities, turning them from labels to real brands. This new branding is currently being rolled out across all our stores, with the pilot stores trialling a new approach to in-store presentation.

Home

We focussed on product in our core departments of kitchen & dining, bedding and bath, all of which delivered good growth. We also made early progress against our objective of developing a 'lifestyle' approach to our Home offer, segmenting it into Classic, Contemporary and Design, with the launch of the first full 'Conran Exclusive Design, Only at M&S' collection, with 314 products in 41 stores. We have also introduced a new range of design-led products, by the leading European designer Marcel Wanders.

In a difficult market customers remained cautious about spending on big ticket furniture items, opting to update rooms with our core accessories range. This environment, coupled with our exit from Technology in the summer of 2011, resulted in sales being down 10%.

We have now developed a new store format for our Home department, which will transform the way we showcase the product and make use of technology to improve the range and ease of shopping for our customers. This will be rolled across our stores in the year ahead, starting with our new Cheshire Oaks store in August.

Food

Our Food business performed strongly in a tough market with total sales up 3.9% to £4.7bn and like-for-like sales up 2.1%. We maintained our focus on freshness, speciality and convenience and continued to lead the way with high quality, first to market products. Our customers benefited from greater choice across all our ranges – and our commitment to innovation kept our offer fresh, new and exciting.

Customers tell us that the quality of our food sets us apart from our competitors, and despite pressure on budgets, they do not want to compromise on quality. During the year we improved the quality of many of our existing products, without increasing prices. For example, we made one of our all time lunch favourites even better value, adding 40% more prawns to our Prawn Mayo sandwich. This increased sales by 21%.

We continued to lead the market on innovation, introducing some 1,900 new lines. In the autumn we launched the Dessert Menu range which has now become the number one chilled dessert brand in the UK. For the festive season, we made it easier for customers to entertain at home, resulting in our best ever week on party food, with 2.3 million packs sold. We also offered more choice, with the aim of encouraging our regular customers to do more of their weekly shop with us as well as improve space utilisation in our Food Halls. We increased our catalogue by 1,000 lines to 7,000.

We highlighted our great value through bigger, more impactful promotions. Now in its fourth year, our Dine In for £10 promotion continued to increase in popularity. We adapted the format with a more traditional meal deal for £5. We run weekly price checks against the competition to ensure our everyday products remain competitive. With value front of mind for our customers, this month we introduced Simply M&S, a range of over 500 products that highlights M&S quality at great every day prices.

During the year we also embarked on an exciting programme of changes to our Food Halls, reinforcing our status as a specialist food retailer and clearly differentiating our already strong proposition. We re-launched new in-store bakeries and introduced deli counters to some of our stores, bringing elements of theatre to our food service. The improved Food Halls deliver an exciting visual experience for customers that showcase the outstanding quality and freshness of our products.

From our commitment to sustainable fishing to our Fairtrade partnerships, our close working relationships with suppliers help us deliver food that is ethically sourced and of the highest quality. Our high standards of animal welfare were recognised this year, with a Sustained Excellence in the RSPCA Good Business Awards 2011.

We have worked on improving our on-shelf availability and reducing levels of waste through better planning and merchandising, and ongoing implementation of new IT systems, including a space range and display solution. In September, we introduced staff zoning across our Food Halls. Each member of staff now has responsibility for a specific area of the store, allowing them to provide customers with better service through improved on-shelf availability and more product knowledge. These initiatives have contributed to a 10% reduction in net waste.

UK space growth

Over the year, we continued to develop our UK store portfolio, adding 434,000 sq ft, or 2.1% of space on a weighted average basis. The highlight was the opening of our store at Westfield Stratford City, adjacent to the London Olympic Park, which at 136,000 sq ft is our third largest store.

In light of increased growth in multi-channel, we have reviewed our space requirements for the future. We will continue to develop our space selectively, particularly Simply Food stores, which have been a very successful format. We now expect to invest £200m less in our UK retail estate over the remaining two years of the plan. In the current year we expect space growth of c. 3%, reducing to c. 2.5% in the following year, with a further reduction thereafter.

Despite the growth in multi-channel we believe physical space will continue to play an important role, and will help us to deliver an improved Shop Your Way service for our customers.

2) Multi-channel

Sales were up 18% to £559m, growing ahead of the market (Source: BRC). Our multi-channel operations continue to be a key area of growth, as our customers increasingly shop with us via a range of different channels.

We grew our share of online traffic with an average of 3.4m weekly visitors, 11% up on last year, and continued to see good growth in conversion. Our mobile site experienced over 300% growth in visits. We invested in an improved shopping experience, through adding extra convenience in next day delivery options, making it easier to view products through zoom and video, and improving our search functionality. We gave customers more choice through adding new online exclusive products. We introduced personalisation service on wardrobe essentials like chinos and little black dresses. We launched Outlets online, offering even more customers access to discounts on our clothing ranges. The site received over 1.1m visitors in its first six weeks. Our Christmas Food was also available to order on-line for the first time, driving a 22% uplift in sales. All these improvements helped drive a significant acceleration in our online growth rate between H1 and H2.

With a flexible range of order and delivery options, our Shop Your Way service continued to grow in popularity with 40% of orders now collected in store. In order to bring the web into stores, in October 2011 we launched a trial of an e-boutique, Style Online, using the latest technology to provide customers with a more interactive and inspirational shopping experience and allow us to extend the reach of our sub-brands. New browse and order points are also being trialled to enable customers to shop more of our product catalogue. In some stores we have equipped advisors with iPads to offer more personal assistance to customers.

We made progress against our plans to become an international, multichannel retailer, with the launch of our first international websites for the French and Irish markets, and the continued growth of international deliveries from our UK site. We have plans to add eight new international websites by the end of this financial year.

We are making progress with design and build of our new platform, which will provide us with capabilities to fulfil our multi-channel ambitions. Laura Wade-Gery joined us in July as Executive Director, Multi-channel E-commerce. She has recruited a team of industry leaders, and we are confident we now have a great team in place to drive the delivery of all aspects of the plan.

3) International

Our International business continued to perform well, with sales up 5.8% to £1.1bn. Our strategy is to transform M&S into an international, multi-channel retailer and reduce our dependency on the UK economic cycle.

We have made good progress this year, opening a total of 37 new stores and now have 387 stores in 43 territories. We are pleased that we have now developed the organisational capability which will enable us to accelerate growth over the next 18 months, opening around 100 stores and multiple country websites per year. As a result we expect to increase our investment in the International business by £50m over the three years of the plan.

