MARKS & SPENCER

press release

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MARKS AND SPENCER GROUP PLC
FULL YEAR RESULTS 2012/13
52 WEEKS ENDED 30 MARCH 2013

'Strong progress in our transformation'

Full year results:

- Group sales up 1.3%[1] at £10.0bn
- Total UK sales +0.9%: Food +3.9%; General Merchandise -2.4%
- Like-for-like UK sales -1.0%: Food +1.7%; General Merchandise -4.1%
- International sales +4.5%[1]
- Multi-channel sales +16.6%

- Underlying profit before tax[2] £665.2m (last year pro-forma[3] £687.2m; reported £705.9m)
- Statutory profit before tax £564.3m (last year £658.0m)
- Underlying basic earnings per share[2] 32.7p (last year 34.9p)
- Basic earnings per share 29.2p (last year 32.5p)
- Full year dividend 17p per share (last year 17p)
- Net debt £2.6bn (last year pro-forma[3] £2.5bn; reported £1.9bn)

Marc Bolland, Chief Executive, said:

"In a challenging market, M&S sales grew by 1.3%. Three of the four parts of the business made strong progress.

"We are working hard to get the General Merchandise performance back on track. We have already made progress in our operational execution, and our new Autumn/Winter ranges have received a positive reaction. We are very pleased with Food performance which benefitted from our continued focus on delivering innovation, and unrivalled quality and provenance. Our International operations performed well in key markets and our Multi-channel business delivered strong growth."

Marks and Spencer Group plc
Registered Office:
Waterside House
35 North Wharf Road
London W2 1NW
Registered No. 4256886
(England and Wales)

Robert Swannell, Chairman, said:

"2012/13 was another year of progress for M&S where a mixed trading performance was balanced by good progress in building longer term foundations in line with our key strategic goals.

"In line with our dividend policy, the Board is recommending a final dividend of 10.8p per share, resulting in a full year dividend of 17p per share, level on last year."

Guidance for financial year 2013/14:

- Gross margin is expected to grow by 30bps to 50bps with a similar range in both General Merchandise and Food.
- Operating costs are expected to increase by c. 3.5% as a result of inflation and volume growth, the addition of new space and increase in depreciation.
- Group capital expenditure is expected to be c. £775m, a reduction on the previous guidance of £850m. From 14/15 we expect it to fall to c. £550m per annum, a reduction on the previous guidance of £600m per annum.
- We are targeting underlying profit improvement, but expect to incur c. £30m non-recurring dual running costs, as a result of the transition to the new web platform and the opening of the new EDC/NDC in Castle Donington.
- The change in the IAS19 accounting for pensions will result in a restatement of 12/13 reported results, when adopted in 13/14. This will reduce the 12/13 reported profit by £17m, with a similar reduction expected in 13/14.
- The planned opening of new space will add c. 2% to UK and c. 15% to International space.
- Effective underlying tax rate is expected to be 21.5%.

Current trading

Trading over the first seven weeks of the new financial year has been in line with our expectations.

Despite the challenging market conditions, we are focused on delivering our plan to transform M&S into a leading international multi-channel retailer. As we enter the third year of our transformation, we are encouraged by the significant progress we have made.

Despite non-recurring dual running costs this year, we expect to make solid underlying progress; with more material improvements to follow from next year as momentum building across the business is increasingly reflected in the results.

We will update on our first quarter sales on 9 July 2013.

Outlook - 2014/15 onwards

Over the three years of our transformation we have worked hard to address the legacy under-investment in infrastructure and transform the business for the future. 2012/13 marked the peak year of this investment. As indicated, from 2014/15 we will move to a lower, more sustainable long-term investment level of c. £550m, which while significantly reduced, will allow us to continue to invest in the business on a consistent basis, avoiding the peaks and troughs seen in the past.

This transformation and the operational improvements we are making, lead us to expect to improve our General Merchandise margin over the next three years through a combination of tactical changes, sourcing and new systems, as well as early benefits of structural improvements.

As a result, we expect a material improvement in free cash flow from 2014/15, and will at this point evaluate future uses of cash, with a view to delivering improved shareholder returns.

Notes:

1 On constant currency basis

2 Underlying results are consistent with how the business is measured internally. Adjustments to derive underlying profit include one off strategic programme and restructuring costs, fair value movements on financial instruments and embedded derivatives, impairment of assets and the impact to income earned from M&S Bank following M&S Bank's recognition of a provision for potential financial product mis-selling.

3 The pro forma adjustment to net debt in the prior year reflects the calculated fair value of the property partnership liability using a consistent interest rate in the discounted cash flow model with that as at 21 May 2012 when the terms of the property partnership were changed. Similarly, an adjustment to underlying profit before tax of £18.7m relating to the unwinding of the discount on this liability has been made.

Board Changes:

After nine years at M&S, Steven Sharp, Executive Director, Marketing, will be retiring from the business at the end of February 2014 and intends to take on a portfolio of interests. Steve joined M&S in 2004 and has played a significant role in shaping the M&S brand from the introduction of the 'Your M&S' branding in 2004 to numerous iconic advertising campaigns reinforcing M&S's quality, style and ethical credentials. Steve will step down from the Board following the Annual General Meeting on 9 July 2013 and will continue to work in the business as Creative Director until 28 February 2014.

As a result of the above, Patrick Bousquet-Chavanne will take over responsibility for marketing and will be put forward for election to the Board as Executive Director, Marketing and Business Development at the AGM on 9 July 2013. Patrick joined M&S in September 2012 as Director of Strategy Implementation and Business Development and has played a key role in the development of the new marketing strategy in womenswear. Patrick was previously a Group President at The Estée Lauder Companies.

Robert Swannell, Chairman said; "Steve has been responsible for many of the Company's iconic campaigns. I fully respect his desire to take up a portfolio of interests and he leaves the Company with our full support, appreciation for all of his exceptional work and our best wishes. On behalf of all my colleagues I look forward to welcoming Patrick Bousquet-Chavanne to the Board; he brings a wealth of international experience."

Marc Bolland, Chief Executive said "We are extremely grateful to Steve for all of his considerable achievements at M&S and the pivotal role he has played in developing the M&S brand. It has been great working with Steve over the last three years. I would like to welcome Patrick, who has worked closely with Steve over the past 12 months. Patrick has built leading consumer brands around the world and will be an excellent addition to the team."

Steven Sharp said; "When I started with M&S I expected to stay with the business for around five years. It has now become nine fantastic years, an experience which I have thoroughly enjoyed. I am really looking forward to the freedom to pursue a portfolio of interests. I am also very happy to continue working with M&S as Creative Director for the remainder of the year. This will allow me to continue to contribute to the transformation of the brand, a subject I'm committed to and very passionate about."

