MARKS & SPENCER

press release

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MARKS AND SPENCER GROUP PLC
FULL YEAR RESULTS 2013/14
52 WEEKS ENDED 29 MARCH 2014

'From transformation to delivery'

Full year results:

- Group sales up 2.7%[1] at £10.3bn
- Total UK sales +2.3%: Food +4.2%; General Merchandise 0.0%
- Like-for-like UK sales +0.2%: Food +1.7%; General Merchandise -1.4%
- International sales +6.2%[1]
- Multi-channel sales +22.8%

- Underlying profit before tax[2] -3.9%[3] to £623m
- Statutory profit before tax +6.1%[3] to £580m
- Underlying basic earnings per share[2] +0.9%[3] to 32.2p
- Basic earnings per share +14.8%[3] to 32.5p
- Full year dividend 17.0p per share level on the year
- Net debt down £150.7m to £2.46bn

Marc Bolland, Chief Executive, said:

"M&S grew sales by 2.7% last year. We are focused on improving our performance in General Merchandise and were pleased to see early signs of improvement. Our Food business had a very strong year, consistently outperforming the market.

"Three years ago, we recognised the scale of investment required to transform our business, investing to strengthen our foundations and improve our customer offer. We are making solid progress on this journey and are now focused on delivery."

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Robert Swannell, Chairman, said:

"The investment made in executing our strategy over the last three years puts M&S in a stronger position to compete in a retail world undergoing profound change. Our priorities now are to deliver on the investment we have made and to make M&S a more profitable, stronger and well-equipped business.

"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 17.0p per share, level on last year."

Guidance for financial year 2014/15

- Gross margin is expected to grow by c.100bps in General Merchandise as a result of sourcing benefits, particularly in the second half of the year. Food gross margin is expected to grow by 10bps to 30bps due to further operational efficiency.
- Operating costs are expected to increase by c.4% as a result of an increase in depreciation, inflation and the addition of new space.
- Group capital expenditure is expected to be lower at c.£500m to £550m.
- The planned opening of new space will add c.1% to UK space, with c.2.5% in Food and no net space growth in GM. International space is expected to grow by c.10%.
- Underlying effective tax rate is expected to be 19.0%.

Looking ahead - 2014/15 onwards

Our initial programme of investment associated with our strategic priorities is now largely completed. Capital expenditure is expected to drop to c.£500m to £550m per annum in each of the next three years.

The operational improvements we are making lead us to expect to deliver a significant improvement in our General Merchandise gross margin over the next three years, through a combination of a new approach to sourcing and trading capabilities. We expect a further step up to come beyond this with the completion of the single tier logistics network and GM4 systems implementation in 2016/17.

As a result of this, we are focused on improving free cash flow. The Board is committed to maintaining a progressive dividend policy with dividends broadly twice covered by earnings. We are targeting a net debt/EBITDA ratio within the range of 2.0x - 1.5x and remain committed to an investment grade rating. This gives potential for any excess cash to be returned to shareholders on a regular basis.

Current trading

As previously indicated, our new M&S.com site will take four to six months to settle in and, as a consequence, will have some impact on General Merchandise performance in the first quarter. The improving trend in Clothing sales we saw in the fourth quarter has continued in our stores. Our Food business continues to outperform the market.

We will update on our first quarter sales on 8 July 2014.

Notes:
1 On constant currency basis.
2 Underlying results are consistent with how the business is measured internally. Adjustments to derive underlying profit include profit on disposal of property, UK and Ireland one-off pension credits, interest income on tax repayment, restructuring costs, international store review, fair value movements on embedded derivatives 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 Last year results have been restated for the changes to IAS 19 "Employee Benefits". Refer to the Financial Review for further details.

2013/14 operating review:

Business highlights:

- New General Merchandise strategy launched – reasserting leadership in quality and style
- Clothing sales returned to growth in the last quarter of the year
- Continued improvement in Womenswear full price sales
- Food continued to outperform the market on a like-for-like basis
- Food availability up; customer satisfaction scores at record high
- Managed our cost base tightly with cost growth of 3.5%, lower than guidance
- M&S.com sales +23%, outperforming the market
- 55% of M&S.com sales now picked up in store

- New web platform launched on time and on budget
- International sales +6.2% on a constant currency basis, with like-for-like growth in key markets
- 55 international stores opened
- Castle Donington EDC/NDC ramp up of volume and capability

We made these improvements against a challenging economic backdrop. Consumer confidence improved over the financial year but overall increases in incomes lagged inflation, meaning that consumers did not feel the benefit in their discretionary spending.

Sales

Group sales were up 2.7% on a constant currency basis (+2.8% reported currency), driven by good performances in our Food, International and Multi-channel businesses.

General Merchandise sales were level on the year with like-for-like sales down 1.4%. Our priority was delivering our strategy to refocus on quality and style, and after a year of changes our customers are noticing the difference, with Clothing returning to growth in the fourth quarter for the first time in three years on a like-for-like basis.

Food sales were up 4.2%, with like-for-like sales up 1.7%. We continued our focus on differentiation through quality and innovation. Through improvements in availability and choice, we made M&S food more relevant to our customers, more often.

International sales were up 6.2% on a constant currency basis (up 7.3% on a reported basis). Our priority markets delivered a good performance with strong growth in India and our flagship stores in China. While trading in the Republic of Ireland continued to be difficult, performance in our European business improved and we took full control of our Czech and Eastern European business. Our franchise business across the Middle East and Asia continued to perform well.

UK gross margin

General Merchandise gross margin was down 110bps at 50.7% as a result of increased cost of promotions and markdowns. Food gross margin was up 80bps at 32.5% due to supply chain efficiencies and effective management of promotional activity.

Total UK gross margin was down 20bps at 40.6%, as a result of the decline in General Merchandise gross margin as well as 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 3.5% on last year. We continued to manage costs tightly despite upward pressures from new space, inflation and investment in business initiatives such as the supply chain infrastructure and improved customer service in stores. These pressures were mitigated by efficiencies generated through the supply chain and IT programme, and in our stores.

Operating profit

Underlying group operating profit was £741.9m (last year £778.6m). Within this, UK operating profit was £619.2m (last year £658.4m) and International operating profit was £122.7m (last year £120.2m). Statutory profit before tax was higher at £580.4m (last year £547.2m) after a reduction in net non-underlying charges.

Net debt and cash flow

Net debt at the end of the year was £2.46bn (last year £2.61bn). Net cash inflow of £154.3m (last year £67.2 outflow) primarily reflects a decrease in capital expenditure cash outflow which was £616.6m (last year £829.7m). Working capital was well managed with a £47.9m inflow in the year. Free cash flow before dividends was £427.9m (last year £204.1m).

