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**MARKS AND SPENCER GROUP PLC
FULL YEAR RESULTS 2010/11
52 WEEKS ENDED 2 APRIL 2011**

Good year with growth in market share in all areas

Final results:

	52 Weeks Ended 2 April 2011	53 Weeks Ended 3 April 2010	52 Weeks Ended 2 April 2011	52 Weeks Ended 27 March 2010	52 weeks % change on LY
Revenue: Group	£9.7bn	£9.5bn	£9.7bn	£9.3bn	+4.2%
UK	£8.7bn	£8.6bn	£8.7bn	£8.4bn	+4.0%
International	£1.0bn	£1.0bn	£1.0bn	£0.9bn	+6.1%
Underlying operating profit ¹	£824.9m	£843.9m	£824.9m	£779.3m	+5.9%
Underlying profit before tax ¹	£714.3m	£694.6m	£714.3m	£632.5m	+12.9%
Underlying basic EPS ¹	34.8p	33.0p	34.8p	30.0p	+16.0%

- Final dividend 10.8p, up 13.7%; total dividend 17.0p up 13.3%
- Net debt £1.9bn down £167.5m (3 April 2010 £2.1bn)

Statutory results:

- Profit before tax £780.6m (last year £702.7m)
- Basic EPS 38.8p (last year 33.5p)

Business highlights:

- Increase in Clothing market share of 50bps² to 11.7% with growth across all areas
- Increase in Food market share of 10bps³ to 3.9%; 1,900 new lines launched
- More choice in stores through innovation
- International sales up 6.1%⁴ to £1bn; 49 new stores opened
- Direct sales up 31%
- Early progress against the three year plan

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

² Kantar Worldpanel Clothing value share 52 w/e 17 April 2011

³ Kantar Worldpanel Food and Drink share 52 w/e 17 April 2011

⁴ All comparative numbers are stated on a 52 week basis unless specified otherwise.

Marc Bolland, Chief Executive, said:

"Marks & Spencer had a good year with sales and profits ahead of last year. We traded well in a challenging environment, growing our market share in both Clothing and Food.

"We did this by offering customers great quality and value, and more choice through innovation.

"In November we set out our plan to grow M&S into a truly international, multi-channel retailer. We have made good early progress and are focused on both trading the business in the short term and on delivering against our long term targets."

Robert Swannell, Chairman, said:

"Marks & Spencer has a very clear plan and direction, and management is making good progress at all levels throughout the business. In light of our good performance this year, we are today announcing that the Board has approved a final dividend of 10.8p per share, an increase of 13.7%, giving a total 17.0p for the year, 13.3% up on last year."

Current trading and outlook

We have had a good start to the new financial year but we expect trading conditions in the year ahead to be challenging due to rising pressure on consumers' disposable incomes and high commodity prices. As a result we are cautious about the outlook.

While the short term economic outlook remains challenging, we are confident in the long-term growth prospects of the business. In a climate of economic uncertainty, our priority remains to deliver exceptional value and unrivalled quality for our customers.

2010/11 performance review:

General Merchandise

Total General Merchandise sales were up 3.9% with like-for-like sales up 3.2%. Over the year more customers turned to M&S, at a time when they managed their budgets carefully, recognising our lasting quality, unique innovation and real value for money.

We grew our share of the Clothing market by 50 bps to 11.7% with growth across all areas. Gross margin was down 40 bps due to commodity price inflation, adverse currency pressures and higher cost of markdowns, which more than offset the benefits of better sourcing.

We offered customers more choice than ever before with new styles, fabrics and colours; providing something to suit every taste and budget. Our customers liked our interpretations of the season's key styles, while continuing to shop with us for their quality wardrobe essentials. Dresses in particular performed strongly, as we provided a broader range of options.

Our innovation was in tune with fashion trends such as our new Nearly Naked lingerie range, designed to 'disappear' under clothing, resulting in over 25% of our lingerie sales coming from new and innovative products. Innovation also continued to set our menswear apart from the competition, with 35% of our suits featuring innovations including our unique water repellent Stormwear™ finish.

Our leading quality credentials meant that we were well positioned to address customers' desire to trade up, as demonstrated by stronger sales of 'better' and 'best' items such as cashmere knitwear and Autograph boots. Our great value staples continued to drive footfall across our stores and we experienced record sales in both hosiery and sleepwear.

The rising costs of raw materials, cotton in particular, proved challenging during the year. However, we have maintained opening price points wherever possible and remain committed to delivering excellent value across our 'good', 'better' and 'best' price points. Competitive pricing at all levels, combined with continued innovation, quality, durability and fit, helped us grow our market leading share in schoolwear to 16.4%, despite intense competition.

Food

Total Food sales were up 4.1%, with like-for-like sales up 2.6%, consolidating our position as the UK's leading high quality food retailer.

Over the year more customers chose to do more of their shopping with M&S recognising our exceptional quality, innovation and value. As a result, we grew our market share by 10 basis points to 3.9%. Food gross margin was up 20 basis points with better management of promotions and waste helping to offset the commodity price increases and annualisation of last year's price investment.

We continue to lead the market on innovation. This year, we gave our customers even greater choice, delivering on our promise to refresh 25% of our Food range by launching 1,900 new lines. We re-launched entire ranges including biscuits, confectionery and desserts. We catered for the trend for more scratch cooking with our 'Recipes to Try', as well as for ultimate convenience with our 'In a Pot meals' designed to meet the growing demand for meals for one person.

In January, the most competitive month in the healthy eating market, our hugely successful Count on Us range, now in its tenth year, became the UK's number one health food brand, followed by our Simply Fuller Longer range in the second place.

Quality underpins everything we do and our reputation for exceptional quality continued to set us apart from our competitors, with customers ranking us the best in the market for good quality food. We received numerous awards during the year, including Supermarket of the Year at the International Wine Challenge for the third year running and Supreme Cheese Retailer at the prestigious Nantwich International Cheese Awards.