2012/13 operating review:

Business highlights:

- Food outperformed the market on a like-for-like basis
- Operational improvement in General Merchandise
- UK gross margin +10bps due to tight control of markdown
- Managed our cost base tightly with cost growth of 1.8%, lower than guidance
- Multi-channel sales up 16.6% with the launch of free next day store collection
- International sales +4.5%[1] with strong like-for-like growth in key markets

Progress with our business transformation:

- Food repositioned to more specialist. Deli performance +14% and Bakery +20% ahead of other stores
- Food availability improved by 4% to date
- GM Womenswear plan is in place
- Concept stores performance 3% ahead of the rest of the store estate
- New Beauty shop in 55 stores, delivering strong double digit sales uplifts
- New Home concept launched in 33 stores; sales performance encouraging
- New EDC/NDC in Castle Donington commenced operations

- 45 new international stores opened, including eight new territories
- Seven international websites launched in Europe and China
- IT systems and Logistics roadmap refined; additional £50m of benefits identified
- 3.8 million items of clothing collected through our Shwopping initiative

The market continued to be challenging throughout the financial year, with consumer confidence impacted by a weak macro-economic situation and continued pressure on disposable incomes. Trading was volatile, partly as a result of unseasonable weather conditions through both Spring/Summer and Autumn/Winter seasons.

Against this backdrop we focused on tight management of margin and costs. We took action to address the short term issues in General Merchandise and are pleased that we have seen an improvement in operational execution. At the same time we continued to invest for the long term, in line with our strategy to transform the business into an international, multi-channel retailer.

Sales

Group sales were up 1.3% on a constant currency basis (+0.9% actual currency), driven by good performance in our Food, International and Multi-channel businesses.

General Merchandise sales were down 2.4% with like-for-like sales down 4.1%. We faced difficult trading conditions over the course of last year, with a highly promotional clothing market and unseasonal weather. Against this backdrop we focused on full price sales and more effective management of markdown, thereby protecting our gross margin. At the start of the financial year we identified merchandising issues in our Spring/Summer 2012 clothing collections. We took decisive action, appointing a new management team and delivering improvements in our operational execution through better availability and stock management. The improvement in product will take time to come through, but our customers will start to see the benefits of the changes from this summer.

Food sales were up 3.9%, with like-for-like sales up 1.7%, consolidating our position as the UK's leading high quality food retailer. Our strategy to focus on our heritage of quality, innovation and provenance is continuing to deliver results and set us apart from the competition. The investment we have made in our operational execution, from new systems to better customer service, has helped us deliver further improvement in product availability.

International business continued to perform well with sales were up 4.5% on a constant currency basis (+0.9% actual currency). Our franchise business in the Middle East delivered a good performance. In Asia, our key markets in India and China continued to trade strongly with double digit like-for-like growth. While the trading in legacy markets was once again impacted by macroeconomic pressures, we saw an improvement in performance towards the end of the year. Operating profit was down 10.9% on a constant currency basis, due to difficult macroeconomic conditions in legacy markets and start-up costs in priority markets.

UK gross margin

General Merchandise gross margin was up 45bps at 51.8% as a result of improved markdown management, and ongoing sourcing initiatives, which more than offset input cost pressures in areas such as wages.

Food gross margin was up 35bps at 31.7% due to improved buying and better management of promotional spend offsetting commodity price inflation. In addition, we are continuing to see the benefits of our investment in new Food systems.

Total UK gross margin was up 10 basis points at 40.9%, as a result of the mix change due to a difference in the rate of sales growth in General Merchandise and Food.

UK operating costs

UK operating costs were up 1.8% on last year. We continued to manage costs tightly despite upward pressures from new space, inflation and investment in business initiatives such as improved customer service in stores.

These pressures were mitigated by efficiencies generated through the supply chain and IT programme, as well as a reduction in the depreciation charge.

Underlying operating profit

Underlying group operating profit was £781.6m (last year £810.0m). Within this, UK operating profit was £661.4m (last year £676.6m) and International operating profit was £120.2m (last year £133.4m).

Net debt and cash flow

Net debt at the end of the year was £2.6bn (last year £1.9bn, pro forma £2.5bn adjusting for the change in terms of the property partnership with the pension fund). Working capital was well managed with a £72.3m inflow in the year. Our ongoing investment in our UK and International stores, the new multi-channel platform and new systems and supply chain resulted in capital expenditure of £829.7m (last year £720.7m). Overall, there was a net cash outflow of £67.2m (last year £117.4m inflow).

2012/13 business review:

We are two years into our three year plan to transform M&S into a truly international, multi-channel retailer. We have made good progress against our objectives.

1) Focus on the UK

Stores

Last year we began the roll-out of our new store format, designed to make our stores easier to shop by improving navigation and making better use of space. At the end of the year we completed work on 337 stores, representing over 65% of our space. We remain on track for completion by mid 2013/14.

The sales performance in the new concept stores has been 3% ahead of the rest of the business, an improvement on the initial 2.6% uplift, delivering a 13% internal rate of return, ahead of our hurdle rate of 12%.

We also commenced the second phase of our store transformation, which includes the roll-out of our new M&S Beauty department and our stylish and inspirational new Home concept. This is helping customers reappraise the M&S offer and we are pleased with the sales performance in both new departments.

In August 2012, we opened our eco-friendly flagship store at Cheshire Oaks, which showcases the very best of M&S as a leading multi-channel retailer under one roof, including latest in store technology such as browse and order points. The store received very positive feedback from our customers which is reflected in its strong sales performance to date.

Clothing

Clothing market conditions were challenging throughout the year, with customers remaining cautious and planning their spending carefully. In a competitive market, with high levels of promotional activity we protected margins, with tactical offers on selected products that demonstrated great value.

Early in the financial year, our performance was impacted by merchandising issues. We improved our processes, tightened stock management and changed the way we allocate stock to stores. We also aligned our buying procedures more closely with our marketing activity – delivering record availability on advertised lines.

We took decisive action to address the performance of our Clothing business; bringing in a new team, listening carefully to our customers and improving our operational execution.

We have restated our commitment to quality, with a new Quality Charter, promising to deliver the M&S difference on every product. With a new team in place, we are reinvigorating our style credentials and will deliver a confident edited collection of the season's key styles, along with the quality wardrobe staples we're famous for. For example, our classic £6 white tee shirt benefited from improved styling, better fabric and superior finishing, resulting in a sales uplift of 15%.

In May we launched our new Beauty concept, featuring an edited collection of niche beauty and skincare brands from around the world alongside M&S' own reformulated beauty products. New Beauty concept departments were 25% ahead of the rest of the store estate.

Home

Despite the static housing market furniture sales rose 2%, driven by improved quality and faster delivery times on a number of key lines. In August we launched our new in-store Home concept, which transformed the way we showcase our products. It also embraces technology to offer greater choice and make it easier to shop our ranges. The new concept is now in 33 stores, with performance in these stores 9% ahead of non-concept stores.

Food

Our Food business delivered an excellent performance this year, with sales consistently ahead of the market, driven by our trusted quality and ongoing innovation.

Provenance, quality and trust continue to underpin everything we do – from our relationships to suppliers to the products we sell. Our high ethical and sourcing standards continue to set us apart from the competition. We were pleased to be unaffected by the recent issues affecting the Food industry.