Jan Heere joined us in May 2011, as Director of International. Over the past year Jan has been building up organisational capability across our International business. We now have a new organisational structure, with three new regional directors, with strong international retail background, for our priority markets in Europe, Asia and Middle East. We have integrated international marketing and buying into the core head office teams, and we now buy for all our local customers using in country knowledge and expertise, alongside local sourcing in some markets, to deliver a more appropriate offer for each market. We also created an international visual merchandising team to ensure M&S customers, wherever they are, have a more consistent brand experience.

We continue to drive growth in our existing priority territories: China, India, Russia and the Middle East. Our Shanghai stores continued to perform strongly and we now have seven stores, having opened three this year. Our Hong Kong stores also continued to perform strongly and we opened one new store. Working with our partner Reliance Retail, we have accelerated growth in India, adding six new stores over the course of last year, taking the total to 24 stores, including our first high street stores at Connaught Place and South Extension in Delhi.

Trading in the Republic of Ireland and Greece continued to be impacted by weakness in the local economies. We took advantage of the trading conditions to acquire an additional stake in the Greek and Balkans business. After identifying operational issues in our Czech and Eastern European business, we have responded quickly by taking full management control of the business. We have put in place an experienced M&S retail team which is currently working on bringing the performance back in line.

Our franchise operations are central to our international plans. We opened 24 new stores across 11 markets, including eight new stores in Russia, four in Turkey and three in the UAE.

In November we returned to the French market, with a clear bricks and clicks strategy. We opened our flagship store in Paris, at 100 Champs-Élysées, and we are very pleased with the results which have been ahead of our expectations. We also launched a new French website which is helping us capitalise on the strong awareness of the M&S brand in France. We have signed leases to open a further four full line stores in Paris, with the next one due to open in November 2012.

Supply Chain and IT

We made good progress against our plan to restructure our supply chain, implement new information systems and improve operational execution.

The first phase of our warehouse consolidation programme is now well underway. Following the opening of our new one million sq ft warehouse in Bradford, construction is now under way on a second new warehouse in the East Midlands, which will be a dedicated e-commerce facility combined with a National Distribution Centre, and is due to open in early in 2013. We have been trialling the national distribution centre model in two of our warehouses in order to smooth the transition when the new site goes live.

We consolidated all of our ambient food stockholding from four existing centres into one site in Bradford. This allowed us to take greater control over the supply chain and associated cost base, increasing visibility of our ambient stocks and improving fulfilment to store.

In IT we are making good progress with the upgrade of our systems. In stores, we have completed the implementation of a new stock management system, which is providing more accurate real-time stock level information and contributing to a 2% improvement in Food availability. We have also completed the roll-out of the new Point of Sale (POS) system, which will deliver faster transaction processing and better service.

Since October, all staff have been paid through our new payroll system which is the first phase of our new HR system. In the year ahead we will commence roll-out of the second phase of our HR plan with a time and attendance system in all our stores.

We have started to trial elements of a new warehouse management system, Red Prairie, and associated processes in our ambient food warehouse and the trial national distribution centres. This ensures the sites are efficient as possible, while also reducing the risk associated with the launch of our new e-commerce national distribution centre in the East Midlands.

The roll-out of SAP, our new core business system is now completed. This includes a new stock ledger, which will provide improved management information including product level profitability. We are nearing completion of the implementation of a new space, range and display system in Foods, and continue to progress a new forecasting and ordering system, both of which will deliver improved availability and waste management.

Plan A

Plan A remains at the heart of how we do business and continues to help our customers live more sustainable lifestyles.

2011/12 saw the launch of two major initiatives. In June we unveiled Forever Fish – a major campaign to help customers and their children learn more about fish, clean our British beaches and protect UK marine life. Funded by the 5p carrier bag charge, we're investing more than £3 million over three years. The first Big Beach Clean-up saw 6,000 customers and employees taking direct action, cleaning 100 beaches up and down the country.

In July we launched a hanger recycling partnership with UNICEF, the world's leading children's organisation. We now ask our customers not to take a hanger home when they buy clothes so that we can re-use and recycle them. 50p is donated for every £1

we save and, in the first six months, 100 million hangers were re-used or recycled, worth £370,000 to UNICEF.

We've continued to engage customers with our latest campaign, Shwopping, fronted by our new worldwide Plan A Ambassador, Joanna Lumley. Shwopping is a new initiative that is revolutionising clothes shopping by asking our customers to shwop – give an unwanted piece of clothing every time they buy a new one. It means all M&S clothing stores now accept unwanted clothing of any brand, all year round. It's a free service for customers aimed at creating a 'buy one, give one' culture on the UK high street.

This year's Plan A Supplier Conference was our biggest to date and one of the largest events of its type anywhere in the world. Over 1,200 delegates attended and underlined how important our suppliers and partners are to the success of the programme.

Plan A was launched five years ago in January 2007. The challenge of becoming a more sustainable business remains significant, but a great deal has been achieved including putting us on track to become a carbon neutral, zero waste to landfill business. We will report our latest Plan A progress in June with the publication of our 2012 How We Do Business Report.

Financial Review

52 weeks ended

Summary of Results

	31 Mar 12	2 Apr 11	% var
	£m	£m	
Group revenue	9,934.3	9,740.3	+2.0
UK	8,868.2	8,733.0	+1.5
International	1,066.1	1,007.3	+5.8
Underlying operating profit	810.0	824.9	-1.8
UK	676.6	677.9	-0.2
International	133.4	147.0	-9.3
Underlying profit before tax	705.9	714.3	-1.2
Non-underlying items	(47.9)	66.3	-
Profit before tax	658.0	780.6	-15.7
Underlying basic earnings per share	34.9p	34.8p	+0.3
Basic earnings per share	32.5p	38.8p	- 16.2
Dividend per share (declared)	17.0p	17.0p	level

Revenues

Group revenues were up 2.0% driven by strong performances in our Food and International businesses.

Total revenue %	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>FY</u>
<u>UK</u>					
Clothing	0.9	-1.1	1.1	-0.3	0.2
Home	-5.4	-9.2	-13.3	-7.5	-10.0
General Merchandise	0.3	-1.9	-0.8	-1.2	-0.9
Food	5.0	2.8	4.5	3.1	3.9
Total UK	2.7	0.5	1.8	1.2	1.5
<u>International</u>	7.8	10.1	8.1	-2.0	5.8

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<u>Total Group</u>	3.2	1.5	2.4	0.8	2.0
Like-for-like revenue %	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>FY</u>
<u>UK</u>					
General Merchandise	0.0	-2.5	-1.8	-2.8	-1.8
Food	3.3	1.0	3.0	1.0	2.1
Total UK	1.7	-0.7	0.5	-0.7	0.3

UK revenues were up 1.5% in total with a like-for-like increase of 0.3%. We added 2.1% of space, 1.8% in General Merchandise and 2.6% in Food, on a weighted average basis.