We continue to see the benefits of the decision we took two years ago to give our customers better value without compromising on quality. We worked on highlighting the great value we offer on core products and on focusing on creating bigger, more impactful promotions, such as our successful '3 for £10' on meat and fish. Our highly successful 'Dine In' promotions continue to offer customers great value, restaurant-quality meals at home and provide a perfect vehicle for us to showcase our newest products. They continued to increase in popularity and we sold over 15 million 'Dine In' meals during the year. Building on this success we extended this type of offer to everyday meal solutions such as a roast dinner for £5.

We have worked on improving our on-shelf availability and reducing levels of waste through better merchandising and distribution. We rolled out new stock management systems that provide us with real time data and better stock visibility. This year we will be introducing new space, range and display systems which will deliver a step change in availability and further improve our customer service.

Multi-channel

M&S Direct sales were up 31% in the year, outperforming the online market growth of 20% (Interactive Media in Retail Group). Site traffic grew by 18% to over 3 million visits per week. Our on-line clothing market share was 5.6% (*Kantar Worldpanel: 52 weeks ended 17 April 2011*).

Over the year we worked on developing our multi-channel business, making it even easier and more convenient to shop with M&S. We made a number of enhancements to our website, designed to improve customer experience and encourage more shoppers to complete their transactions, leading to an increase in conversion rates.

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

We continued the roll-out of 'Shop Your Way' which is now available in 444 of our stores, including 151 Simply Foods, meaning that customers can shop seamlessly across our channels, whenever and however they choose.

In May 2010 we became the first high street retailer to launch a fully mobile-enabled website. Customers can now shop with M&S from any web-enabled mobile phone or device. To date the site has had 5.5m visitors, generating over 59,000 orders and has been recognised with five industry awards.

We now have over 295,000 Facebook fans, and 26,000 Twitter followers. The use of social media is enabling us to engage with our customers and gain further insights into their shopping habits and preferences.

International

International sales grew by 6.1%, accounting for 10.3% of total Group revenues. Underlying operating profit was up 8.6% to £147m. We opened a total of 49 new stores and now have 361 stores in 42 countries.

Trading in Greece and the Republic of Ireland continued to be impacted by the weakness in the local economies. We closed two stores in Greece, and strengthened our management team, and are well positioned for when trading conditions improve. In Ireland we opened our second store in Cork, and remain committed to developing our business there.

We have continued to grow our business in Central and Eastern Europe, opening 12 new stores across the Czech Republic, Poland and Estonia.

In India, with our partner Reliance Retail, our strategy is to focus on key cities such as Delhi. We have continued to open new bigger stores, with the addition of four stores, and now trade from 19 stores.

In Shanghai, we opened three new stores and now trade from four stores. We opened a new warehouse and increased the proportion of locally sourced clothing. We now offer sizes 4 and 6 across our womenswear ranges and have tailored our men's shirts and trousers for local customers. Our Hong Kong stores continued to perform strongly. We opened two new stores, including our first Food standalone store in this market.

Our Franchise businesses performed very well, with strong like for like sales growth, and 24 new store openings, including our first store in Cairo, Egypt. We have seen continued strength in Russia, Turkey and the Ukraine with the Gulf region returning to growth.

Supply Chain and IT

We made good progress against our plan to restructure our supply chain, implement new information systems and improve operational execution. In November we increased the benefits case from £250m to £300m without increasing the capital investment, and brought forward the completion of the plan to 2015/16. We remain firmly on track to deliver against this target.

The first phase of our warehouse consolidation programme is now well underway with the closure of 31 of the 110 sites now completed. Our new one million sq ft warehouse in Bradford, which opened in May 2010, is up and running. Construction has started on a second site in the East Midlands, which will be a combined National Distribution Centre and a dedicated e-commerce facility.

In IT we are making good progress with the upgrade of our systems. In stores, we have completed the implementation of a new stock management system, which is providing more accurate real-time stock level information. We are in the process of rolling out the new Point of Sale System (POS), currently in 400 stores, and due to be completed before Christmas.

The second phase of the SAP roll-out, our new core business system, is now complete, with the final phase, which will include the new stock ledger, due to commence this financial year. Following successful trials, we started the roll-out of new forecasting and space planning and ranging systems in Foods, which will deliver improved availability and waste management.

Plan A

2010/11 has been another year of good progress for Plan A as we move towards our goal of becoming the world's most sustainable major retailer.

We successfully involved our customers in a number of campaigns including the Big Butterfly Count and a second One Day Wardrobe Clearout event which saw over 400,000 items of used and unwanted clothing returned to M&S stores. Excellent progress has been made on waste with total waste down 33 per cent and on average 94 per cent of waste from our stores, offices and warehouses now being recycled.

We strengthened the governance of Plan A at board level and established an external Advisory Board which includes independent sustainability experts from academia, industry and leading NGOs to help challenge us, maintain our leadership and think beyond 2015. A comprehensive annual update on Plan A progress will be issued in our next How We Do Business report, which will be published in June.

Organisation

Our recent annual 'Your Say' survey of all of our employees' attitudes showed high levels of employee engagement across the business and was more positive overall than in the previous year. This is a great credit to our employees in challenging external market conditions. Our thanks are due to them for their continued hard work and commitment.

In addition to making a number of external appointments to help drive our new plan, we are pleased to have also promoted or expanded the responsibilities of a number of existing M&S employees. This strikes a good balance between bringing in fresh skills and drawing on the best of M&S talent.

Plan 2010-2013 update

1) Focus on the UK

As outlined in November 2010, our strategy is to become an international multi-channel retailer. 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

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

In November we launched 'Only at M&S', a brand positioning which encapsulates our special qualities and better communicates the extraordinary lengths to which we go in order to deliver innovative 'M&S only' products. This new brand message was first featured in January for our unique Simply Fuller Longer range campaign, and we have since used it in all our ads, including in our successful Spring Clothing campaign.