2013/14 business review:

2013/14 marks a significant year on our journey to transform M&S from a traditional UK retailer into an international, multi-channel retailer.

1) Focus on the UK

Stores

Our priority over the last year has been to ensure that we offer an improved shopping experience for the 20 million people who shop with us each week. We have continued to improve the look and feel of our stores through the roll-out of our new store layout concept. The first phase is now complete and we are currently implementing the second phase.

Our top 70 stores now have refreshed Womenswear departments. Designed to showcase the latest collections and improve navigation, the new look and feel features high-impact entrance zones highlighting the latest trends, as well as new look destination departments such as Coat Shops and Dress Shops. We are also introducing revamped Footwear, Menswear, Accessories and Beauty departments.

General Merchandise

General Merchandise sales were level, with like-for-like sales down 1.4%. We faced a challenging clothing market, with unseasonal conditions and high levels of promotional activity.

In May 2013 we outlined the strategy to refocus our GM business on the values that make us famous – quality and style. Over the course of last year, we upgraded 70% of our fabrics, added more luxurious finishes and improved our 'better and best' offer with more leather, silk and cashmere. We delivered more clarity and distinction to our sub-brands to make them more compelling and easier to shop. We launched M&S Collection, and by streamlining the brands reduced product overlap by 10%.

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The re-launch was also accompanied by a new, more inspirational store concept and our successful Leading Ladies marketing campaign. After a year of changes our customers are noticing the difference. We returned the GM division to growth in the fourth quarter for the first time in three years.

We have continued to make improvements in our buying and merchandising. We strengthened our top team with key appointments to our product, buying and design teams, as well as the appointment of two new Sourcing Directors, based in the Far East, to oversee our GM sourcing in the region as we look to speed up our supply chain and improve margins. We worked hard to improve newness and availability, moving to 'push allocation' stock replenishment which has helped to deliver a 2.3% improvement in availability.

Food

Our Food business had a very strong year, with sales up 4.2%, up 1.7% on a like-for-like basis. We consistently outperformed the market, delivering 18 consecutive quarters of like-for-like growth.

Our strategy is to be more specialist and focus on quality and innovation. Our products are made exclusively for M&S and this unique position means they are not comparable with the rest of the market. Rather than joining the race to the bottom on price, we are focused on developing top-quality ranges that are competitively priced, whilst ensuring our farmers get a fair deal too.

With a core catalogue of over 6,400 products, we offer everything from everyday essentials to special occasion food. This year, more people turned to us to help deliver Christmas and we saw record sales. With a 38% market share, we are the established market leader in party food and sold 5.5 million packs during the festive season. At the same time, we continue to highlight the great value we offer on everyday essentials with sales of our Simply M&S range continuing to grow – accounting for 11% of total sales.

Our innovation is unrivalled, with 20% of our products new this year. This year we expanded our healthy food offer with Delicious & Nutritious, a range of salads and flatbreads inspired by Middle Eastern and Asian flavours. In a nod to the American trend, our Grill range included Posh Dogs barbecue hotdogs, which were a summer hit, selling 926,000 units.

We continued to enhance the shopping experience for our customers, introducing new ways of displaying products and improving choice by bringing the full range to c.110 stores. We improved on-shelf availability by seven percentage points over the last three years. As a result, we are seeing more customers shop with us more often.

We have worked hard to deliver efficiencies from our supply chain, which have allowed us to continue to invest in product quality and innovation to stay ahead of the market, keep our prices competitive as well as improve our margins without compromising product quality.

2) Multi-channel

M&S.com has delivered a strong performance in 2013/14 and outperformed the market with sales up 22.8%. Visits to the site increased by 9% this year and our online business accounted for 16% of General Merchandise sales compared to 13% last year. As customer shopping habits continue to evolve we have seen mobile sales increase by over 90%. Sales from tablet devices have doubled and now account for c.25% of online sales compared with 15% last year.

This was also a landmark year for M&S.com, as two major infrastructure projects went live. In May 2013 we opened our dedicated 900,000 sq ft Distribution Centre at Castle Donington and in mid-February we completed the migration of our website from Amazon to a new M&S owned platform.

Our new flagship M&S.com website offers improved search functionality, enhanced imagery and a better view of stock availability that is refreshed every 15 minutes and live at the checkout so customers can buy with confidence. The site is also built on a flexible platform to enable continuous improvement in line with evolving technology and retail trends. We are managing this large transition carefully since we expected it would take time for our customers to migrate and get used to the site as well as for it to settle down technically. We have migrated 2.5m customers, processed over three million orders and made hundreds of optimisations to website journeys. We expect it to take four to six months for the new site to settle and for migration to be substantially complete.

Since the launch last May, we have been building capacity at Castle Donington and are now handling around 2 million singles every week. Activity at the site will continue to ramp up ahead of the peak trading season enabling us to make further improvements to our delivery proposition.

Customers continued to enjoy the convenience of our Shop Your Way service, with 55% of multi-channel orders now collected in store or ordered in-store for home delivery.

3) International

Sales in our International business were up 6.2% on a constant currency basis (7.3% reported currency), to £1.15bn. We opened 55 new stores and now trade from 455 stores across 54 territories.

In Asia, sales were up 15.7% on a constant currency basis. We opened 22 new stores, focusing on driving growth in our key priority territories of India and China. In India our sales were strongly up with good like-for-like growth and we opened 10 new stores including our new flagship store in Bandra, Mumbai. In November we announced our plans to double our Indian store presence by 2016 through our partnership with Reliance Retail.

In China, we saw strong results from our Hong Kong stores, while our flagship Shanghai stores also performed well. In April we announced plans to focus on our centrally-located Shanghai stores and to open flagships in other cities, including Beijing and Guangzhou, and to find a local partner to support this roll out.

Our franchise operations continue to grow. One of our priority markets, the Middle East, saw sales increase by 2.6% on a constant currency basis. In February we unveiled our largest international store, a 72,000 sq ft flagship in Kuwait with our franchise partner Al-Futtaim Group. We opened 20 new stores across 10 markets, including the opening of our first standalone Lingerie & Beauty stores in Saudi Arabia with our franchise partner Al Hokair.

Sales in Europe were up 3.9% on a constant currency basis. We continued to grow our presence in Western Europe, opening our largest continental European store in The Hague. In France, we now have five stores including our flagship store at Beaugrenelle which features our largest Food Hall outside of the UK and Ireland. Through our new franchise partnerships with Relay France we will be opening our first standalone M&S Food store this Summer.

Following the actions we took to address the performance in the Czech Republic, Eastern Europe and Greece, we are pleased that sales improved during the year. Following a strategic review of our business in the Republic of Ireland we took the difficult decision to close four stores. We remain committed to the business in Ireland and will invest in our remaining stores.