International revenues were up 5.8%. Our owned businesses in India and China saw strong growth, driven by good like for like growth and the opening of new space. Trading conditions continue to be difficult in Greece and the Republic of Ireland. Our franchise business continued to perform well, with the Far East and Middle East regions growing strongly. We returned to France in November, opening our first store in Paris at 100 Avenue des Champs Elysees, with more stores planned.

Operating profit

Underlying operating profit was £810.0m, down 1.8%.

In the UK, underlying operating profit was down 0.2% at £676.6m. Gross margin was down 30bps at 40.8%. General merchandise gross margin was down 80 basis points at 51.4% as a result of raw material and wage inflation, adverse currency pressure and the increase in promotional activity. Food gross margin was up 50 basis points at 31.4% with better management of promotions and waste, as well as early benefits from new systems implementation, helping to offset the commodity price increases.

Underlying UK operating costs were up 1.5% to £2,995.0m. A breakdown of the costs is shown below:

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	<u>52 weeks ended</u>		% inc
	31 Mar 12	2 Apr 11	
	£m	£m	
Retail staffing	889.2	877.6	1.3%
Retail occupancy	1,030.9	1,011.8	1.9%
Distribution	398.1	393.5	1.2%
Marketing and related	161.8	142.9	13.2%
Support	515.0	525.5	-2.0%
Total	2,995.0	2,951.3	1.5%

Retail staffing costs were well managed despite increases in selling space and the annual pay review.

Increased occupancy costs reflect growth in selling space and the impact of rent and rates reviews, offset by service charge negotiations and reduced energy consumption.

Distribution costs continue to be very well managed despite inflationary pressure and volume increases in Food and Multi-channel, as we continued to see the benefits of initiatives to improve supply chain efficiency.

The growth in marketing costs was weighted towards the first half of the year as we increased the number of advertising campaigns to support the launch of the 'Only at Your M&S' branding as well as the re-launch of our clothing sub-brands.

The reduction in support costs reflects a higher depreciation charge associated with our IT investment, more than offset by efficiency savings and improved procurement.

The underlying UK operating profit includes a contribution from the Group's continuing economic interest in M&S Money of £50.7m. This contribution is up 44% (last year £35.2m), due to a significant reduction in delinquency rates within M&S Money as customers have been paying down outstanding balances.

International underlying operating profit was down 9.3% at £133.4m (last year £147.0m). Franchise operating profits were up 19.9% to £110.7m due to continuing strong sales performance. Owned store operating profits were £22.7m, down 58.5%, with trading in our European businesses impacted by macroeconomic pressures.

Non-underlying profit items

	<u>52 weeks ended</u>	
	31 Mar 12	2 Apr 11
	£m	£m
Profit on property disposals	-	2.9
One-off pension credit	-	10.7
Impairment of assets	(44.9)	(6.3)
Fair value movement of financial instruments	15.6	54.3
Fair value movement of embedded derivative	(0.2)	20.3
Strategic programme costs	(18.4)	(15.6)
Total non-underlying profit items	(47.9)	66.3

The impairment of assets includes the full write off of the Greece Group goodwill (£34.4m), and the impairment of some store assets in the Greece Group (£10.5m). Last year the amount represented the impairment of an investment property.

The liability for the put option over the non-controlling interest in the Czech Group is carried at fair value and has been revalued in line with the latest business plan. The resulting non-cash credit of £15.6m has been recognised within finance costs.

The fair value movement on the embedded derivative is driven by a reduction in the expected RPI rate.

As a result of the strategic programmes we incurred £18.4m of costs in the year which are not part of the normal operating costs of the business. These include non-cash costs of accelerated depreciation and equipment write-offs as well as costs associated with the relocation of the per una business to London. The cumulative strategic programme costs incurred since the strategy was announced is now £34m.

Net finance costs

	<u>52 weeks ended</u>	
	31 Mar 12	2 Apr 11
	£m	£m
Interest payable	(135.6)	(140.6)
Interest income	7.1	4.7
Net interest payable	(128.5)	(135.9)
Pension finance income (net)	25.6	37.6
Fees payable	-	(8.5)
Unwinding of discounts on financial instruments	(1.2)	(3.8)
Underlying net finance costs	(104.1)	(110.6)
Fair value movement on financial instruments	15.6	54.3
Net finance costs	(88.5)	(56.3)

Net interest payable was down 5.4% at £128.5m reflecting a reduction in average net debt over the year. The Group's average cost of funding was 6.5% (last year 6.4%). Underlying net finance costs were down £6.5m to £104.1m reflecting the lower interest payable and fees paid in the prior year, partially offset by a lower pension finance

income of £25.6m (last year £37.6m). The non-cash fair value gain on financial instruments of £15.6m represents a change in the valuation of the put option over the non-controlling interest in our Czech business.

Taxation

The full year effective tax rate on underlying profit before tax was 24.5% (last year 25.1%), reflecting the benefit of announced changes to the corporation tax rate. Full year effective tax rate was 25.6% (last year 23.3%).

Underlying earnings per share

Underlying earnings per share increased by 0.3% to 34.9p per share. The weighted average number of shares in issue during the period was 1,579.3m (last year 1,577.1m).

Dividend

The Board is recommending a final dividend of 10.8p per share. This will result in a total dividend of 17p, in line with last year. This reflects the Board's commitment to a progressive dividend policy broadly twice covered by earnings.

Capital expenditure

	<u>52 weeks ended</u>	
	31 Mar 12	2 Apr 11
	£m	£m
Focus on the UK	71.6	-
Multi-channel	42.8	-
New stores	170.4	151.2
Store modernisation programme	73.6	38.1
International	61.9	29.6
Supply chain and technology	212.7	191.4
Maintenance	104.5	81.2
Total capital expenditure	737.5	491.5

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As previously announced we commenced our investment in UK stores in order to create a more inspiring environment and trial a new approach to segmentation and in-store navigation.

We have also commenced our investment in improved multi-channel capabilities with the launch of our French web-site in October 2011 and Irish site in April 2012 and continue progress on the plan to build our own multi-channel platform.

We added 2.1% of selling space in the UK (on a weighted average basis), trading from 16.0m square feet at the end of March 2012. We opened 28 new stores during the year, including a 136,000 sq ft flagship in the new Westfield Shopping Centre in Stratford, as well as 23 simply food stores.