For the first time ever, we launched innovation-led advertising. This highlighted the unique technology built into M&S clothing including our water repellent Stormwear™ finish, and Insolia footwear technology, the sales of which increased by 186% as a result.

Stores

Our customers have told us they find our stores difficult to shop. We are addressing this by segmenting our stores better, by creating a more inspiring in-store environment, and improving in-store navigation and packaging architecture.

Work on segmenting our stores has been completed. All stores have been grouped into clusters using several criteria including affluence and age. In the autumn we will begin to catalogue pilot stores according to one of these segments.

Using these clusters we have developed a macro spacing plan, which will be trialled in a number of pilot stores from October. This will reflect a new space template to ensure the most efficient space allocation and layout for each store, meaning that stores of the same size will no longer necessarily carry the same catalogue.

We are currently developing a new in-store navigation scheme which will deliver a clear and consistent signage structure across all stores. This will be trialled in pilot stores from October. In order to improve the customers' in-store experience we have also developed new packaging and labelling across General Merchandise and Food, designed to enhance the clarity of our sub-brands. It will launch in stores from October.

We have made good progress in rolling out the micro spacing solution in Foods, through a new Space, Range and Display (SRD) system. This will optimise the use of space, delivering store specific space allocation, category layout and product mix.

While the last store modernisation programme improved the core infrastructure of our stores, it has not delivered an inspirational shopping environment for our customers. Moreover, 90 of our stores remain unmodernised. Our aim is to complete this programme over the next three years and work on delivering an improved in-store environment across General Merchandise and Food. This will include a unique look and feel for all our clothing sub-brands and upgrades to some of our Food fixtures to better showcase the quality and freshness of product. More details will follow in September, with the opening of our new Stratford store, and subsequent launch of other pilot stores.

We have appointed a new Director of Space, Neil Hyslop, an experienced M&S Director, who has responsibility for the management of all our space in stores.

Clothing

In November we set out plans to increase the role of the M&S brand so it becomes a brand destination of choice in its own right. We have now completed work on redesigning the core M&S brand into a home of great quality core products at excellent value.

Our aim is to deliver a comprehensive range of the best quality basics on the high street. We are doing this through the introduction of new M&S Woman and M&S Man brand identities, which will be more modern and desirable and deliver more style credibility to the core M&S range. The branding will start to launch in stores from the autumn.

Our sub-brands are real assets but customers told us that we need to develop these sub-brands giving them more distinctive values, turning them from labels to real brands. We have completed work on developing more distinct identities for each of our sub-brands. We used criteria such as demographics and affluence in order to develop clearly identified target groups, brand values and colours. We have made good progress with the recruitment of brand directors and brand managers to work with the buying teams to ensure brand values are consistently applied: from packaging, to in-store presentation and external marketing.

We have delivered more clarity and removed duplication across the sub-brands by exiting Portfolio and transitioning the range to our core M&S brand.

Home

We know that Home represents a real opportunity with only 20% of our customers currently shopping our Home department.

We have worked on developing a 'lifestyle' approach to our Home offer, segmenting it into Classic, Contemporary and Design. The Classic range has been designed in house, and will represent the best of M&S. We announced in March the launch of our new 'Conran Exclusive Design, Only at M&S' collection, which will form the basis of the Contemporary offer and will include a wide range of home products incorporating furniture, bedding, lighting and kitchenware. We will also be introducing a new range of design led home and gifting products, by the leading European designer Marcel Wanders.

Our focus will remain on key growth departments, such as kitchens and dining, bedding, and bathrooms, all of which will see a step change in our range from September, with more choice than ever available to our customers. In line with our plans, we have started to exit Technology, and are due to complete this by the end of summer.

We have appointed a new Director for Home, Damian Guha, who will lead the implementation of the changes outlined above.

Food

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

Our focus has been on developing products unique to M&S, characterised by innovation and superb eating quality. We have already delivered a step change in innovation, launching 1,900 new lines, over 25% of our total range. We have also promoted this innovation more strongly, through advertising, promotions and in-store cafés.

As outlined above, work is currently underway to improve space utilisation in our Food halls and allow us to bring in new products. We are increasing our range from 7,000 to 8,000 lines, offering our customers greater choice and filling gaps in the current range.

We are working on improving in-store execution through the introduction of zoning which will give each member of staff responsibility for a specific part of the food section. This will allow them to provide customers with better service and more product knowledge. Zoning will be implemented in all stores by September.

UK space growth

In November we set a target for 95% of the population to be within 30 minutes drive of a full line M&S store by 2015. In order to do this, we are targetting c.3% space growth per annum for the next three years, by which time we believe we will have the right balance of space and better access to our customers, through both store and Shop Your Way.

We have made good progress against this target. This year we will deliver a 2.9% increase in space and continue to build the pipeline for the next two years. Our priority is to deliver Shop Your Way in General Merchandise and take advantage of opportunities to add Food space by increasing the number of Simply Food stores. There is also still an opportunity to add a number of franchise food stores in key convenience locations.

We have set up a new Property Board, responsible for overseeing governance of the property strategy and approving all capital expenditure, both in the UK and internationally.

2) Multi-channel

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

We announced in February the appointment of Laura Wade-Gery to the role of Executive Director, Multi-channel e-commerce. We are delighted she will be joining us on 4 July, and will be responsible for delivering all aspects of the plan.

Following the November announcement of our decision to terminate the Amazon contract, work is now underway to design and build a new platform. This will be in place in 2013/14 and in the meantime we are continuing to work closely with Amazon to maximise the growth opportunity from our existing platform, including enhancements such as product personalisation, due to launch in September.

This year we will start to build up our on-line capabilities with a launch of our first local language, local currency website in France, due to launch by the end of 2011.