Supply Chain and IT

In May 2013 we set out the details of our supply chain vision, with an aim of creating a single tier network by 2016/17. We have made good progress over the past year.

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Our dedicated e-commerce and national distribution centre at Castle Donington opened in May 2013. Ramp up of volume continues as planned, with around 90% of e-commerce orders now processed through this new facility. We have also commenced the fit-out of the Bradford NDC. The roll-out of Allocation and Replenishment, the first part in our GM4 programme, has also started in General Merchandise.

Following a thorough review of our plans, we have taken a decision not to proceed with the site at London Gateway and have developed an alternative plan. This will secure the delivery of the single tier network by 2016/17 as planned, by operating from the two new NDCs, at Castle Donington and Bradford, supported by four of the existing regional distribution centres which will be converted into NDC use. This will use our capital investment more efficiently, with a planned £130m reduction in investment whilst largely retaining associated benefits.

Plan A

Plan A remains at the heart of the business, driving greater efficiency and environmental and ethical excellence into our operations.

This year we've helped 1,000 young people into work through the Make Your Mark programme, our customers recycled four million used or unwanted garments (worth an estimated £3.2 million to Oxfam) through the Shwopping scheme and we reached our target of training ½ million clothing supply chain workers on subjects such as employee rights, financial literacy and health care.

We've maintained our zero waste to landfill commitment and our status as the UK's only carbon neutral major retailer. More than half of our products now have an environmental or social feature built-in that is above and beyond the market norm, for example Fairtrade and Organic food and drink, clothing made in an eco factory or homeware made using recycled materials.

4,000 employees volunteered to clean beaches with the Marine Conservation Society and we maintained our support for charities addressing a range of social and environmental issues including Breakthrough Breast Cancer, Royal British Legion, Oxfam, UNICEF and WWF.

Plan A continues to be recognised externally for its achievements. Since launch it has helped M&S win 140 awards, including last month being named the most ethical clothing retailer on the high street by Ethical Consumer Magazine.

Our detailed, annual environmental and social Plan A Report is published next month.

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Financial Review

Summary of Results

	52 weeks ended		
	29 Mar 14	30 Mar 13	% var
	£m	£m	
		Restated*	
Group revenue	**10,309.7**	**10,026.8**	+2.8
UK	9,155.7	8,951.4	+2.3
International	1,154.0	1,075.4	+7.3
Underlying operating profit	**741.9**	**778.6**	-4.7
UK	619.2	658.4	-6.0
International	122.7	120.2	+2.1
Underlying profit before tax	**622.9**	**648.1**	-3.9
Non-underlying items	(42.5)	(100.9)	
Statutory profit before tax	**580.4**	**547.2**	+6.1
Underlying basic earnings per share	**32.2p**	**31.9p**	+0.9
Basic earnings per share	**32.5p**	**28.3p**	+14.8
Dividend per share (declared)	**17.0p**	**17.0p**	

* The Group has adopted the revised IAS 19 'Employee Benefits' which has retrospective application and has resulted in the restatement of last year's results (last year reported underlying profit before tax £665.2m and statutory profit before tax £564.3m.)

Revenues

Group revenues were up 2.8% (+2.7% on a constant currency basis), driven by good performance across both the UK and the International business.

UK revenues were up 2.3% in total with a like-for-like increase of 0.2%. We added 1.8% of space, 1.6% in General Merchandise and 2.3% in Food, on a weighted average basis.

International revenues were up 7.3% (6.2% on a constant currency basis).

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Operating profit

Underlying operating profit was £741.9m, down 4.7%.

In the UK, underlying operating profit was down 6.0% at £619.2m. Gross margin was down 20bps at 40.6%. General Merchandise gross margin was down 110bps at 50.7% as a result of increased markdown and promotional cost due to the highly competitive market during the year. Food gross margin was up 80bps at 32.5% due to supply chain efficiencies and effective management of promotional activity more than offsetting commodity price inflation.

UK underlying results for the year include the previously disclosed double running costs which were partially offset by credits in the year relating to changes in accounting estimates.

Underlying UK operating costs were up 3.5% to £3,159.6m. A breakdown of the costs is shown below:

	52 weeks ended		
	29 Mar 14	30 Mar 13	
	£m	£m	% inc
		Restated*	
Retail staffing	978.8	931.3	5.1
Retail occupancy	1,054.4	1,030.7	2.3
Distribution	445.5	405.1	10.0
Marketing and related	147.7	155.3	-4.9
Support	533.2	530.4	0.5
Total	**3,159.6**	**3,052.8**	**3.5**

*Restated from the reported £3,049.8m as a result of adoption of the revised IAS19 'Employee benefits'.

Retail staffing costs increased as a result of our investment in store staffing in order to improve customer service. In addition, costs were impacted by pension auto-enrolment as well as growth in selling space and the annual pay review.

The increase in occupancy costs reflects new space, rent, rates and utilities inflation as well as double running costs associated with the new M&S.com platform.

During the year we opened the new EDC/NDC, and in addition to the resulting double running costs also saw distribution costs rise as a result of higher volumes in multi-channel and Food.

Marketing and related cost reduction reflects a decrease in the number and a change in approach to marketing campaigns in both GM and Food. Support costs increased due to salary and pension costs as well as higher IT costs associated with the launch of the new web platform.

The underlying UK operating profit includes a contribution from the Group's continuing economic interest in M&S Bank of £57.2m (last year £51.1m).

International underlying operating profit was up 2.1% (up 4.6% on a constant currency basis). Franchise operating profits were up 7.4% to £114.2m, with improvements across all regions. Owned store operating profits were down 38.1% to £8.5m, due to start-up costs of new stores in priority markets including Western Europe and India, as well as continued macroeconomic pressure in the Republic of Ireland.

Non-underlying profit items

	52 weeks ended	
	29 Mar 14	30 Mar 13
	£m	£m
Profit on property disposal	82.2	-
One-off pension credits (UK and Ireland)	27.5	-
Interest income on tax repayment net of fees	3.3	-
Restructuring costs	(77.3)	(9.3)
International store review	(21.9)	-
Fair value movement of embedded derivative	(3.5)	5.8
Strategic programme costs	(2.0)	(6.6)
Fair value movement on buy back of puttable callable bonds	-	(75.3)
Reduction in M&S Bank Income	(50.8)	(15.5)
Total non-underlying profit items	**(42.5)**	**(100.9)**

The profit on property disposal relates to the sale of a warehouse site and mock shop in White City for a total consideration of £100m, with £25m received on completion and the remaining consideration deferred over three years. The property has been leased back to Marks and Spencer plc for a period of five years on an operating lease basis.