We offered customers even more choice through constant innovation and first-to-market products, launching nearly 2,000 new lines and refreshing 25% of our entire range. From new international ranges such as 'España' and 'Modern Asian', to new healthy range 'Delicious and nutritious', our innovative products kept customers coming back. We also continue to drive the health category and are proud to be the market leaders in healthy own label chilled ready meals.

This reputation for innovation, coupled with exceptional quality, means M&S has become a destination of choice for customers looking to make celebrations more memorable. Once again they placed their trust in us at special times of the year, and last summer provided several opportunities to celebrate. We also had our biggest ever Easter week as well as a record Christmas, outperforming the market in the two key trading weeks.

With value still front of mind for customers, we ensured our offer remained competitive through a combination of independent weekly price matching and well targeted offers. We launched Simply M&S, a range of 700 products that highlights the great value we offer on everyday items, without compromising on M&S quality. In addition our everyday promotions such as our 3 for £10 on meat and fish and 'Weekends In' deals, helped customers get even better value from their weekly shop.

Our new store format has now been rolled out to 337 Food Halls, improving the shopping experience, providing elements of theatre and reinforcing our position as a specialist food retailer. Both our new bakeries and new delis are well ahead of non-concept stores. In addition we invested in even better customer service through our new staff zoning initiative. Ongoing supply chain improvements and the implementation of our new space, range and display system have helped us deliver further improvement in availability and we remain on track to deliver our 5% improvement target by the end of 2013/14.

2) Multi-channel

Multi-channel sales accelerated this year, growing by 16.6% despite tough comparatives. Over the last 12 months we have made the M&S shopping experience easier, more convenient, as well as more inspiring for our customers, however they choose to shop with us. We now have over 3.6m weekly visitors to our UK website, thanks to a combination of improved navigation, more style advice and greater choice, including 40% more online product exclusives. Our online business now accounts for 13% of our General Merchandise sales.

Our 'Shop Your Way' service – which allows customers to order and collect their shopping in the way that suits them best – grew in popularity, with over 44% of orders now collected in stores. Delivery is now available to 476 UK stores and this year we improved the service further with the launch of free next day delivery to stores.

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Sales from new channels have grown strongly as we brought the very best of online to our stores. We made more of our product offer available through new Browse and Order points in stores and by equipping 1,200 store employees with iPads. Large digital screens play catwalk videos and our new Home and Beauty departments use technology to inspire customers and provide tailored advice and guidance.

In May 2012 we re-launched our mobile optimised site to deliver an even richer browsing and shopping experience. We launched our first ever transactional iPhone app in July and created a new M&S Home iPad app, which brings our home catalogue to life in an easy to shop format. As a result, mobile and tablet sales increased by almost 200% and now account for 18% of multichannel sales.

To fulfil our multi-channel ambitions we need to be an agile business, with the right infrastructure in place and the ability to innovate with pace. This year we made real progress with the opening of our new 900,000 sq ft e-commerce distribution centre (EDC/NDC) at Castle Donington in May 2013.

The site is helping us to better serve customers and further improve our delivery times and product availability. During the year we also completed the first phase of testing of our new multi-channel platform, which will launch in spring 2014, and showcase the best of M&S via a fashion-forward online environment and offering a crisp, easy-to-shop experience.

3) International

Sales in our International business were up 4.5% on a constant currency basis, reflecting strong growth in our priority markets. We now trade from 418 stores in 51 territories

In Asia, we focused on driving growth in our priority territories of India and China. With our partners, Reliance Retail we opened six new stores in India and we continued to grow our presence in Shanghai, with the opening of seven new stores. Our Hong Kong operations also performed strongly and we opened one new store.

Our franchise operations across key territories in the Middle East performed well, with sales up 9%. We opened 19 new stores across 11 territories, including new markets such as Georgia, Kazakhstan and Armenia.

Our European business was impacted by the ongoing weakness of the Irish and Greek economies. We strengthened our Czech Republic business and are pleased to have seen early signs of improvement. Our Champs Élysées store in Paris continued to perform well and our first full-line French store opened in October at So Ouest.

Following the successful launch of our local French and Irish websites, we launched six new local in-country websites. In addition, we launched an online shop on China's leading retail website TMall and have announced plans to launch an e-commerce offer for the Russian market, operated by our existing franchise partner FIBA.

We also began work to improve our international buying processes – combining our central planning with local market knowledge to deliver a more tailored product offer that better reflects local seasonality, culture and customer profile.

Supply Chain and IT

To fulfil our international, multi-channel ambitions, it is essential we have the infrastructure and organisational capabilities to drive this growth. Since we launched our plan to transform M&S, we have made considerable progress.

We have reviewed the legacy logistics road map, and adapted it to the changing customer shopping habits. We now plan to operate three rather than four UK distribution sites. The first one of these, our dedicated e-commerce and NDC facility has commenced operations at Castle Donington in May 2013. Once fully operational it will help us achieve a step change in service to our multi-channel customers including improved availability and later delivery cut-off times as well as improved efficiency within our operations. The remainder of the new network will be delivered by 2015/16, cutting our lead times by 70%.

As mentioned during our recent Castle Donington presentation we expect a non-recurring dual running cost of c. £30m this year associated with the transition to the new web platform and our new EDC.

We have also made good progress with our systems upgrades and our new multi-channel platform build is on schedule for launch next spring.

Plan A

After our five year milestone in 2012, this year was one of planning and progress for Plan A. Having achieved our big operational targets of becoming carbon neutral and sending no waste to landfill, we continued our journey of improvement; stretching ourselves further and extending the influence of Plan A.

We had great success in 2012/13 in engaging our customers and employees in Plan A. Through our Shwopping initiative, our customers and employees helped divert 3.8 million items of clothing from landfill, recycling them with Oxfam. We also extended the scope of Shwopping, working with Business in the Community to offer businesses a free clothes recycling service for offices and workplaces.
More than 10,000 garments were collected in the first month, with over 150 companies signed up to 'Shwop at Work', including B&Q, IBM and Thames Water.

Our Big Beach Clean-Up in May 2012 saw 6,000 M&S customers and employees help the Marine Conservation Society clean over 100 beaches, collecting over 11,500kg of rubbish. 27,000 people took part in the Big Butterfly Count, a nationwide survey aimed at helping us access the health of our environment and 3,000 schools registered to take part in our School of Fish programme.

We're proud of what we have achieved in this area, but there is more to do in terms of how we influence our employees, customers, suppliers and even our competitors. In 2013/14 we will work with our external Sustainable Retail Advisory Board to shape our future vision for Plan A – ensuring it reflects changing social priorities, whilst continuing to tackle the environmental and ethical challenges that inspired its launch.

Financial Review

Summary of Results

	52 weeks ended		
	30 Mar 13	31 Mar 12	% var
	£m	£m	
Group revenue	**10,026.8**	**9,934.3**	+0.9
UK	8,951.4	8,868.2	+0.9
International	1,075.4	1,066.1	+0.9
Underlying operating profit	**781.6**	**810.0**	-3.5
UK	661.4	676.6	-2.2
International	120.2	133.4	-9.9
Underlying profit before tax	**665.2**	**705.9**	-5.8
Non-underlying items	(100.9)	(47.9)	
Profit before tax	**564.3**	**658.0**	-14.2
Underlying basic earnings per share	**32.7p**	**34.9p**	-6.3
Basic earnings per share	**29.2p**	**32.5p**	-10.2
Dividend per share (declared)	**17.0p**	**17.0p**	

Revenues

Group revenues were up 0.9% (+1.3% on a constant currency basis), driven by sales growth in both International and the UK, with particularly strong growth in Food.