3) International

In November we set out our strategy to transform M&S into an international, multi-channel retailer and reduce our dependency on the UK economic cycle. We have made good progress and in February we announced the appointment of Jan Heere as our new Director of International. Jan joined us in May 2011 as a member of the Management Committee, and is leading the delivery of our plans.

We are now focused on key markets, including India and Shanghai.

Working with our partner, Reliance Retail, we have accelerated the pace of growth in India, with 10 new stores scheduled to open over the next year in addition to the existing 19. Over 50% of product is now sourced from the region which has resulted in a more tailored proposition for our Indian customers.

We opened three new stores in Shanghai during the year, and have plans for six further stores over the next year. We have continued to enhance our expertise there, establishing a strong local management team to ensure we have the right offer for our customers in this region.

We have developed a new organisational structure to support our growth ambitions. We integrated our International General Merchandise and Food teams with the UK operations, placing our International activities at the heart of the business and aligning them more closely with our UK product development and buying cycles.

During the year we took several steps to improve the efficiency of our supply chain. We reduced the number of international products shipped via the UK, with 31% of stock now moving through our four regional hubs in Sri Lanka, China, Istanbul and Singapore, direct to its destination.

In April 2011 we announced our plans to return to France in the Autumn, with the launch of a French language website and a new flagship store in Paris on the Champs-Élysées in November 2011. This will help us capitalise on the strong awareness of the M&S brand in France.

Financial Review

Summary of Results	2010/11	2009/10	2009/10	change
	£m	£m	£m	%
	(52 wks)	(53 wks)	(52 wks)	(52 wks)
Group revenue	9,740.3	9,536.6	9,347.6	4.2%
UK	8,733.0	8,567.9	8,398.2	4.0%
International	1,007.3	968.7	949.4	6.1%
Underlying operating profit	824.9	843.9	779.3	5.9%
UK	677.9	701.2	644.0	5.3%
International	147.0	142.7	135.3	8.6%
Underlying profit before tax	714.3	694.6	632.5	12.9%
Non-underlying profit items	66.3	8.1	8.1	
Profit before tax	780.6	702.7	640.6	21.9%
Underlying basic EPS	34.8p	33.0p	30.0p	16.0%
Basic EPS	38.8p	33.5p	30.5p	27.2%
Dividend per share (declared)	17.0p	15.0p	15.0p	13.3%

The comparative period was a 53 week reporting period. In order to make a comparison to last year, all comparative numbers in the Financial Review are stated on a 52 week basis unless specified otherwise. The FY2009/10 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

Group revenues were up 4.2% driven by growth in like-for-like sales in the UK and a good performance in our International business. Revenue growth by area, as reported by period was:

Total revenue %

<u>UK</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3*</u>	<u>Q4*</u>	<u>FY</u>
Clothing	7.4	7.8	4.7	-3.0	4.2
Home	4.1	9.3	2.7	-6.2	1.6
General Merchandise	7.0	8.0	4.4	-3.4	3.9
Food	2.9	5.2	3.5	4.9	4.1
Total UK	4.8	6.5	4.0	1.0	4.0
<u>International</u>	0.9	6.2	4.5	12.6	6.1
<u>Total Group</u>	4.4	6.5	4.0	2.3	4.2

Like-for-like revenue %

<u>UK</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>FY</u>
General Merchandise	6.0	7.0	3.8	-3.9	3.2
Food	1.5	3.7	1.8	3.4	2.6
Total UK	3.6	5.3	2.8	0.1	2.9

**Before adjusting for the timing of the Christmas sales*

UK revenues were up 4.0% in total with a like-for-like increase of 2.9%, reflecting improvements in our product offer as well as better market conditions in the first half of the year. We added c. 1.8% of space, c. 1.5% in General Merchandise and c. 2.0% in Food, on a weighted average basis.

International revenues were up 6.1%, or 7.9% on a constant currency basis. The majority of our owned territories delivered good growth, with Czech Republic, India and China particularly strong. Trading conditions continue to be difficult in Greece and the Republic of Ireland. Our franchise business continued to perform well, with territories including Russia and the Far East growing strongly, and the Middle East returning to growth.

Operating profit

Underlying operating profit was £824.9m, up 5.9%.

In the UK, underlying operating profit was up 5.3% at £677.9m. Gross margin was level at 41.2%. General merchandise gross margin was down c. 40 basis points at 52.1% as a result of increased markdowns, commodity price inflation and adverse currency pressures which more than offset the benefits of better sourcing. Food gross margin was up c. 20 basis points at 30.8% as a result of better management of promotions and waste helping to mitigate the commodity price increases and the annualisation of last year's price investment.

Underlying UK operating costs were up 3.5% to £2,951.3m. A breakdown of the costs is shown below:

	<u>52 weeks ended</u>		
	2 Apr 11	27 Mar 10	
	£m	£m	% inc
Retail staffing	877.6	858.4	+2.2
Retail occupancy	1,011.8	972.7	+4.0
Distribution	393.5	394.4	-0.2
Marketing and related	142.9	122.9	+16.3
Support	525.5	501.8	+4.7
Total	2,951.3	2,850.2	+3.5

Retail staffing costs were well managed despite increases in selling space and volumes and the annual pay review. Increased occupancy costs reflect growth in selling space as well as the impact of rent reviews. Distribution costs were very well managed despite volume increases and inflationary pressure, as we continued to see the benefits of initiatives to improve supply chain efficiency. The growth in marketing costs reflects the increase in the number of advertising campaigns in both General Merchandise and Food. The increase in support costs is largely due to additional depreciation partly offset by a lower bonus payment.

The underlying UK operating profit includes a contribution of £35.2m (last year £30.4m) from the Group's continuing economic interest in M&S Money.

International underlying operating profit was up 8.6% at £147.0m (last year £135.3m). Owned store operating profits were £54.7m, down 7.4%, or down 5.1% on a constant currency basis, reflecting external economic pressures as well as continued investment in stores in India and China. Franchise operating profits were up 21.1% to £92.3m due to continuing strong sales performance.