The one-off pension credit in Ireland of £17.5m has arisen as a result of changes to the Marks and Spencer Ireland defined benefit scheme rules. In the UK the one-off pension credit of £10.0m has arisen as a result of ceasing to grant pension increases to transferred-in pensions for all members in the UK defined benefit scheme.

Interest income on tax repayment relates to a successful tax litigation claim and is presented net of related fees.

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Restructuring costs relate to the Group strategy of transitioning to a single tier distribution network and the associated closure costs of legacy logistics sites (£53.2m) and restructuring costs incurred in Ireland including the closure costs of four stores and redundancies (£24.1m).

International store review relates to the impairment of assets (£13.6m) and onerous lease provisions (£8.3m) in poor performing international stores in non-strategic locations in the Czech Group and China.

The fair value movement on the embedded derivative results from a decrease in the expected RPI rate.

Strategic programme costs are the cost of implementing the Focus on the UK element of the strategy announced in November 2010. We do not anticipate incurring any further costs in relation to this programme.

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, as previously announced. M&S Bank recognised a further estimated liability in the year.

Net finance costs

	52 weeks ended	
	29 Mar 14	30 Mar 13
	£m	£m
		Restated*
Interest payable	(121.1)	(125.3)
Interest income	8.4	5.3
Net underlying interest payable	**(112.7)**	**(120.0)**
Pension finance income (net)	11.7	7.1
Unwinding of discount on partnership liability	(17.8)	(16.6)
Unwinding of discounts on financial instruments	(0.2)	(1.0)
Underlying net finance costs	**(119.0)**	**(130.5)**
Fair value movement on buy back of puttable callable bonds	-	(75.3)
Interest income on tax repayment	4.9	-
Net finance cost	**(114.1)**	**(205.8)**

*Restated from the reported £191.7m as a result of adoption of the revised IAS19 'Employee benefits'.

The net underlying interest payable was down 6.1% (£7.3m) at £112.7m as a result of a higher proportion of floating debt and lower cost of funding of 5.4% (last year 5.9%.) Underlying net finance costs were down a total of £11.5m to £119.0m due to an increase in pension interest income as a result of a favourable movement in the net pension benefit.

Statutory profit before tax

Statutory profit before tax was higher at £580.4m (last year £547.2m) after a reduction in net non-underlying charges.

Taxation

The full year underlying effective tax rate was 18.8% (last year 22.7%) and the statutory effective tax rate was 12.8% (last year 18.7%). The non-underlying adjustment to the tax charge principally arises from the successful outcome of litigation in relation to the Group's claim for UK tax relief of losses of its former European subsidiaries (£18.5m).

Earnings per share

Underlying basic earnings per share increased by 0.9% to 32.2p per share. Statutory basic earnings per share increased by 14.8% to 32.5p per share. The weighted average number of shares in issue during the period was 1,615.0m (last year 1,599.7m).

Dividend

The Board is recommending a final dividend of 10.8p per share. This will result in a total dividend of 17.0p, 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	
	29 Mar 14	30 Mar 13
	£m	£m
Focus on the UK	138.2	197.4
Multi-channel	96.8	75.3
New stores	89.4	94.1
Store modernisation programme	25.0	85.7
International	69.0	53.7
Supply chain and technology	249.4	247.2
Maintenance	67.2	67.9
Proceeds from property disposals	(25.0)	-
Total capital expenditure	**710.0**	**821.3**

We continued to invest in our UK stores in order to create a more inspiring environment. The first phase of the new store layout concept has now been completed.

Last year we completed the significant investment in improved multi-channel capabilities with the launch of our new web platform in February.

We added 1.8% of selling space in the UK (on a weighted average basis), trading from 16.6m square feet at the end of March 2014. We opened a net 32 new stores during the year, including 28 Simply Food stores. In our International business, space increased by c.10%.

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. Our new EDC/NDC in Castle Donington opened in May.

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Cash flow and net debt

	52 weeks ended 29 Mar 14 £m	52 weeks ended 30 Mar 13 £m Restated*
Underlying EBITDA	1,219.7	1,241.8
Working capital	47.9	75.3
Pension funding	(92.0)	(70.9)
Capex net of disposals	(616.6)	(829.7)
Interest and taxation	(175.2)	(235.3)
Dividends and share issues / purchases	(229.5)	(248.4)
Net cash inflow / (outflow)	**154.3**	**(67.2)**
Opening net debt	**(2,614.3)**	**(2,463.1)****
Exchange and other movements	(3.6)	(84.0)
Closing net debt	**(2,463.6)**	**(2,614.3)**
Free cash flow pre dividends	427.9	204.1

*Restated as a result of adoption of the revised IAS 19 'Employee Benefits' in relation to underlying EBITDA and working capital

**Opening net debt in the FY 2013 has been restated to reflect the impact of the change in terms of the property partnership in May 2012, which resulted in £606.0m being transferred from reserves to liabilities.

The Group reported a net cash inflow of £154.3m (last year outflow of £67.2m). This inflow reflects a £213.1m reduction in capital expenditure and a £60.1m decrease in interest and taxation. This is partly offset by a £22.1m reduction in underlying EBITDA, a £21.1m increase in pension funding driven by auto-enrolment of the defined contribution scheme and a £27.4m reduction in the working capital inflow.

In March 2014, the Group repaid a £400m bond from existing facilities and operating cash.

Pensions

At 29 March 2014 the IAS 19 net retirement benefit surplus was £189.0m (last year £236.0m). The decrease is due to a £200.6m reduction in the market value of scheme assets partly offset by a decrease in the present value of scheme liabilities due to an increase in the discount rate from 4.30% to 4.45%.

The investment strategy of the UK defined benefit scheme has hedging that covers 80% of interest rate movements and 84% of inflation movements which aims to reduce significant fluctuations in the scheme assets relative to the liabilities.

The most recent actuarial valuation of the UK Defined Benefit Pension Scheme was carried out at 31 March 2012 and showed a deficit of £290m. As a result a funding plan of £112m cash contributions was agreed with the Trustees. The Group has contributed c.£28m to the UK defined benefit scheme on 31 March 2014 and expects to contribute an additional c.£28m each year until 31 March 2017. The difference between the valuation and the funding plan is expected to be met by better than expected investment returns on the scheme's assets.