In our International business, space increased by c.12%, predominantly in our key strategic territories of India, China and The Middle East as well as Russia.

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.

Cash flow and net debt

	<u>52 weeks ended</u>	
	31 Mar 12	2 Apr 11
	£m	£m
Underlying EBITDA	1,280.1	1,292.4
Working capital	161.9	184.0
Pension funding	(89.9)	(91.2)
Capex and disposals	(720.7)	(450.3)
Interest and taxation	(277.3)	(327.6)
Dividends and share issues / purchases	(236.7)	(251.1)
Net cash inflow	117.4	356.2
Opening net debt	(1,900.9)	(2,068.4)
Exchange and other non-cash movements	(73.6)	(188.7)
Closing net debt	(1,857.1)	(1,900.9)

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The Group reported a net cash inflow of £117.4m (last year £356.2m). This inflow reflects a decline in underlying EBITDA and increased capital expenditure, more than offset by strong working capital management and lower Interest and Taxation.

Capital expenditure, net of disposals, was £720.7m (last year £450.3m) reflecting further investment in our supply chain and IT, new space growth and the implementation of the strategy.

Net debt was £1,857.1m, a £43.8m reduction on last year.

Pensions

At 31 March 2012 the IAS 19 net retirement benefit surplus was £78.0m (2 April 2011 £168.5m). The market value of scheme assets increased by £788.3m, due to improved asset performance and company contributions. The present value of the scheme liabilities has increased due to a reduction in the discount rate, offset by a reduction in the rate of inflation.

On 21 May 2012 the Group changed the terms of the Scottish Limited Partnership (the Partnership) to waive the Group's limited discretionary right over the annual distributions from the Partnership to the Pension Trustee. These discretionary rights were agreed with our Trustee in 2009, the time of the last triennial valuation.

This change will not have any impact on the cash flows of the Group, but will, prospectively from 21 May 2012, result in a change in the accounting treatment. The change will reflect (i) the recognition of a financial liability, representing the present value of the remaining 10 years of distributions of £71.9m per annum, and (ii) an increase in the Group's annual interest charge of c. £17m to reflect the unwinding of the discount on the liability. In Financial Year 2012/13 the change will result in an increase in the Group's reported net debt of £537m and a decrease in total net assets of £551m. The Group's obligations to the Pension Trustee remain unchanged and this will not have any material impact on the Group's credit rating.

In March 2009, conscious of the Group's obligations to the Pension Trustee and the Partnership (which is a partnership between the Group and the Pension Trustee which holds a number of properties from which the Group trades and on which the Group pays rent to the Partnership), we amended the terms of the Partnership to reflect a discretionary right agreed between the Group and the Trustee. This right is such that in the circumstances when no ordinary dividend or other distribution is made to ordinary shareholders, the annual distribution of £71.9m from the Partnership to the Pension Trustee would not be obliged to be made. The impact of this change was to reclassify £572m from debt to equity in March 2009, and to reduce the Group's interest charge by £33m in the Financial Year 2009/10. The Audit Committee and the Board have consistently received accounting and legal advice supporting this accounting treatment. There was no impact on the Group's ultimate obligation to the Pension Trustee and no impact on cash flows.

Following the publication of the 2009 Annual Report and Accounts, in February 2010 the Financial Reporting Review Panel (FRRP) wrote to the company in relation to the change in accounting treatment of the obligation to the Pension Trustee. In the dialogue that followed, and has continued until the present time, the FRRP expressed a concern that in the circumstances of the Group's pension arrangement this discretion was not sufficient to support classification of the Partnership interest as a component of equity.

In the interest of bringing discussions with the FRRP to a close and given that the Group has a stated dividend policy and the Board continues to expect that future dividend payments and resulting Partnership distributions will be made, the Group has decided that it will reflect the obligation as a liability, and in order to achieve this will indefinitely waive its discretionary right. As before, there is no change in the Group's ultimate obligation to the Pension Trustee. The FRRP has confirmed that this change, with the consequent accounting treatment, effective from 21 May 2012, will bring its discussions with the Group to a close.

Guidance

Guidance for financial year 2012/13:

- Gross margin is expected to be between 0 and 25 basis points higher than last year
- Operating costs are expected to increase 3 to 5% as a result of increased space growth, depreciation, inflation and growth initiatives, offset by underlying savings
- The planned opening of new footage will add c. 3% to UK and c. 20% to International space
- Group capital expenditure is expected to be around £825m reflecting efficiencies identified in the UK store update programme
- Effective tax rate is expected to be 24%
- Pension finance income (non-cash) is expected to be c. £10m lower than last year

- Ends -

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Investor & Analyst webcast:

Investor and analyst presentation will be held at 9am on 22 May 2012. This presentation can be viewed live on the Marks and Spencer Group plc website on:

www.marksandspencer.com/thecompany.

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

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Fixed Income Investor Conference Call:

This will be hosted by Alan Stewart, Chief Finance Officer at 2 pm on 22 May 2012:

Dial in number: +44 (0)20 8515 2334

A recording of this call will be available until 1 June 2012

Dial in number: +44 (0)20 7959 6720

Access code: 4540339#

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.

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Consolidated income statement

	Notes	52 weeks ended 31 March 2012 £m	52 weeks ended 2 April 2011 £m
Revenue	2	9,934.3	9,740.3
Operating profit	2	746.5	836.9
Finance income	4	48.3	96.6
Finance costs	4	(136.8)	(152.9)
Profit before tax		658.0	780.6
Income tax expense	5	(168.4)	(182.0)
Profit for the year		489.6	598.6
Attributable to:			
Equity shareholders of the Company		513.1	612.0
Non-controlling interests		(23.5)	(13.4)
		489.6	598.6
Basic earnings per share	6	32.5p	38.8p
Diluted earnings per share	6	32.2p	38.4p
Non-GAAP measures: Underlying profit before tax			
Profit before tax		658.0	780.6
Adjusted for:			
Profit on property disposals	3	-	(2.9)
IAS 19 Ireland one-off pension credit	3	-	(10.7)
IAS 36 Impairment of assets	3	44.9	6.3
IAS 39 Fair value movement of financial instrument	3	(15.6)	(54.3)
IAS 39 Fair value movement of embedded derivative	3	0.2	(20.3)
Strategic programme costs	3	18.4	15.6
Underlying profit before tax	1	705.9	714.3
Underlying basic earnings per share	6	34.9p	34.8p
Underlying diluted earnings per share	6	34.6p	34.4p