Non-underlying profit items

	<u>52 weeks ended</u>	
	2 Apr 11	27 Mar 10
	£m	£m
Profit on property disposals	2.9	8.1
One-off pension credit	10.7	-
Impairment of investment property	(6.3)	-
Fair value movement on financial instruments	54.3	-
Recognition of embedded derivative	20.3	-
Strategic programme costs	(15.6)	-
	66.3	8.1

Profit on property disposals was £2.9m (last year £8.1m). This mainly relates to the sale of a freehold property in Luton.

The one-off pension credit of £10.7m is due to changes in the Republic of Ireland pension scheme capping employees' future annual increases in pensionable pay to 4%.

The value of an investment property has been impaired by £6.3m to reflect its recoverable value, in line with its current market value.

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 £54.3m has been recognised within finance costs.

An embedded derivative of £20.3m has been recognised that is contained within a warehouse lease in which rent increases are based on inflation, but within a fixed range. Under IAS 39, this requires separate recognition.

As a result of the strategy announced in November, over the next three years an estimated c.£50m of costs will be incurred which are not part of the normal operating costs of the business. £15.6m relating to the write-off of technology store fit-out and the cost of implementing the strategy has been incurred in 2010/11, with the remainder of the costs to come over the next two years.

Net finance costs

	<u>52 weeks ended</u>	
	2 Apr 11	27 Mar 10
	£m	£m
Interest payable	(140.6)	(133.7)
Interest income	4.7	2.1
Net interest payable	(135.9)	(131.6)
Fees payable	(8.5)	(13.5)
Pension finance income (net)	37.6	10.8
Unwinding of discounts on financial instruments	(3.8)	(12.5)
Underlying finance costs	(110.6)	(146.8)
Fair value gain on financial instruments	54.3	-
Net finance costs	(56.3)	(146.8)

Net interest payable was up 3.3% at £135.9m reflecting an increase in the Group's average cost of funding to 6.4% (last year 5.9%), offset by a reduction in average net debt over the year. Underlying net finance costs were down £36.2m after an increase in pension finance income to £37.6m (last year £10.8m). The non-cash fair value gain on financial instruments of £54.3m 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 is 25.1% (last year 25.6%), reflecting the benefit of recently announced changes to the corporation tax rate.

Underlying earnings per share

Underlying earnings per share increased by 16.0% to 34.8p per share. The weighted average number of shares in issue during the period was 1,577.1m (last year 1,572.2m).

Dividend

The Board is recommending a final dividend of 10.8p per share up 13.7% on last year's final dividend. This will result in a total dividend of 17.0p, an increase of 13.3%. This reflects the Board's commitment to a progressive dividend policy broadly twice covered by earnings.

Capital expenditure

	<u>Year ended</u>	
	2 Apr 11	3 Apr 10
	£m	£m
Store modernisation programme	38	75
New stores	151	50
International	31	29
Supply chain and technology	191	194
Maintenance	81	41
Total capital expenditure	492	389

Group capital expenditure for the year was £491.5m. We continued to invest in our supply chain and technology in line with our plan to build an infrastructure fit to support the future growth of the business.

We added c. 1.8% of trading space in the UK, on a weighted average basis, trading from 15.6m square feet at the end of March 2011. We opened 20 stores during the year, including 17 Simply Foods. In our International business we added c. 15% of space, trading from 4.2m square feet. We opened 49 new stores and closed 15.

Cash flow and net debt

	<u>Year ended</u>	
	2 Apr 11	3 Apr 10
	£m	£m
Underlying EBITDA	1,292.4	1,271.8
Working capital	184.0	97.5
Pension funding	(91.2)	(19.6)
Capex and disposals	(450.3)	(414.0)
Interest and taxation	(327.6)	(281.4)
Dividends and share issues/purchases	(251.1)	(242.6)
Net cash flow	356.2	411.7
Opening net debt	(2,068.4)	(2,490.8)
Exchange and other non-cash movements	(188.7)	10.7
Closing net debt	(1,900.9)	(2,068.4)

The Group reported a net cash inflow of £356.2m (last year £411.7m). This inflow reflects the growth in underlying EBITDA and better working capital management, partly offset by increased cash contributions to the pension fund in line with the funding plan announced in May 2010.

Capital expenditure, net of disposals, was £450.3m (last year £414.0m) reflecting further investment in our supply chain and IT as well as new space growth. Exchange and other non-cash movements of £188.7m includes £113.0m in relation to the transfer of the US\$ hedge contracts to the pension fund, as part of the funding plan, and the recognition of the £71.9m Partnership liability to the pension fund which was triggered on the approval of the interim dividend.

Net debt was £1,900.9m, an improvement of £167.5m on last year end.

Pensions

At 2 April 2011 the IAS 19 net retirement benefit surplus was £168.5m (3 April 2010 deficit of £366.5m). The market value of scheme assets increased by £449.5m, partly due to assets contributed as part of this year's funding plan as well as improved asset performance. In addition, the present value of the scheme liabilities has fallen due to the change from RPI to CPI for deferred members leading to a reduction in liabilities of c. £170m.

Guidance

Guidance for financial year 2011/12:

- Gross margin is expected to be between 0 and 25 basis points higher than last year due to a combination of measures to mitigate input cost inflation.
- Operating costs are expected to increase c. 5% as a result of increased depreciation, space growth and inflation, as well as investment in growth initiatives, offset by underlying savings.
- The planned opening of new footage will add c. 2% to UK and c. 10% to International space.
- Group capital expenditure is expected to be around £900m.
- Effective tax rate is expected to be 25%

We will update on our first quarter sales on 13 July 2011.

- Ends -

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Investor & Analyst webcast:

Investor and analyst presentation will be held at 9am on 24 May 2011. 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.