Total revenue %	Q1	Q2	Q3	Q4	FY
UK					
Clothing	-5.0	0.2	-2.1	-2.6	-2.4
Home	-6.1	-1.4	-2.5	1.4	-2.2
General Merchandise	**-5.1**	**0.1**	**-2.2**	**-2.2**	**-2.4**
Food	2.9	3.9	2.7	6.3	3.9
Total UK	**-0.9**	**2.1**	**0.3**	**2.6**	**0.9**

International*	0.9	6.1	4.1	7.0	4.5
Total Group*	-0.7	2.5	0.6	3.1	1.3

Like-for-like revenue %	Q1	Q2	Q3	Q4	FY
UK					
General Merchandise	-6.8	-1.8	-3.8	-3.8	-4.1
Food	0.6	1.6	0.3	4.0	1.7
Total UK	**-2.8**	**0.0**	**-1.8**	**0.6**	**-1.0**

*At constant currency

UK revenues were up 0.9% in total with a like-for-like decrease of 1.0%. We added 2.8% of space, 2.6% in General Merchandise and 3.1% in Food, on a weighted average basis.

International revenues were up 0.9%, (4.5% on a constant currency basis). Our owned businesses in India and China delivered a strong performance, driven by good like-for-like growth and the opening of new space. Similarly, our franchise business continued to perform well, especially the Middle East region which delivered strong growth. Despite continuing tough trading conditions impacting the full year performance in the Czech Republic and the Republic of Ireland, there was an improvement in trend in the second half of the year.

Operating profit

Underlying operating profit was £781.6m, down 3.5%.

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In the UK, underlying operating profit was down 2.2% at £661.4m. Gross margin was up 10bps at 40.9%. General Merchandise gross margin was up 45bps at 51.8% as a result of improved markdown management and ongoing sourcing initiatives, which more than offset input cost pressures from areas such as wages. Food gross margin was up 35bps at 31.7% due to improved buying, combined with better management of promotional spend offsetting commodity price inflation.

Underlying UK operating costs were up 1.8% to £3,049.8m. A breakdown of the costs is shown below:

	52 weeks ended		
	30 Mar 13	31 Mar 12	
	£m	£m	% inc
Retail staffing	928.9	889.2	4.5%
Retail occupancy	1,030.7	1,030.9	0.0%
Distribution	405.1	398.1	1.8%
Marketing and related	155.3	161.8	-4.0%
Support	529.8	515.0	2.9%
Total	**3,049.8**	**2,995.0**	**1.8%**

Retail staffing costs increased due to investment made in delivering customer service and increased space together with the impact of the annual pay review.

Occupancy costs were level on the year with increases from rent, rates and utilities offset by a decrease in depreciation.

Distribution costs continue to be managed tightly 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 reduction in Marketing and related costs reflects more effective use of marketing spend within both Foods and GM.

Increase in support costs reflect the impact of annual pay increases and higher pension costs associated with auto-enrolment, which will continue into the coming year.

The underlying UK operating profit includes a contribution from the Group's continuing economic interest in M&S Bank of £51.1m, last year £50.7m.

International underlying operating profit was down 9.9% (down 10.9% on a constant currency basis). Franchise operating profits were down 3.9% to £106.3m, with our European franchise partners' trading environments impacting on their business. Owned store operating profits were down 39.0% to £13.9m, due to continued macroeconomic pressures in Europe combined with initial start-up costs in priority markets.

Non-underlying profit items

	52 weeks ended	
	30 Mar 13	31 Mar 12
	£m	£m
Strategic programme costs	(6.6)	(18.4)
Restructuring costs	(9.3)	-
Impairment of assets	-	(44.9)
Fair value movement of Czech put option	-	15.6
Fair value movement of embedded derivative	5.8	(0.2)
Fair value movement on buy back of puttable callable bonds	(75.3)	-
Reduction in M&S Bank Income	(15.5)	-
Total non-underlying profit items	**(100.9)**	**(47.9)**

Strategic programmes incurred £6.6m of costs in the year which are not part of the normal operating costs of the business. These include brand segmentation and business integration costs, asset write-offs and accelerated depreciation. The cumulative strategic programme costs incurred since the strategy was announced is now £41m, of the c. £50m we announced in 2010.

Restructuring costs relate to the Group strategy to transition to a one tier distribution network and the associated closure costs of legacy logistics sites.

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

The fair value movement on the buy back of puttable callable bonds relates to a one-off finance charge resulting from the cancellation of bonds issued in 2007. These bonds included a coupon rate reset after five years based on a fixed underlying 25 year interest rate. In light of continued low long-term market interest rates and the successful £400m bond issuance in December 2012, the Group decided to buy back and cancel these bonds.

The reduction in the fee income received from M&S Bank is due to M&S Bank's potential redress to customers in respect of possible mis-selling of financial products. This reduction in fee income is expected to continue in the current year and amount to a further c. £45m. We are discussing with HSBC whether these charges are properly for our account under the terms of our agreement.

Net finance costs

	52 weeks ended	
	30 Mar 13	31 Mar 12
	£m	£m
Interest payable	(125.3)	(135.6)
Interest income	5.3	7.1
Net interest payable	**(120.0)**	**(128.5)**
Pension finance income (net)	21.2	25.6
Unwinding of discount on partnership liability	(16.6)	-
Unwinding of discounts on financial instruments	(1.0)	(1.2)
Underlying net finance costs	**(116.4)**	**(104.1)**
Fair value movement of Czech put option	-	15.6
Fair value movement on buy back of puttable callable bonds	(75.3)	-
Net Finance Cost	**(191.7)**	**(88.5)**

The net interest payable was down 6.6% at £120.0m as a result of the lower cost of funding of 5.9% (last year 6.5%.) Underlying net finance costs were up £12.3m to £116.4m due to the unwinding of discount on partnership liability and a reduction in pension income.

Taxation

The full year effective tax rate on underlying profit before tax was 22.7% (last year 24.5%).

Underlying earnings per share

Underlying earnings per share decreased by 6.3% to 32.7p per share. The weighted average number of shares in issue during the period was 1,599.7m (last year 1,579.3m).

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. The Board's dividend policy remains unchanged; a progressive policy with dividends broadly twice covered by earnings.

Capital expenditure

	52 weeks ended	
	30 Mar 13	31 Mar 12
	£m	£m
Focus on the UK	197.4	71.6
Multi-channel	75.3	42.8
New stores	94.1	170.4
Store modernisation programme	85.7	73.6
International	53.7	61.9
Supply chain and technology	247.2	212.7
Maintenance	67.9	104.5
Total capital expenditure	**821.3**	**737.5**

We continued to invest in our UK stores in order to create a more inspiring environment. The new concept had been rolled out to 337 stores at the year end. Our programme set out in November 2010 will complete during the current financial year.