- Ends -

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

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Investor & Analyst webcast:
Investor and analyst presentation will be held at 9am on 20 May 2014. This presentation can be viewed live on the Marks and Spencer Group plc website on: www.marksandspencer.com/investors

Fixed Income Investor Conference Call:
This will be hosted by Alan Stewart, Chief Finance Officer at 2pm on 20 May 2014:

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

A recording of this call will be available until 30 May 2014:
Dial in number: +44 (0)20 7959 6720 Access code: 4683276

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

- Ends -

Consolidated income statement

	Notes	52 weeks ended 29 March 2014 £m	52 weeks ended 30 March 2013 (restated)[1] £m
Revenue	2	**10,309.7**	10,026.8
Operating profit	2	**694.5**	753.0
Finance income	4	25.0	12.4
Finance costs	4	(139.1)	(218.2)
Profit before tax		**580.4**	547.2
Income tax expense	5	(74.4)	(102.4)
Profit for the year		**506.0**	444.8
Attributable to:			
Owners of the parent		524.8	453.5
Non-controlling interests		(18.8)	(8.7)
		506.0	444.8
Basic earnings per share	6	32.5p	28.3p
Diluted earnings per share	6	32.2p	28.2p

Non-GAAP measures: Underlying profit before tax

	Notes	29 March 2014 £m	30 March 2013 (restated)[1] £m
Profit before tax		**580.4**	547.2
Adjusted for:			
Profit on property disposal	3	(82.2)	-
UK and Ireland one-off pension credits	3	(27.5)	-
Interest income on tax repayment net of fees	3	(3.3)	-
Restructuring costs	3	77.3	9.3
International store review	3	21.9	-
IAS 39 Fair value movement of embedded derivative	3	3.5	(5.8)
Strategic programme costs	3	2.0	6.6
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	50.8	15.5
Underlying profit before tax	1	**622.9**	648.1
Underlying basic earnings per share	6	32.2p	31.9p
Underlying diluted earnings per share	6	31.9p	31.6p

[1]Restatement relates to the adoption of the revised IAS19 'Employee Benefits' (see note 1).

Consolidated statement of comprehensive income

	Notes	52 weeks ended 29 March 2014 £m	52 weeks ended 30 March 2013 (restated)[1] £m
Profit for the year		**506.0**	444.8
Other comprehensive (expense)/income:			
Items that will not be reclassified to profit or loss			
Remeasurements of retirement benefit schemes	8	(85.3)	105.8
Tax credit/(charge) on retirement benefit schemes		31.8	(23.3)
		(53.5)	82.5
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation differences		(22.3)	7.9
Cash flow and net investment hedges			
- fair value movements in other comprehensive income		(109.9)	33.6
- reclassified and reported in net profit		36.4	(26.0)
- amount recognised in inventories		18.7	(13.6)
Tax credit/(charge) on cash flow hedges and net investment hedges		12.2	(0.4)
		(64.9)	1.5
Other comprehensive (expense)/income for the year, net of tax		(118.4)	84.0
Total comprehensive income for the year		**387.6**	528.8
Attributable to:			
Owners of the parent		406.4	537.5
Non-controlling interests		(18.8)	(8.7)
		387.6	528.8

[1]Restatement relates to the adoption of the revised IAS19 'Employee Benefits' (see note 1).

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Consolidated statement of financial position

	Notes	As at 29 March 2014 £m	As at 30 March 2013 (restated)[1] £m
Assets			
Non-current assets			
Intangible assets		808.4	695.0
Property, plant and equipment		5,139.9	5,033.7
Investment property		15.7	15.8
Investment in joint ventures		12.7	15.5
Other financial assets		3.0	3.0
Retirement benefit asset	8	200.7	249.1
Trade and other receivables		313.5	265.4
Derivative financial instruments		40.6	65.3
		6,534.5	6,342.8
Current assets			
Inventories		845.5	767.3
Other financial assets		17.7	16.9
Trade and other receivables		309.5	245.0
Derivative financial instruments		13.7	42.5
Current tax assets		-	3.1
Cash and cash equivalents		182.1	193.1
		1,368.5	1,267.9
Total assets		**7,903.0**	7,610.7
Liabilities			
Current liabilities			
Trade and other payables		1,692.8	1,503.8
Partnership liability to the Marks & Spencer UK Pension Scheme	9	71.9	71.9
Borrowings and other financial liabilities		448.7	558.7
Derivative financial instruments		51.5	13.7
Provisions		44.8	19.2
Current tax liabilities		39.6	71.0
		2,349.3	2,238.3
Non-current liabilities			
Retirement benefit deficit	8	11.7	13.1
Trade and other payables		334.0	292.1
Partnership liability to the Marks & Spencer UK Pension Scheme	9	496.8	550.7
Borrowings and other financial liabilities		1,655.1	1,727.3
Derivative financial instruments		75.4	13.1
Provisions		31.4	16.0
Deferred tax liabilities		242.6	240.6
		2,847.0	2,852.9
Total liabilities		**5,196.3**	5,091.2
Net assets		**2,706.7**	2,519.5
Equity			
Issued share capital		408.1	403.5
Share premium account		355.5	315.1
Capital redemption reserve		2,202.6	2,202.6
Hedging reserve		(41.8)	9.2
Other reserve		(6,542.2)	(6,542.2)
Retained earnings		6,325.1	6,150.3
Total shareholders' equity		**2,707.3**	2,538.5
Non-controlling interests in equity		(0.6)	(19.0)
Total equity		**2,706.7**	2,519.5

1. Restatement relates to the adoption of the revised IAS19 'Employee Benefits' (see note 1).

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 1 April 2012 (restated)	401.4	294.3	2,202.6	14.8	(6,114.3)	6,026.0	2,824.8	(11.4)	2,813.4
Profit/(loss) for the year (restated)	-	-	-	-	-	453.5	453.5	(8.7)	444.8
Other comprehensive (expense)/income:									
Foreign currency translation	-	-	-	(1.5)	-	9.4	7.9	-	7.9
Remeasurements of retirement benefit schemes (restated)	-	-	-	-	-	105.8	105.8	-	105.8
Tax charge on retirement benefit schemes (restated)	-	-	-	-	-	(23.3)	(23.3)	-	(23.3)
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 (expense)/income (restated)	-	-	-	(5.6)	-	89.6	84.0	-	84.0
Total comprehensive (expense)/income (restated)	-	-	-	(5.6)	-	543.1	537.5	(8.7)	528.8
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
As at 30 March 2013 (restated)	403.5	315.1	2,202.6	9.2	(6,542.2)	6,150.3	2,538.5	(19.0)	2,519.5