Fixed Income Investor Conference Call:

This will be hosted by Alan Stewart, Chief Finance Officer at 1pm on 25 May 2011:

Dial in number: +44 (0) 20 7190 1595

A recording of this call will be available until 4th June 2011:

Dial in number: +44 (0) 20 7959 6720 Access Code: 4437288#

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.

Consolidated income statement

	Notes	52 weeks ended 2 April 2011 £m	53 weeks ended 3 April 2010 £m
Revenue	2	9,740.3	9,536.6
Operating profit	2	836.9	852.0
Finance income	4	42.3	12.9
Finance costs	4	(98.6)	(162.2)
Profit before tax		780.6	702.7
Income tax expense	5	(182.0)	(179.7)
Profit for the year		598.6	523.0
Attributable to:			
Equity shareholders of the Company		612.0	526.3
Non-controlling interests		(13.4)	(3.3)
		598.6	523.0
Basic earnings per share	6	38.8p	33.5p
Diluted earnings per share	6	38.4p	33.2p

Non-GAAP measures: Underlying profit before tax

Profit before tax		780.6	702.7
Adjusted for:			
Profit on property disposals		(2.9)	(8.1)
IAS 19 Ireland one-off pension credit	8	(10.7)	-
IAS 36 Impairment of investment property		6.3	-
IAS 39 Fair value movement on financial instrument	4	(54.3)	-
IAS 39 Recognition of embedded derivative		(20.3)	-
Strategic programme costs		15.6	-
Underlying profit before tax	3	714.3	694.6
Underlying basic earnings per share	6	34.8p	33.0p
Underlying diluted earnings per share	6	34.4p	32.7p

Consolidated statement of comprehensive income

		52 weeks ended 2 April 2011 £m	53 weeks ended 3 April 2010 £m
Profit for the year		598.6	523.0
Other comprehensive income:			
Foreign currency translation differences		(16.4)	(17.4)
Actuarial gains/(losses) on retirement benefit schemes		286.0	(251.6)
Tax on retirement benefit schemes		(78.0)	71.7
Cash flow and net investment hedges			
- fair value movements in equity		(57.8)	52.1
- reclassified and reported in net profit		42.1	(119.8)
- amount recognised in inventories		(11.2)	4.8
Tax on cash flow hedges and net investment hedges		19.4	25.9
Other comprehensive income/(loss) for the year, net of tax		184.1	(234.3)
Total comprehensive income for the year		782.7	288.7
Attributable to:			
Equity shareholders of the Company		796.1	292.0
Non-controlling interests		(13.4)	(3.3)
		782.7	288.7

Consolidated statement of financial position

	Notes	As at 2 April 2011 £m	As at 3 April 2010 £m
ASSETS			
Non-current assets			
Intangible assets		527.7	452.8
Property, plant and equipment		4,662.2	4,722.0
Investment property		16.0	22.4
Investment in joint ventures		13.0	11.5
Other financial assets		3.0	3.0
Retirement benefit asset	8	182.6	-
Trade and other receivables		276.1	287.7
Derivative financial instruments		21.8	132.9
Deferred tax assets		-	0.7
		5,702.4	5,633.0
Current assets			
Inventories		685.3	613.2
Other financial assets		215.9	171.7
Trade and other receivables		250.3	281.4
Derivative financial instruments		18.4	48.1
Current tax receivable		1.6	-
Cash and cash equivalents		470.2	405.8
		1,641.7	1,520.2
Total assets		7,344.1	7,153.2
LIABILITIES			
Current liabilities			
Trade and other payables		1,347.6	1,153.8
Borrowings and other financial liabilities		602.3	482.9
Partnership liability to the Marks & Spencer UK Pension Scheme	9	71.9	71.9
Derivative financial instruments		50.7	27.1
Provisions		22.7	25.6
Current tax liabilities		115.0	129.2
		2,210.2	1,890.5
Non-current liabilities			
Retirement benefit deficit	8	14.1	366.5
Trade and other payables		262.3	280.3
Borrowings and other financial liabilities		1,924.1	2,278.0
Derivative financial instruments		37.5	-
Provisions		22.0	25.5
Deferred tax liabilities		196.5	126.5
		2,456.5	3,076.8
Total liabilities		4,666.7	4,967.3
Net assets		2,677.4	2,185.9
EQUITY			
Called-up share capital		396.2	395.5
Share premium account		255.2	247.5
Capital redemption reserve		2,202.6	2,202.6
Hedging reserve		(11.3)	11.6
Other reserve		(6,042.4)	(5,970.5)
Retained earnings		5,873.2	5,281.9
Total shareholders' equity		2,673.5	2,168.6
Non-controlling interests in equity		3.9	17.3
Total equity		2,677.4	2,185.9

Consolidated statement of changes in equity

	Ordinary share capital	Share premium account	Capital redemption reserve	Hedging reserve	Other reserve	Retained earnings	Total	Non- controlling interest	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
As at 29 March 2009	394.4	236.2	2,202.6	62.6	(5,970.5)	5,156.4	2,081.7	18.9	2,100.6
Profit/(loss) for the 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)
Tax on retirement benefit schemes	-	-	-	-	-	71.7	71.7	-	71.7
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 cash flow and net investment hedges	-	-	-	25.9	-	-	25.9	-	25.9
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 non-controlling shareholders	-	-	-	-	-	-	-	1.7	1.7
Shares issued on exercise of employee share option:	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
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 movement in equity	-	-	-	(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
Total comprehensive 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 option:	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