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Our commitment to improving multi-channel capabilities remains a priority with the development of our new multi-channel platform and the launch of five new in-country websites, and a dotcom presence in China. We now trade online locally in 10 countries.

We added 2.8% of selling space in the UK (on a weighted average basis), trading from 16.2m square feet at the end of March 2013. We opened a net 35 new stores during the year, including our flagship store in Cheshire Oaks. In our International business, space increased by c.16%, predominantly in our key strategic territories of India, China, the Middle East and 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

	52 weeks ended	
	30 Mar 13	31 Mar 12
	£m	£m
Underlying EBITDA	1,244.8	1,280.1
Working capital	72.3	161.9
Pension funding	(70.9)	(89.9)
Capex net of disposals	(829.7)	(720.7)
Interest and taxation	(235.3)	(277.3)
Dividends and share issues / purchases	(248.4)	(236.7)
Net cash (outflow) / inflow	**(67.2)**	**117.4**
Opening net debt	**(1,857.1)**	**(1,900.9)**
Exchange and other movements	(84.0)	(1.7)
Property partnership liability	(606.0)	(71.9)
Closing net debt	**(2,614.3)**	**(1,857.1)**
Property partnership liability pro-forma adjustment	-	(603.1)
Closing adjusted net debt**	**(2,614.3)**	**(2,460.2)**

**The property partnership liability pro-forma adjustment to net debt in the prior year reflects the calculated fair value of the property partnership liability using a consistent interest rate in the discounted cash flow model with that as at 21 May 2012 when the terms of the property partnership were changed.

The Group reported a net cash outflow of £67.2m (last year inflow £117.4m). This outflow reflects a 3% decline in underlying EBITDA, a lower working capital inflow and higher capital expenditure.

Net debt was £2,614.3m, an increase of £757.2m on last year as a result of the change in terms of the property partnership with the pension fund. Adjusting for this, net debt was £154.1m higher than last year.

The May 2012 bond matured in the period, and was refinanced from existing facilities and operating cash. Our funding strategy continues to ensure a mix of funding sources and tenor of maturity to provide cost effectiveness and flexibility to match the requirements of the business.

Pensions

At 30 March 2013 the IAS 19 net retirement benefit surplus was £193.0m (last year £78.0m). The market value of scheme assets increased by £743.6m, due to improved asset performance and company contributions. The present value of the scheme liabilities has increased by £628.8m due to a reduction in the discount rate. Our hedging strategy adopted since 2010 continued to reduce significant fluctuations between scheme liabilities and assets.

A full actuarial valuation of the UK Defined Benefit Pension Scheme was carried out at 31 March 2012 and showed a deficit of £290m. A funding plan of £112m was agreed with the Trustees. The difference between the valuation and the funding plan is expected to be met by investment returns on the existing assets of the pension scheme.

- Ends -

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Waterside House
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London W2 1NW
Registered No. 4256886
(England and Wales)

For further information, please contact:

Investor Relations:
Majda Rainer: +44 (0)20 8718 1563
Richard Harris: +44 (0)20 8718 9688

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

Investor & Analyst webcast:

Investor and analyst presentation will be held at 9am on 21 May 2013. 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 2 pm on 21 May 2013:

Dial in number: +44 (0)20 8515 2319

A recording of this call will be available until 31 May 2013:

Dial in number: +44 (0)20 7959 6720 Access code: 4621150 #

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 30 March 2013 £m	52 weeks ended 31 March 2012 £m
Revenue	2	**10,026.8**	9,934.3
Operating profit	2	**756.0**	746.5
Finance income	4	**26.5**	48.3
Finance costs	4	**(218.2)**	(136.8)
Profit before tax		**564.3**	658.0
Income tax expense	5	**(106.3)**	(168.4) link t
Profit for the year		**458.0**	489.6
Attributable to:			
Equity shareholders of the Company		**466.7**	513.1
Non-controlling interests		**(8.7)**	(23.5) link t
		458.0	489.6
Basic earnings per share	6	**29.2p**	32.5p
Diluted earnings per share	6	**29.0p**	32.2p

Non-GAAP measures: Underlying profit before tax

	Notes	52 weeks ended 30 March 2013 £m	52 weeks ended 31 March 2012 £m
Profit before tax		**564.3**	658.0
Adjusted for:			
Strategic programme costs	3	6.6	18.4
Restructuring Costs	3	9.3	-
IAS 36 Impairment of assets	3	-	44.9
IAS 39 Fair value movement of put option over non controlling interest in Czech business	3	-	(15.6)
IAS 39 Fair value movement of embedded derivative	3	(5.8)	0.2
Fair value movement on buy back of the Puttable Callable Reset medium-term notes	3	75.3	-
Reduction in M&S Bank income for the impact of the financial product mis-selling provision	3	15.5	-
Underlying profit before tax	1	**665.2**	705.9
Underlying basic earnings per share	6	**32.7p**	34.9p
Underlying diluted earnings per share	6	**32.5p**	34.6p

Consolidated statement of comprehensive income

	Notes	52 weeks ended 30 March 2013 £m	52 weeks ended 31 March 2012 £m
Profit for the year		458.0	489.6
Other comprehensive income:			
Foreign currency translation differences		7.9	(15.1)
Actuarial gains/(losses) on retirement benefit schemes	8	90.7	(189.9)
Tax on retirement benefit schemes		(19.9)	50.4
Cash flow and net investment hedges			
- fair value movements in other comprehensive income		33.6	53.0
- reclassified and reported in net profit		(26.0)	(23.0)
- amount recognised in inventories		(13.6)	13.7
Tax on cash flow hedges and net investment hedges		(0.4)	(7.3)
Other comprehensive income/(loss) for the year, net of tax		72.3	(118.2)
Total comprehensive income for the year		**530.3**	371.4
Attributable to:			
Equity shareholders of the Company		539.0	394.9
Non-controlling interests		(8.7)	(23.5)
		530.3	371.4