Consolidated statement of comprehensive income

	52 weeks ended 31 March 2012 £m	52 weeks ended 2 April 2011 £m
Profit for the year	489.6	598.6
Other comprehensive income:		
Foreign currency translation differences	(15.1)	(16.4)
Actuarial (losses)/gains on retirement benefit schemes	(189.9)	286.0
Tax on retirement benefit schemes	50.4	(78.0)
Cash flow and net investment hedges		
- fair value movements in equity	53.0	(57.8)
- reclassified and reported in net profit	(23.0)	42.1
- amount recognised in inventories	13.7	(11.2)
Tax on cash flow hedges and net investment hedges	(7.3)	19.4
Other comprehensive (loss)/income for the year, net of tax	(118.2)	184.1
Total comprehensive income for the year	371.4	782.7
Attributable to:		
Equity shareholders of the Company	394.9	796.1
Non-controlling interests	(23.5)	(13.4)
	371.4	782.7

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Consolidated statement of financial position

	Notes	As at 31 March 2012 £m	As at 2 April 2011 £m
Assets			
Non-current assets			
Intangible assets		584.3	527.7
Property, plant and equipment		4,789.9	4,662.2
Investment property		15.9	16.0
Investment in joint ventures		14.4	13.0
Other financial assets		3.0	3.0
Retirement benefit asset	8	91.3	182.6
Trade and other receivables		270.2	276.1
Derivative financial instruments		44.2	21.8
		5,813.2	5,702.4
Current assets			
Inventories		681.9	685.3
Other financial assets		260.5	215.9
Trade and other receivables		253.0	250.3
Derivative financial instruments		67.0	18.4
Current tax receivable		1.6	1.6
Cash and cash equivalents		196.1	470.2
		1,460.1	1,641.7
Total assets		7,273.3	7,344.1
Liabilities			
Current liabilities			
Trade and other payables		1,449.1	1,347.6
Borrowings and other financial liabilities		327.7	602.3
Partnership liability to the Marks & Spencer UK Pension Scheme	9	71.9	71.9
Derivative financial instruments		60.5	50.7
Provisions		8.4	22.7
Current tax liabilities		87.8	115.0
		2,005.4	2,210.2
Non-current liabilities			
Retirement benefit deficit	8	13.3	14.1
Trade and other payables		280.8	262.3
Borrowings and other financial liabilities		1,948.1	1,924.1
Derivative financial instruments		27.2	37.5
Provisions		24.0	22.0
Deferred tax liabilities		195.7	196.5
		2,489.1	2,456.5
Total liabilities		4,494.5	4,666.7
Net assets		2,778.8	2,677.4
Equity			
Issued share capital		401.4	396.2
Share premium account		294.3	255.2
Capital redemption reserve		2,202.6	2,202.6
Hedging reserve		14.8	(11.3)
Other reserve		(6,114.3)	(6,042.4)
Retained earnings		5,991.4	5,873.2
Total shareholders' equity		2,790.2	2,673.5
Non-controlling interests in equity		(11.4)	3.9
Total equity		2,778.8	2,677.4

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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	Non- controlling interest £m	Total £m
As at 4 April 2010	395.5	247.5	2,202.6	11.6	(5,970.5)	5,281.9	2,168.6	17.3	2,185.9
Profit/(loss) for the year	-	-	-	-	-	612.0	612.0	(13.4)	598.6
Other comprehensive income:									
Foreign currency translation	-	-	-	(0.7)	-	(15.7)	(16.4)	-	(16.4)
Actuarial gains on retirement benefit schemes	-	-	-	-	-	286.0	286.0	-	286.0
Tax on retirement benefit schemes	-	-	-	-	-	(78.0)	(78.0)	-	(78.0)
Cash flow and net investment hedges									
- fair value movements	-	-	-	(60.4)	-	2.6	(57.8)	-	(57.8)
- reclassified and reported in net profit	-	-	-	42.1	-	-	42.1	-	42.1
- amount recognised in inventories	-	-	-	(11.2)	-	-	(11.2)	-	(11.2)
Tax on cash flow and net investment hedges	-	-	-	7.3	-	12.1	19.4	-	19.4
Other comprehensive income	-	-	-	(22.9)	-	207.0	184.1	-	184.1
Total comprehensive (expenses)/income	-	-	-	(22.9)	-	819.0	796.1	(13.4)	782.7
Transactions with owners:									
Dividends	-	-	-	-	-	(247.5)	(247.5)	-	(247.5)
Recognition of financial liability	-	-	-	-	(71.9)	-	(71.9)	-	(71.9)
Shares issued on exercise of employee share options	0.7	7.7	-	-	-	-	8.4	-	8.4
Purchase of own shares held by employee trusts	-	-	-	-	-	(12.0)	(12.0)	-	(12.0)
Charge for share-based payments	-	-	-	-	-	31.7	31.7	-	31.7
Deferred tax on share schemes	-	-	-	-	-	0.1	0.1	-	0.1
As at 2 April 2011	396.2	255.2	2,202.6	(11.3)	(6,042.4)	5,873.2	2,673.5	3.9	2,677.4
As at 3 April 2011	396.2	255.2	2,202.6	(11.3)	(6,042.4)	5,873.2	2,673.5	3.9	2,677.4
Profit/(loss) for the year	-	-	-	-	-	513.1	513.1	(23.5)	489.6
Other comprehensive income:									
Foreign currency translation	-	-	-	(1.1)	-	(14.0)	(15.1)	-	(15.1)
Actuarial gains on retirement benefit schemes	-	-	-	-	-	(189.9)	(189.9)	-	(189.9)
Tax on retirement benefit schemes	-	-	-	-	-	50.4	50.4	-	50.4
Cash flow and net investment hedges									
- fair value movements	-	-	-	43.8	-	9.2	53.0	-	53.0
- reclassified and reported in net profit	-	-	-	(23.0)	-	-	(23.0)	-	(23.0)
- amount recognised in inventories	-	-	-	13.7	-	-	13.7	-	13.7
Tax on cash flow and net investment hedges	-	-	-	(7.3)	-	-	(7.3)	-	(7.3)
Other comprehensive income	-	-	-	26.1	-	(144.3)	(118.2)	-	(118.2)
Total comprehensive income/(expenses)	-	-	-	26.1	-	368.8	394.9	(23.5)	371.4
Transactions with owners:									
Dividends	-	-	-	-	-	(267.8)	(267.8)	-	(267.8)
Transactions with non-controlling shareholders	-	-	-	-	-	(6.4)	(6.4)	8.2	1.8
Recognition of financial liability	-	-	-	-	(71.9)	-	(71.9)	-	(71.9)
Shares issued on exercise of employee share options	5.2	39.1	-	-	-	-	44.3	-	44.3
Purchase of own shares held by employee trusts	-	-	-	-	-	(13.2)	(13.2)	-	(13.2)
Charge for share-based payments	-	-	-	-	-	32.5	32.5	-	32.5
Deferred tax on share schemes	-	-	-	-	-	4.3	4.3	-	4.3
As at 31 March 2012	401.4	294.3	2,202.6	14.8	(6,114.3)	5,991.4	2,790.2	(11.4)	2,778.8