Consolidated cash flow information

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	52 weeks ended 2 April 2011 £m	53 weeks ended 3 April 2010 £m
Cash flows from operating activities			
Cash generated from operations	11	1,385.2	1,349.7
Tax paid		(185.3)	(120.7)
Net cash generated from operating activities		1,199.9	1,229.0
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		-	(5.4)
Purchase of property, plant and equipment		(327.3)	(352.0)
Proceeds from sale of property, plant and equipment		3.5	20.9
Purchase of intangible assets		(126.5)	(77.5)
Purchase of current financial assets		(44.3)	(118.3)
Interest received		4.1	2.7
Net cash used in investing activities		(490.5)	(529.6)
Cash flows from financing activities			
Interest paid		(146.4)	(163.4)
Cash inflow from borrowings		18.4	30.7
Repayment of syndicated bank facility		(217.5)	(529.4)
Issue of medium-term notes		-	397.2
Redemption of medium-term notes		-	(200.4)
Monetisation of derivative assets		32.8	-
Decrease in obligations under finance leases		(15.7)	(17.0)
Payment of liability to the Marks & Spencer UK Pension Scheme		(67.9)	(68.0)
Equity dividends paid		(247.5)	(236.0)
Shares issued on exercise of employee share options		8.4	12.4
Purchase of own shares held by employee trust		(12.0)	(19.0)
Net cash used in financing activities		(647.4)	(792.9)
Net cash inflow/(outflow) from activities		62.0	(93.5)
Effects of exchange rate changes		(1.2)	(2.1)
Opening net cash		202.7	298.3
Closing net cash		263.5	202.7

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

		52 weeks ended 2 April 2011 £m	53 weeks ended 3 April 2010 £m
Opening net debt		(2,068.4)	(2,490.8)
Net cash inflow/(outflow) from activities		62.0	(93.5)
Increase in current financial assets		44.3	118.3
Decrease in debt financing		249.9	386.9
Partnership liability to the Marks & Spencer UK Pension Scheme (non-cash)		(71.9)	-
Exchange and other non-cash movements		(116.8)	10.7
Movement in net debt		167.5	422.4
Closing net debt	12	(1,900.9)	(2,068.4)

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 2010/11 and 2009/10, which do not contain any statement under s498 of the Companies Act 2006 and are unqualified. The statutory accounts for 2009/10 have been delivered to the Registrar of Companies and the statutory accounts for 2010/11 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.

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 underlying profit measures used by other companies. The adjustments made to reported profit before tax are income and charges that are one-off in nature, significance and impact the Group's underlying performance. These adjustments include:

- Profits and losses on the disposal of properties and investment property impairment charges;
- Costs relating to strategy changes that are not considered normal operating costs of the underlying business;
- Pension credits arising on changes of the defined benefit pension schemes; 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 about components of the Group that are regularly reviewed by the chief operating decision maker to allocate resources to the segments and to assess their performance.

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

The 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.

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

	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
Wholesale	343.7	-	343.7
Retail	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	-	42.3
Finance costs	(152.9)	54.3	(98.6)
Profit before tax	714.3	66.3	780.6

¹ UK operating profit includes a contribution of £35.2m (last year £30.4m) from M&S Money under the terms of our arrangement with HSBC.

² Adjustments to revenue relate to revenue deductions recognised in cost of sales for management accounting purposes. Underlying profit excludes profits and losses on the disposal of properties, impairment charges, pension credits arising on changes of 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

	53 weeks ended 3 April 2010		
	Management £m	Adjustment £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	701.2	(0.1)	701.1
International operating profit	142.7	8.2	150.9
Group operating profit	843.9	8.1	852.0
Finance income	12.9	-	12.9
Finance costs	(162.2)	-	(162.2)
Profit before tax	694.6	8.1	702.7

Other segmental information

	2011		2010	
	UK £m	International £m	Total £m	Total £m
Additions to property, plant and equipment and intangible assets (excluding goodwill)	463.6	27.9	491.5	389.3
Depreciation and amortisation	434.5	33.0	467.5	427.9
Assets	6,287.6	1,056.5	7,344.1	7,153.2
Non-current assets	4,751.1	951.3	5,702.4	5,633.0

3 Non-GAAP performance measures

The adjustments made to reported profit before tax are income and charges that are one-off in nature, significance and impact 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 significant volatility in reported earnings;
- IAS 19 credit arising from changes to the Marks and Spencer Ireland defined benefit pension scheme whereby members' future pensionable pay increases have been capped at 4%;
- IAS 36 impairment of investment property - the value of an investment property has been 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 five year business plan;
- IAS 39 initial recognition of the embedded derivative in a lease contract based upon the expected future RPI at the inception of the lease versus the lease contract in which rent increases are capped at 2.5%, with a floor of 1.5%;
- Strategic programme costs relate to the strategy announcements made in November 2010 and include the write-off of technology store fit-out and associated costs, due to the Group's withdrawal of this department in stores, and also the costs associated with the Focus on UK plans. 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	53 weeks ended
		2 April 2011	3 April 2010
		£m	£m
Profit on property disposals		2.9	8.1
IAS 19 Ireland one-off pension credit	8	10.7	-
IAS 36 Impairment of investment property		(6.3)	-
IAS 39 Fair value movement on financial instrument	4	54.3	-
IAS 39 Recognition of embedded derivative		20.3	-
Strategic programme costs		(15.6)	-
		66.3	8.1

4 Finance income/(costs)

	52 weeks ended 2 April 2011	53 weeks ended 3 April 2010
	£m	£m
Finance income		
Bank and other interest receivable	4.7	2.1
Pension finance income (net)	37.6	10.8
Finance income	42.3	12.9
Finance costs		
Fee payable on the transfer of derivative assets to the pension fund	(8.5)	-
Premium on repurchase of debt	-	(13.5)
Interest on bank borrowings	(7.7)	(7.1)
Interest payable on syndicated bank facility	(1.8)	(5.9)
Interest payable on medium-term notes	(126.9)	(117.9)
Interest payable on finance leases	(4.2)	(5.3)
Unwind of discounts on financial instruments	(3.8)	(12.5)
Underlying finance costs	(152.9)	(162.2)
Fair value movement on financial instrument	54.3	-
Finance costs	(98.6)	(162.2)
Net finance costs	(56.3)	(149.3)