Consolidated statement of financial position

	Notes	As at 30 March 2013 £m	As at 31 March 2012 £m
Assets			
Non-current assets			
Intangible assets		695.0	584.3
Property, plant and equipment		5,033.7	4,789.9
Investment property		15.8	15.9
Investment in joint ventures		15.5	14.4
Other financial assets		3.0	3.0
Retirement benefit asset	8	206.1	91.3
Trade and other receivables		265.4	270.2
Derivative financial instruments		65.3	44.2
		6,299.8	5,813.2
Current assets			
Inventories		767.3	681.9
Other financial assets		16.9	260.5
Trade and other receivables		245.0	253.0
Derivative financial instruments		42.5	67.0
Current tax assets		3.1	1.6
Cash and cash equivalents		193.1	196.1
		1,267.9	1,460.1
Total assets		**7,567.7**	7,273.3
Liabilities			
Current liabilities			
Trade and other payables		1,503.8	1,449.1
Partnership liability to the Marks & Spencer UK Pension Scheme	9	71.9	71.9
Borrowings and other financial liabilities		558.7	327.7
Derivative financial instruments		13.7	60.5
Provisions		19.2	8.4
Current tax liabilities		71.0	87.8
		2,238.3	2,005.4
Non-current liabilities			
Retirement benefit deficit	8	13.1	13.3
Trade and other payables		292.1	280.8
Partnership liability to the Marks & Spencer UK Pension Scheme	9	550.7	-
Borrowings and other financial liabilities		1,727.3	1,948.1
Derivative financial instruments		13.1	27.2
Provisions		16.0	24.0
Deferred tax liabilities		230.7	195.7
		2,843.0	2,489.1
Total liabilities		**5,081.3**	4,494.5
Net assets		**2,486.4**	2,778.8
Equity			
Issued share capital		403.5	401.4
Share premium account		315.1	294.3
Capital redemption reserve		2,202.6	2,202.6
Hedging reserve		9.2	14.8
Other reserve		(6,542.2)	(6,114.3)
Retained earnings		6,117.2	5,991.4
Total shareholders' equity		**2,505.4**	2,790.2
Non-controlling interests in equity		(19.0)	(11.4)
Total equity		**2,486.4**	2,778.8

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 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 losses 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 in other comprehensive income	-	-	-	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 hedges 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)
Credit for share-based payments	-	-	-	-	-	32.5	32.5	-	32.5
Deferred tax on share schemes	-	-	-	-	-	4.3	4.3	-	4.3
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
At 1 April 2012	**401.4**	**294.3**	**2,202.6**	**14.8**	**(6,114.3)**	**5,991.4**	**2,790.2**	**(11.4)**	**2,778.8**
Profit/(loss) for the year	-	-	-	-	-	466.7	466.7	(8.7)	458.0
Other comprehensive income:									
Foreign currency translation	-	-	-	(1.5)	-	9.4	7.9	-	7.9
Actuarial gain on retirement benefit schemes	-	-	-	-	-	90.7	90.7	-	90.7
Tax on retirement benefit schemes	-	-	-	-	-	(19.9)	(19.9)	-	(19.9)
Cash flow and net investment hedges									
- fair value movements in other comprehensive income	-	-	-	35.9	-	(2.3)	33.6	-	33.6
- reclassified and reported in net profit	-	-	-	(26.0)	-	-	(26.0)	-	(26.0)
- amount recognised in inventories	-	-	-	(13.6)	-	-	(13.6)	-	(13.6)
Tax on cash flow hedges and net investment hedges	-	-	-	(0.4)	-	-	(0.4)	-	(0.4)
Other comprehensive income	-	-	-	(5.6)	-	77.9	72.3	-	72.3
Total comprehensive income/(expenses)	**-**	**-**	**-**	**(5.6)**	**-**	**544.6**	**539.0**	**(8.7)**	**530.3**
Transactions with owners:									
Dividends	-	-	-	-	-	(271.3)	(271.3)	-	(271.3)
Transactions with non-controlling shareholders	-	-	-	-	-	-	-	1.1	1.1
Recognition of financial liability	-	-	-	-	(427.9)	(178.1)	(606.0)	-	(606.0)
Shares issued on exercise of employee share options	2.1	20.8	-	-	-	-	22.9	-	22.9
Credit for share-based payments	-	-	-	-	-	28.0	28.0	-	28.0
Deferred tax on share schemes	-	-	-	-	-	2.6	2.6	-	2.6
At 30 March 2013	**403.5**	**315.1**	**2,202.6**	**9.2**	**(6,542.2)**	**6,117.2**	**2,505.4**	**(19.0)**	**2,486.4**

The 'Other reserve' was originally created as part of the capital restructuring that took place in 2002. It represents the difference between the nominal value of the shares issued prior to the capital reduction by the Company (being the carrying value of the investment in Marks and Spencer plc) and the share capital, share premium and capital redemption reserve of Marks and Spencer plc at the date of the transaction. Last year the reserve also included discretionary distributions to the Marks & Spencer UK Pension Scheme, which following the Group's payment of an interim dividend in relation to 2011/12 and the resultant recognition of the annual distribution of £71.9m as a financial liability was £427.9m. On 21 May 2012 the Group changed the terms of the Marks and Spencer Scottish Limited partnership and the total equity instrument of £427.9m was derecognised and the fair value of the remaining distributions of £606.0m was recognised as a financial liability.

Consolidated statement of cash flows

	Notes	52 weeks ended 30 March 2013 £m	52 weeks ended 31 March 2012 £m
Cash flows from operating activities			
Cash generated from operations	11	1,246.2	1,352.1
Income tax paid		(106.0)	(149.1)
Net cash generated from operating activities		**1,140.2**	1,203.0
Cash flows from investing activities			
Purchase of property, plant and equipment		(642.6)	(564.3)
Purchase of intangible assets		(187.1)	(156.4)
Sale/(purchase) of current financial assets		243.4	(44.8)
Interest received		5.9	7.7
Net cash used in investing activities		**(580.4)**	(757.8)
Cash flows from financing activities			
Interest paid		(135.2)	(135.9)
Cash inflow/(outflow) from borrowings		0.5	(41.4)
Drawdown of syndicated loan notes		81.0	-
Issue of medium-term notes		395.6	295.5
Redemption of medium-term notes		(606.4)	(307.6)
Decrease in obligations under finance leases		(11.0)	(13.0)
Payment of liability to the Marks & Spencer UK Pension Scheme		(71.9)	(71.9)
Equity dividends paid		(271.3)	(267.8)
Shares issued on exercise of employee share options		22.9	44.3
Purchase of own shares by employee trust		-	(13.2)
Net cash used in financing activities		**(595.8)**	(511.0)
Net cash outflow from activities		**(36.0)**	(65.8)
Effects of exchange rate changes		0.9	(1.9)
Opening net cash		195.8	263.5
Closing net cash		**160.7**	195.8

Reconciliation of net cash flow to movement in net debt

	Notes	52 weeks ended 30 March 2013 £m	52 weeks ended 31 March 2012 £m
Opening net debt		**(1,857.1)**	(1,900.9)
Net cash outflow from activities		(36.0)	(65.8)
(Decrease)/Increase in current financial assets		(243.4)	44.8
Decrease in debt financing		132.7	138.4
Partnership liability to the Marks & Spencer UK Pension Scheme (non-cash)		(606.0)	(71.9)
Exchange and other non-cash movements		(4.5)	(1.7)
Movement in net debt		**(757.2)**	43.8
Closing net debt	12	**(2,614.3)**	(1,857.1)

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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 2012/13 and 2011/12, which do not contain any statement under s498 of the Companies Act 2006 and are unqualified. The statutory accounts for 2011/12 have been delivered to the Registrar of Companies and the statutory accounts for 2012/13 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;
- restructuring costs;
- fair value movement in financial instruments; and
- reduction in income received from HSBC in relation to M&S Bank due to a non recurring provision recognised by M&S Bank for the cost of providing redress to customers in respect of possible mis-selling of M&S Bank financial products.