	Ordinary share capital	Share premium account	Capital redemption reserve	Hedging reserve	Other reserve	Retained earnings	Total	Non-controlling interest	Total
As at 31 March 2013 (restated)	**403.5**	**315.1**	**2,202.6**	**9.2**	**(6,542.2)**	**6,150.3**	**2,538.5**	**(19.0)**	**2,519.5**
Profit/(loss) for the year	-	-	-	-	-	524.8	524.8	(18.8)	506.0
Other comprehensive (expense)/income:									
Foreign currency translation	-	-	-	(0.7)	-	(21.6)	(22.3)	-	(22.3)
Remeasurements of retirement benefit schemes	-	-	-	-	-	(85.3)	(85.3)	-	(85.3)
Tax credit on retirement benefit schemes	-	-	-	-	-	31.8	31.8	-	31.8
Cash flow and net investment hedges									
- fair value movements in other comprehensive income	-	-	-	(117.6)	-	7.7	(109.9)	-	(109.9)
- reclassified and reported in net profit	-	-	-	36.4	-	-	36.4	-	36.4
- amount recognised in inventories	-	-	-	18.7	-	-	18.7	-	18.7
Tax on cash flow hedges and net investment hedges	-	-	-	12.2	-	-	12.2	-	12.2
Other comprehensive expense	-	-	-	(51.0)	-	(67.4)	(118.4)	-	(118.4)
Total comprehensive (expense)/income	**-**	**-**	**-**	**(51.0)**	**-**	**457.4**	**406.4**	**(18.8)**	**387.6**
Transactions with owners:									
Dividends	-	-	-	-	-	(273.6)	(273.6)	-	(273.6)
Transactions with non-controlling shareholders	-	-	-	-	-	(39.3)	(39.3)	37.2	(2.1)
Shares issued on exercise of employee share options	4.6	40.4	-	-	-	-	45.0	-	45.0
Credit for share-based payments	-	-	-	-	-	21.3	21.3	-	21.3
Deferred tax on share schemes	-	-	-	-	-	9.0	9.0	-	9.0
As at 29 March 2014	**408.1**	**355.5**	**2,202.6**	**(41.8)**	**(6,542.2)**	**6,325.1**	**2,707.3**	**(0.6)**	**2,706.7**

The restatement relates to the adoption of the revised IAS19 'Employee Benefits' (see note 1).

The 'Other reserve' was originally created as part of the capital restructuring that took place in 2002. It represents the difference between the nominal value of the shares issued prior to the capital reduction by the Company (being the carrying value of the investment in Marks and Spencer plc) and the share capital, share premium and capital redemption reserve of Marks and Spencer plc at the date of the transaction. As at 1 April 2012 the reserve also included discretionary distributions to the Marks & Spencer UK Pension Scheme of £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 (see note 9).

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Consolidated statement of cash flows

	Notes	52 weeks ended 29 March 2014 £m	52 weeks ended 30 March 2013 £m
Cash flows from operating activities			
Cash generated from operations	11	1,175.5	1,246.2
Income tax paid		(45.9)	(106.0)
Net cash inflow from operating activities		**1,129.6**	1,140.2
Cash flows from investing activities			
Proceeds on property disposals		25.0	-
Purchase of property, plant and equipment		(440.1)	(642.6)
Purchase of intangible assets		(201.5)	(187.1)
(Purchase)/sale of current financial assets		(1.7)	243.4
Interest received		3.4	5.9
Net cash used in investing activities		**(614.9)**	(580.4)
Cash flows from financing activities			
Interest paid[1]		(132.7)	(135.2)
Cash inflow from borrowings		167.5	0.5
Drawdown of syndicated loan notes		154.1	81.0
Issue of medium-term notes		-	395.6
Redemption of medium-term notes		(400.0)	(606.4)
Decrease in obligations under finance leases		(7.3)	(11.0)
Payment of liability to the Marks & Spencer UK Pension Scheme		(50.3)	(71.9)
Equity dividends paid		(273.6)	(271.3)
Shares issued on exercise of employee share options		44.2	22.9
Net cash used in financing activities		**(498.1)**	(595.8)
Net cash inflow/(outflow) from activities		**16.6**	(36.0)
Effects of exchange rate changes		(1.6)	0.9
Opening net cash		160.7	195.8
Closing net cash		**175.7**	160.7

[1] Includes interest on the partnership liability to the Marks and Spencer UK Pension Scheme.

Reconciliation of net cash flow to movement in net debt

	Notes	52 weeks ended 29 March 2014 £m	52 weeks ended 30 March 2013 £m
Opening net debt		**(2,614.3)**	(1,857.1)
Net cash inflow/(outflow) from activities		16.6	(36.0)
Increase/(decrease) in current financial assets		1.7	(243.4)
Decrease in debt financing		136.0	132.7
Partnership liability to the Marks & Spencer UK Pension Scheme (non cash)		-	(606.0)
Exchange and other non cash movements		(3.6)	(4.5)
Movement in net debt		**150.7**	(757.2)
Closing net debt	12	**(2,463.6)**	(2,614.3)

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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 2013/14 and 2012/13, which do not contain any statement under s498 of the Companies Act 2006 and are unqualified. The statutory accounts for 2012/13 have been delivered to the Registrar of Companies and the statutory accounts for 2013/14 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.

IAS 19 (revised) 'Employee Benefits' has been adopted in the financial year. The revised standard replaces the expected return on plan assets and the interest cost on liabilities with a net interest expense calculated by applying the discount rate to the net defined benefit asset or liability. In addition, administration costs on pension funds are now recognised in the profit or loss when the administration services are performed. Previously the Group included an expense reserve in the defined benefit obligation. The revised standard has retrospective application. The adoption of the revised standard has resulted in the following changes:

Income Statement (total profit after tax decrease of £13.2m):

- Service cost increased by £3.0m;
- Pension interest income decreased by £14.1m; and
- Income tax expense decreased by £3.9m.

Statement of Financial Position (total net asset increase of £33.1m):

- Net retirement benefit asset increased by £43.0m; and
- Deferred tax liability increased by £9.9m.

Retained Earnings (total increase of £33.1m):

- Opening retained earnings increased by £34.6m;
- Profit after tax decreased by £13.2m;
- Remeasurements of retirement benefit assets recognised in other comprehensive income ('OCI') increased by £15.1m; and
- Tax on retirement benefit scheme recognised in OCI increased by £3.4m.

The Group has also adopted:

- the amendments to IAS 1 'Presentation of items of other comprehensive income';
- IFRS 13 'Fair value measurement';
- the amendments to IFRS 7 'Disclosures – Offsetting Financial Assets and Financial Liabilities'; and
- the amendments to IAS 36 'Recoverable Amount Disclosures for Non-Financial Assets' for the first time in the current year.