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Consolidated statement of cash flows

	Notes	52 weeks ended 31 March 2012 £m	52 weeks ended 2 April 2011 £m
Cash flows from operating activities			
Cash generated from operations	11	1,352.1	1,385.2
Income tax paid		(149.1)	(185.3)
Net cash generated from operating activities		1,203.0	1,199.9
Cash flows from investing activities			
Purchase of property, plant and equipment		(564.3)	(327.3)
Proceeds from sale of property, plant and equipment		-	3.5
Purchase of intangible assets		(156.4)	(126.5)
Purchase of current financial assets		(44.8)	(44.3)
Interest received		7.7	4.1
Net cash used in investing activities		(757.8)	(490.5)
Cash flows from financing activities			
Interest paid		(135.9)	(146.4)
Cash (outflow)/inflow from borrowings		(41.4)	18.4
Repayment of syndicated bank facility		-	(217.5)
Issue of medium-term notes		295.5	-
Redemption of medium-term notes		(307.6)	-
Monetisation of derivative assets		-	32.8
Decrease in obligations under finance leases		(13.0)	(15.7)
Payment of liability to the Marks & Spencer UK Pension Scheme		(71.9)	(67.9)
Equity dividends paid		(267.8)	(247.5)
Shares issued on exercise of employee share options		44.3	8.4
Purchase of own shares held by employee trust		(13.2)	(12.0)
Net cash used in financing activities		(511.0)	(647.4)
Net cash (outflow)/inflow from activities		(65.8)	62.0
Effects of exchange rate changes		(1.9)	(1.2)
Opening net cash		263.5	202.7
Closing net cash		195.8	263.5

Reconciliation of net cash flow to movement in net debt

		52 weeks ended 31 March 2012 £m	52 weeks ended 2 April 2011 £m
Opening net debt		(1,900.9)	(2,068.4)
Net cash (outflow)/inflow from activities		(65.8)	62.0
Increase in current financial assets		44.8	44.3
Decrease in debt financing		138.4	249.9
Partnership liability to the Marks & Spencer UK Pension Scheme (non-cash)		(71.9)	(71.9)
Exchange and other non-cash movements		(1.7)	(116.8)
Movement in net debt		43.8	167.5
Closing net debt	12	(1,857.1)	(1,900.9)

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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 statement of cash flows and related notes, does 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 2011/12 and 2010/11, which do not contain any statement under s498 of the Companies Act 2006 and are unqualified. The statutory accounts for 2010/11 have been delivered to the Registrar of Companies and the statutory accounts for 2011/12 will be filed with the Registrar in due course.

The financial statements have 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 financial statements are drawn up on the historical cost basis of accounting, as modified by the use of valuations for certain financial instruments, share-based payments and retirement benefits.

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;
- significant and one-off impairment charges that distort underlying trading;
- costs relating to strategy changes that are not considered normal operating costs of the underlying business;
- one-off pension credits arising on changes of the defined benefit pension scheme rules; and
- non-cash fair value movements in financial instruments.

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 executive directors. The executive directors 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 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 non-underlying items from the operating segments. 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, by subcategory.

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

	52 weeks ended 31 March 2012		
	Management £m	Adjustment ² £m	Statutory £m
General Merchandise	4,241.5	(46.4)	4,195.1
Food	4,718.8	(45.7)	4,673.1
UK revenue	8,960.3	(92.1)	8,868.2
Franchised	379.4	-	379.4
Owned	689.4	(2.7)	686.7
International revenue	1,068.8	(2.7)	1,066.1
Group revenue	10,029.1	(94.8)	9,934.3
UK operating profit ¹	676.6	(18.6)	658.0
International operating profit	133.4	(44.9)	88.5
Group operating profit	810.0	(63.5)	746.5
Finance income	32.7	15.6	48.3
Finance costs	(136.8)	-	(136.8)
Profit before tax	705.9	(47.9)	658.0

¹ UK operating profit includes a contribution of £50.7m (last year £35.2m) in respect of fees received from HSBC in relation to M&S Money.

² Adjustments to revenue relate to revenue deductions recognised in cost of sales for management accounting purposes. Management profit excludes profits and losses on the disposal of properties, impairment charges, pension credits arising on changes to the defined benefit pension schemes, non-cash fair value movements in financial instruments, and costs relating to strategic changes that are not considered normal operating costs of the underlying business (see note 3).

2 Segmental Information continued

	52 weeks ended 2 April 2011		
	Management £m	Adjustment ² £m	Statutory £m
General Merchandise	4,273.0	(39.4)	4,233.6
Food	4,543.9	(44.5)	4,499.4
UK revenue	8,816.9	(83.9)	8,733.0
Franchised	343.7	-	343.7
Owned	665.8	(2.2)	663.6
International revenue	1,009.5	(2.2)	1,007.3
Group revenue	9,826.4	(86.1)	9,740.3
UK operating profit ¹	677.9	1.1	679.0
International operating profit	147.0	10.9	157.9
Group operating profit	824.9	12.0	836.9
Finance income	42.3	54.3	96.6
Finance costs	(152.9)	-	(152.9)
Profit before tax	714.3	66.3	780.6

Other segmental information

	2012			2011		
	UK £m	International £m	Total £m	UK £m	International £m	Total £m
Additions to property, plant and equipment and intangible assets (excluding goodwill)	671.4	66.1	737.5	463.6	27.9	491.5
Depreciation and amortisation	435.8	34.3	470.1	434.5	33.0	467.5
Impairment and asset write-offs	7.3	50.5	57.8	3.4	-	3.4
Total assets	6,247.1	1,026.2	7,273.3	6,287.6	1,056.5	7,344.1
Non-current assets	4,894.6	918.6	5,813.2	4,751.1	951.3	5,702.4

3 Non-GAAP performance measures

The adjustments made to reported profit before tax are income and charges that are one-off in nature, significant and distort the Group's underlying performance. These adjustments include:

- Profit and loss on the disposal of properties - these are one-off in nature and therefore create volatility in reported earnings;
- IAS 19 credit arising from changes to the Marks and Spencer Ireland defined benefit pension scheme rules whereby members' future pensionable pay increases have been capped at 4%;
- IAS 36 impairment of assets – due to the continuing decline of the Greek economy, the carrying value of the Marks and Spencer Marinopoulos B.V. goodwill has been fully impaired to reflect its recoverable value and the net book value of property, plant and equipment in loss making stores in the Greece group have been impaired. Last year, the value of an investment property was impaired to reflect its recoverable value, in line with its current market value;
- IAS 39 fair value movement on the Czech put option – the put option value has been revised to reflect the latest three year business plan;
- IAS 39 fair value movement of the embedded derivative in a lease contract based upon the expected future RPI versus the lease contract in which rent increases are capped at 2.5%, with a floor of 1.5%; and
- Strategic programme costs relate to the strategy announcements made in November 2010 and include the costs associated with the Focus on the UK plans. This includes brand segmentation and business integration costs, asset write-offs, accelerated depreciation and exit from technology in the prior year. These costs are not considered normal operating costs of the business.

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

Notes	52 weeks ended 31 March 2012	52 weeks ended 2 April 2011
	£m	£m
Profit on property disposals	-	2.9
IAS 19 Ireland one-off pension credit	8	10.7
IAS 36 Impairment of assets	(44.9)	(6.3)
IAS 39 Fair value movement of financial instrument	4	54.3
IAS 39 Fair value movement of embedded derivative	(0.2)	20.3
Strategic programme costs	(18.4)	(15.6)
Total adjustments	(47.9)	66.3

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4 Finance income/(costs)

	52 weeks ended 31 March 2012 £m	52 weeks ended 2 April 2011 £m
Finance income		
Bank and other interest receivable	7.1	4.7
Pension finance income (net)	25.6	37.6
Underlying finance income	32.7	42.3
Fair value movement on financial instrument	15.6	54.3
Finance income	48.3	96.6
Finance costs		
Fee payable on the transfer of derivative assets to the pension fund	-	(8.5)
Interest on bank borrowings	(5.5)	(7.7)
Interest payable on syndicated bank facility	(3.0)	(1.8)
Interest payable on medium-term notes	(126.4)	(126.9)
Interest payable on finance leases	(0.7)	(4.2)
Unwind of discounts on financial instruments	(1.2)	(3.8)
Finance costs	(136.8)	(152.9)
Net finance costs	(88.5)	(56.3)

5 Taxation

The effective tax rate was 25.6% (last year 23.3%) and the underlying effective tax rate was 24.5% (last year 25.1%).

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 profits and losses on the disposal of properties, pension credits arising on changes to the defined benefit pension schemes, impairment charges, non-cash fair value movements in financial instruments, and costs relating to strategic changes that are not considered normal operating costs of the underlying business. 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 underlying earnings per share are set out below:

	52 weeks ended 31 March 2012 £m	52 weeks ended 2 April 2011 £m
Profit attributable to equity shareholders of the company	513.1	612.0
(Less)/add (net of tax):		
Profit on property disposals	-	(2.9)
IAS 19 Ireland one-off pension credit	-	(9.4)
IAS 36 Impairment of assets	39.6	6.3
IAS 39 Fair value movement of financial instrument	(15.6)	(54.3)
IAS 39 Fair value movement of embedded derivative	0.2	(15.1)
Strategic programme costs	13.8	11.5
Underlying profit attributable to equity shareholders of the company	551.1	548.1
	Million	Million
Weighted average number of ordinary shares in issue	1,579.3	1,577.1
Potentially dilutive share options under the Group's share option schemes	12.9	15.6
Weighted average number of diluted ordinary shares	1,592.2	1,592.7
	Pence	Pence
Basic earnings per share	32.5	38.8
Diluted earnings per share	32.2	38.4
Underlying basic earnings per share	34.9	34.8
Underlying diluted earnings per share	34.6	34.4

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7 Dividends

	2012 per share	2011 per share	2012 £m	2011 £m
Paid final dividend	10.8p	9.5p	170.2	149.7
Paid interim dividend	6.2p	6.2p	97.6	97.8
	17.0p	15.7p	267.8	247.5

In addition, the directors have proposed a final dividend in respect of the year ended 31 March 2012 of 10.8p per share amounting to a dividend of £172.3m. It will be paid on 13 July 2012 to shareholders who are on the Register of Members on 1 June 2012. In line with the requirements of IAS 10 - 'Events after the Reporting Period', this dividend has not been recognised within these results.

8 Retirement benefits

	52 weeks ended 31 March 2012 £m	52 weeks ended 2 April 2011 £m
Opening net retirement benefit/(deficit)	168.5	(366.5)
Current service cost	(56.7)	(59.0)
Curtailment charge	(1.0)	(1.0)
One-off pension credit	-	10.7
Interest cost	(281.8)	(285.5)
Expected return on scheme assets	307.4	323.1
Employer contributions	131.9	259.8
Actuarial (losses)/gains	(189.9)	286.0
Net Exchange movement	(0.4)	0.9
Closing net retirement benefit asset	78.0	168.5
Total market value of assets	6,186.4	5,398.1
Present value of scheme liabilities	(6,095.1)	(5,215.5)
Net funded pension plan asset	91.3	182.6
Unfunded retirement benefits	(0.8)	(0.9)
Post-retirement healthcare	(12.5)	(13.2)
Net retirement benefit asset	78.0	168.5
Analysed in the statement of financial position as:		
Retirement benefit asset	91.3	182.6
Retirement benefit deficit	(13.3)	(14.1)
	78.0	168.5

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 4.6% (last year 5.5%) and 3.1% (last year 3.4%) respectively.

The inflation rate of 3.1% reflects the Retail Price Index (RPI) rate. In line with changes to legislation certain benefits have been calculated with reference to the Consumer Price Index (CPI) as the inflationary measure and in these instances a rate of 2.1% (last year 2.7%) has been used. Last year, the change from RPI to CPI for deferred revaluation was included in the results, resulting in a gain of approximately £170m, taken as an actuarial gain on the obligation.

The amount of the surplus varies if the main financial assumptions change, particularly the discount rate. If the discount rate increased/decreased by 0.1% the IAS 19 surplus would increase/decrease by c.£110m (last year £90m). If the inflation rate increased by 0.1%, the IAS 19 surplus would decrease by c.£75m and if the inflation rate decreased by 0.1%, the IAS 19 surplus would increase by c.£65m.

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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. As such, the partnership is consolidated into the results of the Group.