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 30 March 2013		
	Management £m	Adjustment[2] £m	Statutory £m
General Merchandise	4,090.3	3.6	**4,093.9**
Food	4,857.5	-	**4,857.5**
UK revenue	8,947.8	3.6	**8,951.4**
Franchised	392.6	-	**392.6**
Owned	682.8	-	**682.8**
International revenue	1,075.4	-	**1,075.4**
Group revenue	10,023.2	3.6	**10,026.8**
UK operating profit[1]	661.4	(25.6)	**635.8**
International operating profit	120.2	-	**120.2**
Group operating profit	781.6	(25.6)	**756.0**
Finance income	26.5	-	**26.5**
Finance costs	(142.9)	(75.3)	**(218.2)**
Profit before tax	665.2	(100.9)	**564.3**

[1] UK statutory profit includes £35.6m (last year £50.7m) in respect of fees received from HSBC in relation to M&S Bank (formerly M&S Money). UK Management operating profit includes fees in relation to M&S Bank of £51.1m (last year £50.7m), which reflects a non GAAP adjustment of £15.5m as detailed in note 3.

[2] Adjustments to revenue relate to an adjustment for refunds recognised in cost of sales for management accounting purposes. Management profit excludes the adjustments (income or charges) made to reported profit before tax that are one-off in nature, significant and distort the Group's underlying performance (see note 3).

2 Segmental Information continued

	52 weeks ended 31 March 2012		
	Management (Restated)³	Adjustment (Restated)³	Statutory
	£m	£m	£m
General Merchandise	4,197.3	(2.2)	4,195.1
Food	4,673.1	-	4,673.1
UK revenue	8,870.4	(2.2)	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	9,939.2	(4.9)	9,934.3
UK operating profit	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

³ Following a change in the presentation of internal reporting, management revenue and the corresponding adjustments that reconcile to statutory revenue have been re-presented. Certain revenue deductions (such as staff discounts and loyalty points) that were previously recognised in management cost of sales are now recognised in management revenue to align with statutory accounting. There have been no changes to the reported segments.

Other segmental information

	UK	International	2013 Total	UK	International	2012 Total
	£m	£m	£m	£m	£m	£m
Additions to property, plant and equipment and intangible assets (excluding goodwill)	761.6	59.7	**821.3**	671.4	66.1	737.5
Depreciation and amortisation	421.7	28.8	**450.5**	435.8	34.3	470.1
Impairment and asset write-offs	9.6	7.2	**16.8**	7.3	50.5	57.8
Total assets	6,120.4	1,447.3	**7,567.7**	6,247.1	1,026.2	7,273.3
Non-current assets	4,964.1	1,335.7	**6,299.8**	4,894.6	918.6	5,813.2

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:

– Strategic programme costs relating 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 and accelerated depreciation. These costs are not considered normal operating costs of the business;

– Restructuring costs relating to the commencement of the Group strategy to transition to a one tier distribution network and the closure costs of legacy logistics sites;

– IAS 36 Impairment of assets – last year, the carrying value of the Marks and Spencer Marinopolous B.V. goodwill was 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 were impaired due to the continuing decline of the Greek economy;

– IAS 39 Fair value movement on put option over non controlling interest in Czech business – the put option value has been revised to zero to reflect the latest three year

– 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%;

– Fair value movement of the Puttable Callable Reset medium-term notes (PCR notes) realised on the repurchase of debt - in December 2007 the Group issued £250m of 30 year puttable callable bonds which included a coupon rate reset after five years based on a fixed underlying 25 year interest rate. On this basis the rate was reset at 9%. In light of continued low long-term market interest rates and the successful bond issuance in December 2012, the group bought back and cancelled these bonds in January 2013, resulting in a one-off fair value loss. This charge is the fair value movement of the bond net of any immaterial associated unamortised bond costs and fees. It is not considered a normal finance cost of the business.

– The Group has an economic interest in M&S Bank, a wholly owned subsidiary of HSBC, by way of a Relationship Agreement that entitles the Group to a 50% share of the profits of M&S Bank after appropriate deductions. The Group does not share in any losses of M&S Bank and is not obligated to refund any fees received from HSBC although future income may be impacted by significant one-off deductions. In the current year, the fee income has been impacted by the deduction of the estimated liability for providing redress to customers in respect of possible mis-selling of financial products. This estimated liability has been recognised by M&S Bank in its audited financial statements for the year ended 31 December 2012, the Group's share of which reduces the overall income due to it (under the Relationship Agreement) and has been treated as an adjustment to reported profit before tax on the basis that the directors believe that the impact of the provision recognised by M&S Bank materially distorts the Group's underlying performance. The Group expects there to be a further reduction in fee income of c.£45m in the year to 29 March 2014. The effect of the significant, one-off adjustments to the Group's income received from HSBC in the prior year was not material. We are discussing with M&S Bank whether these charges are properly for our account under the terms of our agreement with HSBC.

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

	Notes	52 weeks ended 30 March 2013 £m	52 weeks ended 31 March 2012 £m
Strategic programme costs		(6.6)	(18.4)
Restructuring costs		(9.3)	-
IAS 36 Impairment of assets		-	(44.9)
IAS 39 Fair value movement of put option over non controlling interest in Czech business	4	-	15.6
IAS 39 Fair value movement of embedded derivative		5.8	(0.2)
Fair value movement on buy back of the Puttable Callable Reset medium-term notes	4	(75.3)	-
Reduction in M&S Bank income for the impact of the financial product mis-selling provision		(15.5)	-
		(100.9)	(47.9)

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4 Finance income/(costs)

	52 weeks ended 30 March 2013 £m	52 weeks ended 31 March 2012 £m
Finance income		
Bank and other interest receivable	5.3	7.1
Pension net finance income	21.2	25.6
Underlying Finance income	**26.5**	32.7
Fair value movement on put option over non controlling interest in Czech business	-	15.6
Finance income	**26.5**	48.3
Finance costs		
Interest on bank borrowings	(2.1)	(5.5)
Interest payable on syndicated bank facility	(6.1)	(3.0)
Interest payable on medium-term notes	(114.3)	(126.4)
Interest payable on finance leases	(2.8)	(0.7)
Unwind of discount on financial instruments	(1.0)	(1.2)
Unwinding of discount on partnership liability to the Marks and Spencer UK Pension Scheme	(16.6)	-
Underlying Finance costs	**(142.9)**	(136.8)
Fair value movement on buy back of the Puttable Callable Reset medium-term notes	(75.3)	-
Finance costs	**(218.2)**	(136.8)
Net Finance costs	**(191.7)**	(88.5)

5 Taxation

The effective tax rate was 18.8% (last year 25.6%) and the underlying effective tax rate was 22.7% (last year 24.5%).

