M&S
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Press Release

Marks and Spencer Group Plc
Half Year Results for 26 Weeks ended 26 September 2015

"Good underlying profit growth"

Improved Group half year results
- Sales up 1.4%[1] to £5.0bn
- Underlying profit before tax[2] up 6.1% to £284.0m
- Underlying earnings per share[2] up 4.9% to 14.1p

Update on key priorities:

Food business outperforms a highly competitive market
- Sales +3.3%; LFL +0.2%; differentiated offer continues to set us apart
- 32 new Simply Food stores opened, with performance ahead of expectations

General Merchandise gross margin ahead of expectations
- Gross margin up 285bps, full year guidance raised to +200 to 250bps
- Significant sourcing gains

General Merchandise sales slightly down
- Sales -0.4%; LFL -1.2%; unseasonal conditions and decision to focus on full price sales
- M&S.com sales +34.2%; strong improvement across all metrics

Strong cash generation
- Free cash flow before shareholder returns £256.5m, up £189.1m
- Dividend up 6.3% to 6.8p

Marc Bolland, Chief Executive, said:

"We delivered good underlying profit growth in the first half and made strong progress against our key priorities. Our Food business again outperformed the market by over 3% points as our focus on quality and innovation continues to set us apart. In General Merchandise we decided to improve profitability by focusing on gross margin, delivering another significant increase, which in part resulted in slightly lower sales. As a consequence of good performance and strong cash generation we have decided to increase our dividend."

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

First half performance summary

Our Food business delivered another strong performance with total sales up 3.3% and like for like sales up 0.2%. Our strategy to focus on quality and innovation continues to deliver results. Gross margin was 25bps lower as a result of a slightly higher level of waste due to unseasonal conditions over the summer. However, full year guidance remains unchanged at 0 to 10bps of growth. Our new store rollout programme remains on track with sales performance ahead of expectations.

General Merchandise gross margin was up 285bps, ahead of our previous guidance of up 150 to 200bps. Unseasonal conditions, together with our decision to focus on full price sales and discount less in the second quarter, impacted performance, with sales 0.4% lower, or 1.2% lower on a like-for-like basis. M&S.com sales were up 34.2% with growth across all key metrics. As a result of higher than planned sourcing gains and lower discounting, we have increased the full year gross margin guidance to up 200 to 250bps.

UK operating costs were up 2.2% in line with expectations and our full year guidance remains unchanged at +4%. Overall, UK operating profit was up 14.6% to £306.2m.

International sales were down 0.9%[1] to £506.6m with operating profit down to £24.7m. Performance in our owned markets was significantly impacted by the adverse movement in the Euro exchange rate, while the challenging macro-economic conditions, particularly in our Middle East region, continued to affect the performance of our franchise business.

Group underlying profit before tax was up 6.1% to £284.0m. Non-underlying adjustments to profit were £68.0m net charge (last year £11.8m net credit). Statutory profit before tax was £216.0m (down 22.7%).

We delivered strong cash generation with free cash flow before shareholder returns up £189.1m to £256.5m. In line with our capital allocation policy, we have raised the interim dividend by 6.3% to 6.8p per share. As of 30 October we have bought back 11.6m shares or c.£59.5m of the £150m buyback programme announced in May.

Looking ahead

Despite some improvement in consumer confidence, market conditions continue to be challenging in both the UK and the International markets. Our short term priorities remain the same: Food sales growth, GM gross margin improvement, improved GM performance and strong cash generation.

We will update on our third quarter sales on 7 January 2016.

Notes:

[1] On constant currency basis.

[2] Underlying results are consistent with how the business is measured internally. Adjustments to derive underlying profit in the current period include net M&S Bank charges incurred in relation to the insurance mis-selling provision and charges incurred for UK and International store reviews.