5 Taxation

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

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 profits and losses on the disposal of properties, impairment charges, pension credits arising on changes of 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. 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 2 April 2011	53 weeks ended 3 April 2010
	£m	£m
Profit attributable to equity holders of the parent	612.0	526.3
(Less)/add (net of tax):		
Profit on property disposals	(2.9)	(8.1)
IAS 19 Ireland one-off pension credit	(9.4)	-
IAS 36 Impairment of investment property	6.3	-
IAS 39 Fair value movement on financial instrument	(54.3)	-
IAS 39 Recognition of embedded derivative	(15.1)	-
Strategic programme costs	11.5	-
Underlying profit attributable to equity holders of the parent	548.1	518.2
	Million	Million
Weighted average number of ordinary shares in issue	1,577.1	1,572.2
Potentially dilutive share options under Group's share option schemes	15.6	14.3
Weighted average number of diluted ordinary shares	1,592.7	1,586.5
	Pence	Pence
Basic earnings per share	38.8	33.5
Diluted earnings per share	38.4	33.2
Underlying basic earnings per share	34.8	33.0
Underlying diluted earnings per share	34.4	32.7

7 Dividends

	52 weeks ended 2 April 2011	53 weeks ended 3 April 2010
	£m	£m
Final dividend of 9.5p per share (last year 9.5p per share)	149.7	149.6
Interim dividend of 6.2p per share (last year 5.5p per share)	97.8	86.4
	247.5	236.0

In addition the directors have proposed a final dividend in respect of the year ended 2 April 2011 of 10.8p per share amounting to a dividend of £171.2m. It will be paid on 15 July 2011 to shareholders who are on the Register of Members on 3 June 2011. 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 2 April 2011	53 weeks ended 3 April 2010
	£m	£m
Opening net retirement benefit deficit	(366.5)	(152.2)
Current service cost	(59.0)	(56.3)
Curtailment charge	(1.0)	(1.0)
One-off pension credit	10.7	-
Interest cost	(285.5)	(270.6)
Expected return on scheme assets	323.1	281.4
Employer contributions	259.8	82.7
Actuarial gains/(losses)	286.0	(251.6)
Exchange movement	0.9	1.1
Closing net retirement benefit asset/(deficit)	168.5	(366.5)
Total market value of assets	5,398.1	4,948.6
<u>Present value of scheme liabilities</u>	<u>(5,215.5)</u>	<u>(5,298.6)</u>
Net funded pension plan asset/(deficit)	182.6	(350.0)
Unfunded retirement benefits	(0.9)	(0.9)
<u>Post-retirement healthcare</u>	<u>(13.2)</u>	<u>(15.6)</u>
Net retirement benefit asset/(deficit)	168.5	(366.5)
Analysed in the Statement of Financial Position as:		
Retirement benefit asset	182.6	-
<u>Retirement benefit deficit</u>	<u>(14.1)</u>	<u>(366.5)</u>
	168.5	(366.5)

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 5.5% (last year 5.5%) and 3.4% (last year 3.6%) respectively.

The inflation rate of 3.4% 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 2.7% has been used. The change from RPI to CPI for deferred revaluation has been included in these 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. £90m (last year £90m). If the inflation rate increased by 0.1%, the IAS 19 surplus would decrease by c.£55m and if the inflation rate decreased by 0.1%, the IAS 19 surplus would increase by c.£45m.

9 Marks and Spencer Scottish Limited Partnership

Marks and Spencer plc is a general partner and the Marks and Spencer UK Pension Scheme is a limited partner of the Marks and Spencer Scottish Limited Partnership. 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 and 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 2010/11, 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. The future value of total discretionary scheduled payments is approximately £791m (last year £862m).

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 £656.0m (last year £631.7m). For further details see note 11. 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 Fund 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.

10 Capital expenditure and contingencies

A Capital commitments

	As at 2 April 2011	As at 3 April 2010
	£m	£m
Commitments in respect of properties in the course of construction	90.8	69.0

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.

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

11 Cash flow analysis

	52 weeks ended 2 April 2011	53 weeks ended 3 April 2010
	£m	£m
Cash flows from operating activities		
Profit on ordinary activities after taxation	598.6	523.0
Income tax expense	182.0	179.7
Finance costs	98.6	162.2
Finance income	(42.3)	(12.9)
Operating profit	836.9	852.0
Increase in inventories	(72.1)	(74.3)
Decrease/(increase) in receivables	2.9	(12.4)
Payments to acquire leasehold properties	(1.4)	-
Increase in payables	175.2	132.5
Non-underlying operating cash outflow	(12.3)	(34.1)
Depreciation and amortisation	467.5	427.9
Share-based payments	31.7	28.5
Pension costs charged against operating profit	60.0	57.3
Cash contributions to pension schemes	(91.2)	(19.6)
Non-underlying operating profit items (see note 3)	(12.0)	(8.1)
Cash generated from operations	1,385.2	1,349.7

12 Reconciliation of net debt to statement of financial position

	As at 2 April 2011	As at 3 April 2010
	£m	£m
Statement of financial position and related notes		
Cash and cash equivalents	470.2	405.8
Current financial assets	215.9	171.7
Bank loans and overdrafts	(289.1)	(267.4)
Syndicated bank facility	-	(219.8)
Medium-term notes - net of hedging derivatives	(2,194.0)	(2,048.2)
Finance lease liabilities	(78.3)	(89.8)
Partnership liability to the Marks & Spencer UK Pension Scheme	(71.9)	(71.9)
	(1,947.2)	(2,119.6)
Interest payable included within related borrowings	46.3	51.2
Total net debt	(1,900.9)	(2,068.4)

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 £6.4m during the year (last year £7.2m) with an outstanding trade payable of £0.1m at 2 April 2011 (last year £0.4m). 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 £1.7m during the year (last year £1.7m) with an outstanding trade payable of £0.8m at 2 April 2011 (last year £0.8m).