The Marks and Spencer Scottish Limited Partnership holds £1.5bn 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, discretionary at the instance of Marks and Spencer plc.

The discretionary right is exercisable if the Group does not pay a dividend or make any other form of return to its shareholders. This is an equity instrument, disclosed within other reserves. Since the Group has paid an interim dividend in relation to 2011/12, the associated distribution of £71.9m is payable to the Pension Scheme and has been recognised as a liability (last year £71.9m), and is reflected as a reduction in other reserves. When such reserves are no longer sufficient, this distribution will be charged to retained earnings. The future value of total discretionary scheduled payments is approximately £719m (last year £791m).

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 £664.8m (last year £656.0m). For further details see note 8. The market value of this non-quoted financial asset is measured based on the expected cash flows and benchmark asset-backed credit spreads.

As general partner, Marks and Spencer plc has a right of pre-emption in respect of a transfer by the Pension Scheme of its limited partnership interest to another party. This allows the general partner to direct that, instead of transferring the limited partnership interest to such a party, the general partner can instead nominate the transferee. In addition, the partnership agreement includes a clause such that, following a default event (including the appointment of an administrator, liquidator, receiver or similar officer in respect of Marks and Spencer plc or Marks and Spencer Group plc) or on a relevant change of law, the net present value of the outstanding distributions becomes payable to the Pension Scheme by the Scottish Limited Partnership at the option of the Pension Scheme. On the basis of the expected cash flows associated with such an event, the related financial liability has been fair valued at £nil.

On 21 May 2012 the terms of the Scottish Limited Partnership were changed. See note 14.

10 Capital expenditure and contingencies

A Capital commitments

	As at 31 March 2012	As at 2 April 2011
	£m	£m
Commitments in respect of properties in the course of construction	71.4	90.8

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 the warehouse operators on the Group's behalf.

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

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

	52 weeks ended 31 March 2012	52 weeks ended 2 April 2011
	£m	£m
Cash flows from operating activities		
Profit on ordinary activities after taxation	489.6	598.6
Income tax expense	168.4	182.0
Finance costs	136.8	152.9
Finance income	(48.3)	(96.6)
Operating profit	746.5	836.9
Increase in inventories	(0.1)	(72.1)
(Increase)/decrease in receivables	(17.1)	2.9
Payments to acquire leasehold properties	(1.2)	(1.4)
Increase in payables	103.4	175.2
Non-underlying operating cash outflows	(22.9)	(12.3)
Depreciation, amortisation and asset write-offs	479.7	467.5
Share-based payments	32.5	31.7
Pension costs charged against operating profit	57.7	60.0
Cash contributions to pension schemes	(89.9)	(91.2)
Non-underlying operating profit items (see note 3)	63.5	(12.0)
Cash generated from operations	1,352.1	1,385.2

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12 Reconciliation of net debt to statement of financial position

	As at 31 March 2012 £m	As at 2 April 2011 £m
Statement of financial position and related notes		
Cash and cash equivalents	196.1	470.2
Current financial assets	260.5	215.9
Bank loans and overdrafts	(38.7)	(289.1)
Medium-term notes - net of hedging derivatives	(2,181.8)	(2,194.0)
Finance lease liabilities	(65.5)	(78.3)
Partnership liability to the Marks & Spencer UK Pension Scheme	(71.9)	(71.9)
	(1,901.3)	(1,947.2)
Interest payable included within related borrowings	44.2	46.3
Total net debt	(1,857.1)	(1,900.9)

13 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 £12.7m during the year (last year £9.3m) with an outstanding trade payable of £1.3m at 31 March 2012 (last year £0.8m). 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 amounted to £1.9m during the year (last year £1.7m) with an outstanding trade payable of £0.5m at 31 March 2012 (last year £0.8m).

14 Events after the reporting period

On 21 May 2012 the Group changed the terms of the Scottish Limited Partnership (the Partnership) to waive the Group's limited discretionary right over the annual distributions from the Partnership to the Pension Trustee. These discretionary rights were agreed with our Trustee in 2009, the time of the last triennial valuation. This change will not have any impact on the cash flows of the Group.

From 21 May 2012 this will result in a prospective change in the Group's accounting treatment. The change will reflect the de-recognition of the related equity instrument and recognition of a financial liability. The liability will initially be measured at fair value, representing the present value of the remaining 10 years of distributions of £71.9m per annum. The difference between the value of the derecognised equity instrument and the fair value of the liability will be recognised in equity, in accordance with IAS 32.

As a result of the change, the Group's reported net debt will include this liability, which at the end of Financial Year 2012/13 will have a value of £537m and the Group's interest charge will increase to reflect the unwinding of the discount on the liability which, in Financial Year 2012/13, will be a charge of £17m. Similarly the impact on the Group's net assets will be to reduce them by £551m. The Group's obligations to the Pension Trustee remain unchanged and this will not have any material impact on the Group's credit rating.

In March 2009, conscious of the Group's obligations to the Pension Trustee and the Partnership (which is a partnership between the Group and the Pension Trustee which holds a number of properties from which the Group trades and on which the Group pays rent to the Partnership), we amended the terms of the Partnership to reflect a discretionary right agreed between the Group and the Trustee. This right is such that in the circumstances when no ordinary dividend or other distribution is made to ordinary shareholders, the annual distribution of £71.9m from the Partnership to the Pension Trustee would not be obliged to be made. The impact of this change was to reclassify £572m from debt to equity in March 2009, and to reduce the Group's interest charge by £33m in the Financial Year 2009/10. The Audit Committee and the Board has consistently received accounting and legal advice supporting this accounting treatment. There was no impact on the Group's ultimate obligation to the Pension Trustee and no impact on cash flows.

Following the publication of the 2009 Annual Report and Accounts, in February 2010 the Financial Reporting Review Panel (FRRP) wrote to the company in relation to the change in accounting treatment of the obligation to the Pension Trustee. In the dialogue that followed, and has continued until the present time, the FRRP expressed a concern that in the circumstances of the Group's pension arrangement this discretion was not sufficient to support classification of the Partnership interest as a component of equity.

In the interest of bringing discussions with the FRRP to a close and given that the Group has a stated dividend policy and the Board continues to expect that future dividend payments and resulting Partnership distributions will be made, the Group has decided that it will reflect the obligation as a liability, and in order to achieve this will indefinitely waive its discretionary right. As before, there is no change in the Group's ultimate obligation to the Pension Trustee. The FRRP has confirmed that this change, with the consequent accounting treatment, effective from 21 May 2012, will bring its discussions with the Group to a close.

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