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;
- one-off pension credits arising on changes to the defined benefit scheme rules and practices;
- interest relating to significant and one-off repayments from tax litigation claims;
- restructuring costs;
- significant and one-off impairment charges and provisions that distort underlying trading;
- fair value movement in financial instruments;
- costs relating to strategy changes that are not considered normal operating costs of the underlying business; and
- adjustment in income 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 29 March 2014		
	Management £m	Adjustment[2] £m	Statutory £m
General Merchandise	4,094.5	(2.0)	**4,092.5**
Food	5,063.2	-	**5,063.2**
UK revenue	9,157.7	(2.0)	**9,155.7**
Franchised	404.0	-	**404.0**
Owned	750.0	-	**750.0**
International revenue	1,154.0	-	**1,154.0**
Group revenue	10,311.7	(2.0)	**10,309.7**
UK operating profit[1]	619.2	(18.9)	**600.3**
International operating profit	122.7	(28.5)	**94.2**
Group operating profit	741.9	(47.4)	**694.5**
Finance income	20.1	4.9	**25.0**
Finance costs	(139.1)	-	**(139.1)**
Profit before tax	622.9	(42.5)	**580.4**

1. UK statutory profit includes £6.4m (last year £35.6m) 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 £57.2m (last year £51.1m), which reflects a non-GAAP adjustment of £50.8m (last year £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).

	52 weeks ended 30 March 2013		
	Management (restated)[1] £m	Adjustment[2] £m	Statutory (restated)[1] £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	658.4	(25.6)	632.8
International operating profit	120.2	-	120.2
Group operating profit	778.6	(25.6)	753.0
Finance income	12.4	-	12.4
Finance costs	(142.9)	(75.3)	(218.2)
Profit before tax	648.1	(100.9)	547.2

1. Restatement relates to the adoption of the revised IAS 19 'Employee Benefits' (note 1).
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).

Other segmental information

	UK[2] £m	International[2] £m	2014 Total £m	UK (restated)[1, 2] £m	International[2] £m	2013 Total (restated)[1] £m
Additions to property, plant and equipment and intangible assets (excluding goodwill)	688.6	65.1	**753.7**	761.6	59.7	821.3
Depreciation and amortisation	434.9	34.4	**469.3**	421.7	28.8	450.5
Impairment and asset write-offs	21.3	13.9	**35.2**	9.6	7.2	16.8
Total assets	7,411.4	491.6	**7,903.0**	7,121.7	489.0	7,610.7
Non-current assets	6,157.6	376.9	**6,534.5**	5,965.4	377.4	6,342.8

1. Restatement relates to the adoption of the revised IAS19 'Employee Benefits' (see note 1).
2. Re-presentation (since the first publication of the preliminary announcement) for the current and prior year for an adjustment relating to an intercompany offset between UK and International segmental assets whilst not affecting total assets.

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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:

- The profit on property disposal relates to the sale of a warehouse site and mock shop in White City on 26 July 2013 to St James Group Ltd for a total consideration of £100m, £25m received on completion and the remaining consideration to be deferred over three years. The property has been leased back to Marks and Spencer plc for a period of five years and has been recognised as an operating lease;
- Pension credit arising from changes to the Marks and Spencer Ireland defined benefit scheme rules (£17.5m) whereby the discretions for post retirement pension increases have been removed and pension credit arising from the cessation of the practice of granting pension increases to transferred-in pensions for all members in the UK defined benefit scheme (£10.0m);
- Interest income (net of fees) on tax repayment relating to the successful outcome of litigation in relation to the Group's claim for UK tax relief of losses of its former European subsidiaries;
- Restructuring costs relating to the Group's strategy to transition to a one tier distribution network and the closure costs of the legacy logistics site (£53.2m), and restructuring costs in Ireland following a thorough commercial review of the Ireland business (£24.1m). This includes costs relating to the closure of four stores, redundancies and other associated costs;
- International store review relates to the impairment of assets (£13.6m) and onerous lease provisions (£8.3m) in poor performing international stores in non-strategic locations in China and the Czech Group;
- 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%;
- Strategic programme costs relating to the strategy announcements made in November 2010 and include the costs associated with the initial Focus on the UK plans. This includes asset write-offs and accelerated depreciation. These costs are not considered normal operating costs of the business. We do not anticipate incurring any further costs, in relation to this programme;
- 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 change 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 obliged to refund any fees received from HSBC although future income may be impacted by significant one-off deductions. Last year, M&S Bank recognised an estimated liability for redress to customers in respect of possible mis-selling of financial products in its audited financial statements for the year ended 31 December 2012 with a further estimated liability in its audited financial statements for the year ended 31 December 2013. The Group's fee income from M&S Bank has been reduced by the deduction of this estimated liability (under the Relationship Agreement) in both the current and prior year and this reduction 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. We are continuing discussions with M&S Bank to determine 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:

		52 weeks ended	
	Notes	29 March 2014 £m	30 March 2013 £m
Profit on property disposal		82.2	-
UK and Ireland one-off pension credits	8	27.5	-
Interest income on tax repayment net of fees	4	3.3	-
Restructuring costs		(77.3)	(9.3)
International store review		(21.9)	-
IAS 39 Fair value movement of embedded derivative		(3.5)	5.8
Strategic programme costs		(2.0)	(6.6)
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	2	(50.8)	(15.5)
Total adjustments		**(42.5)**	(100.9)

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4 Finance income/(costs)

	52 weeks ended 29 March 2014 £m	52 weeks ended 30 March 2013 (restated)[1] £m
Bank and other interest receivable	8.4	5.3
Pension net finance income	11.7	7.1
Underlying finance income	20.1	12.4
Interest income on tax repayment	4.9	-
Finance income	**25.0**	12.4
Interest on bank borrowings	(3.3)	(2.1)
Interest payable on syndicated bank facility	(5.0)	(6.1)
Interest payable on medium-term notes	(110.5)	(114.3)
Interest payable on finance leases	(2.3)	(2.8)
Unwind of discount on financial instruments	(0.2)	(1.0)
Unwinding of discount on partnership liability to the Marks and Spencer UK Pension Scheme	(17.8)	(16.6)
Underlying finance costs	**(139.1)**	(142.9)
Fair value movement on buy back of the Puttable Callable Reset medium-term notes	-	(75.3)
Finance costs	**(139.1)**	(218.2)
Net finance costs	**(114.1)**	(205.8)

[1] Restatement relates to the adoption of the revised IAS19 'Employee Benefits' (see note 1).

5 Taxation

The effective tax rate was 12.8% (last year 18.7%) and after excluding non-underlying items the underlying effective tax rate was 18.8% (last year 22.7%).