6 Earnings per share

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

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

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of 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 30 March 2013 £m	52 weeks ended 31 March 2012 £m
Profit attributable to equity shareholders of the company	**466.7**	513.1
(Less)/add (net of tax):		
Strategic programme costs	5.0	13.8
Restructuring costs	7.1	-
IAS 36 Impairment of assets	-	39.6
IAS 39 Fair value movement of put option over non controlling interest in Czech business	-	(15.6)
IAS 39 Fair value movement of embedded derivative	(4.7)	0.2
Fair value movement on buy back of the Puttable Callable Reset medium-term notes	57.3	-
Reduction in M&S Bank income for the impact of the financial product mis-selling provision	11.8	-
Non underlying adjustment to tax charge in respect of prior periods	(20.4)	-
Underlying profit attributable to equity shareholders of the company	**522.8**	551.1

	Million	Million
Weighted average number of ordinary shares in issue	**1,599.7**	1,579.3
Potentially dilutive share options under the Group's share option schemes	10.6	12.9
Weighted average number of diluted ordinary shares	**1,610.3**	1,592.2

	Pence	Pence
Basic earnings per share	**29.2**	32.5
Diluted earnings per share	**29.0**	32.2
Underlying basic earnings per share	**32.7**	34.9
Underlying diluted earnings per share	**32.5**	34.6

7 Dividends

	2013 per share	2012 per share	2013 £m	2012 £m
Dividends on equity ordinary shares				
Paid final dividend	10.8p	10.8p	172.3	170.2
Paid interim dividend	6.2p	6.2p	99.0	97.6
	17.0p	17.0p	**271.3**	267.8

The directors have proposed a final dividend in respect of the year ended 30 March 2013 of 10.8p per share amounting to a dividend of £173.5m. It will be paid on 12 July 2013 to shareholders on the register of members as at close of business on 31 May 2013, subject to approval of shareholders at the Annual General Meeting, to be held on 9 July 2013. 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 30 March 2013 £m	52 weeks ended 31 March 2012 £m
Opening net retirement benefit asset	**78.0**	168.5
Current service cost	(68.8)	(56.7)
Curtailment charge	(1.0)	(1.0)
Past service cost	1.4	-
Interest cost	(276.8)	(281.8)
Expected return on scheme assets	298.0	307.4
Employer contributions	70.9	131.9
Actuarial gains/(losses)	90.7	(189.8)
Net Exchange movement	0.6	(0.4)
Closing net retirement benefit asset	**193.0**	78.0
Total market value of assets	6,930.0	6,186.4
Present value of pension scheme liabilities	(6,723.9)	(6,095.1)
Net funded pension plan asset	206.1	91.3
Unfunded pension plans	(0.8)	(0.8)
Post-retirement healthcare	(12.3)	(12.5)
Net retirement benefit asset	**193.0**	78.0
Analysed in the statement of financial position as:		
Retirement benefit asset	206.1	91.3
Retirement benefit deficit	(13.1)	(13.3)
	193.0	78.0

The financial assumptions for the UK scheme and the most recent actuarial valuations of the other post-retirement schemes have been updated by independent qualified actuaries to take account of the requirements of IAS 19 - "Employee Benefits" in order to assess the liabilites of the schemes. The most significant of these are the discount rate and the inflation rate which are 4.3% (last year 4.6%) and 3.4% (last year 3.1%) respectively.

The inflation rate of 3.4% reflects the Retail Price Index (RPI) rate. Certain benefits have been calculated with reference to the Consumer Price Index (CPI) as the inflationary measure and in these instances a rate of 2.4% (last year 2.1%) has been used.

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.£115m (last year £110m). If the inflation rate increased by 0.1%, the IAS 19 surplus would decrease by c.£50m and if the inflation rate decreased by 0.1%, the IAS 19 surplus would increase by c.£75m.

IAS 19 revised, 'Employee Benefits' is effective for periods beginning on or after 1 January 2013. The revised standard has retrospective application. Had the revised standard been applied to the 2012/13 results the underlying profit for the year would have been £17m lower, with a compensating credit in other comprehensive income.

9 Marks & Spencer UK Pension Scheme interest in the Scottish Limited Partnership

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

The Partnership holds £1.6bn (last year £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.

In 2009 it was agreed with the Trustee that this distribution was discretionary at the instance of Marks and Spencer plc. The discretionary right was exercisable if the Group did not pay a dividend or make any other form of return to its shareholders. On this basis, the future value of total discretionary scheduled payments was an an equity instrument, disclosed within other reserves.

On 21 May 2012 the Group changed the terms of the Partnership to waive the Group's limited discretionary right over the annual distributions from the Partnership to the Pension Trustee.

The change has been reflected by the de-recognition of the related equity instruments and recognition of a financial liability. The financial liability has been initially measured at fair value of £606.0m, representing the present value of the remaining ten years of distributions of £71.9m per annum. The difference between the value of the derecognised equity instrument of £427.9m and the fair value of the liability has been recognised in equity in accordance with IAS 32. The change has no impact on the cash flows of the Group.

During the period to 30 March 2013 an interest charge of £16.6m was recognised in the income statement representing the unwinding of the discount included in this obligation.

Under IAS 19, the Partnership interest of the Pension Scheme in the Marks and Spencer Scottish Limited Partnership is included within the UK pension scheme assets, valued at £645.7m (last year £664.8m). The market value of this non-quoted financial asset is measured based on the expected cash flows and benchmark asset-backed credit spreads.

10 Contingencies and commitments

A Capital commitments

	As at 30 March 2013 £m	As at 31 March 2012 £m
Commitments in respect of properties in the course of construction	**9.5**	71.4

In respect of its interest in a joint venture, the Group is committed to incur capital expenditure of £nil (last year £nil)

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 30 March 2013 £m	52 weeks ended 31 March 2012 £m
Cash flows from operating activities		
Profit on ordinary activities after taxation	458.0	489.6
Income tax expense	106.3	168.4
Finance costs	218.2	136.8
Finance income	(26.5)	(48.3)
Operating profit	**756.0**	746.5
Increase in inventories	(91.2)	(0.1)
Decrease/(increase) in receivables	9.5	(17.1)
Payments to acquire leasehold properties	-	(1.2)
Increase in payables	77.0	103.4
Non-underlying operating cash outflows	(21.4)	(22.9)
Depreciation, amortisation and asset write-offs	467.4	479.7
Share-based payments	25.8	32.5
Pension costs charged against operating profit	68.4	57.7
Cash contributions to pension schemes	(70.9)	(89.9)
Non-underlying operating profit items (see note 3)	25.6	63.5
Cash generated from operations	**1,246.2**	1,352.1

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12 Reconciliation of net debt to statement of financial position

	As at 30 March 2013 £m	As at 31 March 2012 £m
Statement of financial position and related notes		
Cash and cash equivalents	193.1	196.1
Current financial assets	16.9	260.5
Bank loans and overdrafts	(152.1)	(38.7)
Medium-term notes - net of hedging derivatives	(2,040.2)	(2,181.8)
Finance lease liabilities	(57.4)	(65.5)
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 9)	(622.6)	(71.9)
	(2,662.3)	(1,901.3)
Interest payable included within related borrowing	48.0	44.2
Total net debt	**(2,614.3)**	(1,857.1)

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, a former executive director of the Group. These transactions amounted to £6.5m during the period to 1 October 2012, the date of Kate Bostock's resignation (last full year £12.7m). 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 £2.4m during the year (last year £1.9m) with an outstanding trade payable of £0.2m at 30 March 2013 (last year £0.5m).

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