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 29 March 2014 £m	52 weeks ended 30 March 2013 (restated)[1] £m
Profit attributable to owners of the parent	**524.8**	453.5
Add/(less) (net of tax):		
Profit on property disposal	(76.3)	-
UK and Ireland one-off pension credits	(23.3)	-
Interest income on tax repayment net of fees	(2.5)	-
Restructuring costs	62.5	7.1
International store review	17.3	-
IAS 39 Fair value movement of embedded derivative	2.8	(4.7)
Strategic programme costs	1.6	5.0
Fair value movement 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	39.1	11.8
Non-underlying adjustment to tax charge in respect of prior periods	(26.0)	(20.4)
Underlying profit attributable to owners of the parent	**520.0**	509.6
	Million	Million
Weighted average number of ordinary shares in issue	**1,615.0**	1,599.7
Potentially dilutive share options under Group's share option schemes	14.1	10.6
Weighted average number of diluted ordinary shares	**1,629.1**	1,610.3
	Pence	Pence
Basic earnings per share	**32.5**	28.3
Diluted earnings per share	**32.2**	28.2
Underlying basic earnings per share	**32.2**	31.9
Underlying diluted earnings per share	**31.9**	31.6

[1] Restatement relates to the adoption of the revised IAS 19 'Employee Benefits' (see note 1).

7 Dividends

	2014 per share	2013 per share	2014 £m	2013 £m
Dividends on equity ordinary shares				
Paid final dividend	10.8p	10.8p	173.6	172.3
Paid interim dividend	6.2p	6.2p	100.0	99.0
	17.0p	17.0p	**273.6**	271.3

The directors have proposed a final dividend in respect of the year ended 29 March 2014 of 10.8p per share amounting to a dividend of £176.0m. It will be paid on 11 July 2014 to shareholders on the register of members as at close of business on 30 May 2014, subject to approval of shareholders at the Annual General Meeting, to be held on 8 July 2014. 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	
	29 March 2014	30 March 2013 (restated)[1]
	£m	£m
Opening net retirement benefit asset	**236.0**	123.0
Current service cost	(88.7)	(68.8)
Administration costs	(3.0)	(3.0)
Curtailment charge	(1.0)	(1.0)
UK and Ireland one-off pension credits (see note 3)	27.5	-
Net interest income	11.7	7.1
Past service cost	-	1.4
Employer contributions	92.1	70.9
Actual return on scheme assets excluding amounts included in net interest income	(322.0)	625.3
Actuarial loss - experience	(17.4)	(11.0)
Actuarial loss - demographic assumptions	-	(80.0)
Actuarial gain/(loss) - financial assumptions	254.1	(428.5)
Exchange movement	(0.3)	0.6
Closing net retirement benefit asset	**189.0**	236.0
Total market value of assets	6,729.4	6,930.0
Present value of scheme liabilities	(6,528.7)	(6,680.9)
Net funded pension plan asset	200.7	249.1
Unfunded retirement benefits	(0.7)	(0.8)
Post-retirement healthcare	(11.0)	(12.3)
Net retirement benefit asset	**189.0**	236.0
Analysed in the Statement of Financial Position as:		
Retirement benefit asset	200.7	249.1
Retirement benefit deficit	(11.7)	(13.1)
Net retirement benefit asset	**189.0**	236.0

[1] Restatement relates to the adoption of the revised IAS 19 'Employee Benefits' (see note 1).

Financial assumptions

The main financial assumptions for the UK scheme and the most recent actuarial valuations of the other post-retirement schemes have been updated by independent qualified actuaries to take account of the requirements of IAS 19 – 'Employee Benefits' in order to assess the liabilities of the schemes. The most significant of these are the discount rate and the inflation rate which are 4.45% (last year 4.30%) and 3.4% (last year 3.4%) 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 2.4%) 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 0.5% the surplus would increase/decrease by c.£50m. If the inflation rate increased/decreased by 0.25%, the surplus would decrease/increase by c.£50m.

9 Marks and Spencer Scottish Limited Partnership

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

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

This distribution was previously discretionary at the instance of Marks and Spencer plc. 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 was reflected by the derecognition of the related equity instrument and recognition of a financial liability from this date.

The Partnership liability to the Marks and Spencer UK pension scheme of £568.7m is valued at the net present value of the future expected distributions from the Partnership.

During the year to 29 March 2014 an interest charge of £17.8m (last year £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 £574.7m (last year £645.7m).

10 Capital expenditure and contingencies

A Capital commitments

	As at 29 March 2014 £m	As at 30 March 2013 £m
Commitments in respect of properties in the course of construction	**86.1**	9.5

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	
	29 March 2014 £m	30 March 2013 (restated)[1] £m
Profit on ordinary activities after taxation	506.0	444.8
Income tax expense	74.4	102.4
Finance costs	139.1	218.2
Finance income	(25.0)	(12.4)
Operating profit	**694.5**	753.0
Increase in inventories	(86.4)	(91.2)
(Increase)/decrease in receivables	(45.8)	9.5
Increase in payables	107.7	77.0
Non-underlying operating cash outflows	(68.2)	(21.4)
Depreciation, amortisation and write-offs	504.7	467.4
Share-based payments	21.3	25.8
Pensions costs charged against operating profit	92.4	71.4
Cash contributions to pension schemes	(92.1)	(70.9)
Non-underlying operating profit items	47.4	25.6
Cash generated from operations	**1,175.5**	1,246.2

[1] Restatement relates to the adoption of the revised IAS 19 'Employee Benefits' (see note 1).

12 Reconciliation of net debt to statement of financial position

	As at 29 March 2014 £m	As at 30 March 2013 £m
Statement of financial position and related notes		
Cash and cash equivalents	182.1	193.1
Current financial assets	17.7	16.9
Bank loans and overdrafts	(445.7)	(152.1)
Medium term notes - net of hedging derivatives	(1,649.0)	(2,040.2)
Finance lease liabilities	(52.2)	(57.4)
Partnership liability to the Marks & Spencer UK Pension Scheme (note 9)	(568.7)	(622.6)
	(2,515.8)	(2,662.3)
Interest payable included within related borrowing and the partnership liability to the M&S UK pension scheme	52.2	48.0
Total net debt	**(2,463.6)**	(2,614.3)

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13 Related party transactions

On 28 March 2014 the Group acquired the remaining 49 percent shareholding of Marks and Spencer Czech Republic a.s. for £6.0m taking its share in the Czech Group (Czech Republic, Estonia, Latvia, Lithuania, Slovakia and Poland) to 100 percent. This transaction has been accounted for through equity as the Group already controlled these entities and consolidated them as subsidiaries.

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 £1.8m during the year (last year £2.4m) with an outstanding trade payable of £0.4m at 29 March 2014 (last year £0.2m).

Supplier transactions occurred last 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 from 1 April 2012 to 1 October 2012, the date of Kate Bostock's resignation. The company was a supplier prior to Kate's employment by the Group.

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