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Investor & Analyst webcast:

Investor and analyst presentation will be held at 9am on 4 November 2015. 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 Helen Weir, Chief Finance Officer at 2pm on 4 November 2015:
Dial in number: +44 (0)20 3427 1905 Access code: 9634620

A recording of this call will be available until 20 November 2015:
Dial in number: +44 (0)20 3427 0598 Access code: 9634620

Business and financial review

Summary of Results

	26 weeks ended 26 Sep 15 £m	26 weeks ended 27 Sep 14 £m	% var
Group revenue[1]	**4,951.3**	**4,904.1**	+1.0%
UK	4,444.7	4,370.4	+1.7%
International[1]	506.6	533.7	-5.1%
Underlying operating profit	**330.9**	**318.6**	+3.8%
UK	306.2	267.3	+14.6%
International	24.7	51.3	-51.9%
Underlying profit before tax	**284.0**	**267.6**	+6.1%
Non-underlying items	(68.0)	11.8	-676.3%
Profit before tax	**216.0**	**279.4**	-22.7%
Underlying basic earnings per share	**14.1p**	**13.5p**	+4.9%
Basic earnings per share	**10.5p**	**14.0p**	-25.0%
Dividend per share (declared)	**6.8p**	**6.4p**	+6.3%

[1]*On reported currency basis*

GROUP REVENUE

Group revenues were up 1.0% (up 1.4% on a constant currency basis). UK revenues were up 1.7% driven by strong growth in our Food business. International revenues were down 5.1% (down 0.9% on constant currency basis).

First half trading summary by division

Revenue %	H1	*Q1*	*Q2*
Food	+3.3	*+3.2*	*+3.4*
- Like-for-like	+0.2	*+0.3*	*+0.2*
GM	-0.4	*+0.2*	*-1.0*
- Like-for-like	-1.2	*-0.4*	*-1.9*
M&S.com[2]	*+34.2*	*+38.7*	*+30.2*
Total UK sales	+1.7	*+1.9*	*+1.5*
- Like-for-like	-0.4	*0.0*	*-0.7*
International[1]	-0.9	*+0.7*	*-2.4*
Total Group[1]	+1.4	*+1.8*	*+1.1*

[1]*On constant currency basis*

[2]*Memo only*

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Food

Sales were up 3.3%, up 0.2% on a like-for-like basis. Despite the ongoing competition and deflation in the food sector, we continued to outperform the market by c.3% points, and have now seen 24 consecutive quarters of like-for-like growth. Our strategy to be more specialist continues to deliver results.

Innovation remains the key driver of performance. During the first half we introduced nearly 900 new products, including new lines in our 'Taste' range of prepared meals bringing the best of the Mediterranean countries to our customers. We also refreshed some of our customers' favourites such as our Italian range, with sales up c.30% as a result.

We continued our focus on improving operational execution, delivering more choice for customers as well as working with our suppliers to generate cost efficiencies which have allowed us to invest in both product quality and lower prices for our customers.

We offer the ultimate convenience with convenient food and convenient locations. We continued to extend the reach of our Food offer to more customers, opening 32 Simply Food stores in the first half with sales performance ahead of expectations.

General Merchandise

General Merchandise sales were down 0.4% with like-for-like sales down 1.2%. Our focus during the first half was on improving profitability and we delivered a strong growth in gross margin, ahead of expectations.

Trading conditions were challenging with the UK retail sector impacted by unseasonal conditions resulting in high levels of promotional activity, particularly in the first quarter. In the second quarter we took a decision to focus on full price sales and discount less which affected sales performance.

We continue to focus on improving product quality and style with customer perception measures continuing to improve. We further developed our in-house design capabilities appointing a Design Director for Clothing.

We launched a new TV and print ad campaign, 'The Art of', bringing together our Food and Fashion advertising and providing customers with a clearer, more consistent message about the M&S brand and highlighting the quality and design features which make our products unique.

M&S.com

Sales were up 34.2% as we continue to see the benefits of investment made in infrastructure and capabilities over the past few years. We outperformed the market, with all customer measures in growth. Traffic increased by c.20% with mobile and tablet growth accelerating as customers increasingly choose to shop this way. We launched a new mobile website during the period driving an 83% increase in sales.

The systems and people capabilities now in place have enabled the recent launch of our customer membership club, Sparks, a new type of loyalty programme, combining personalised offers and exclusive benefits for customers. 1.8m members have signed up in the first two weeks since launch.

Customers continue to enjoy our 'Shop Your Way' service with c.60% collecting their orders directly from our stores, across all our store formats including c.100 franchise Simply Food stores.

International

Sales in our International business were down 0.9% on a constant currency basis (down 5.1% on reported currency).

Performance in our owned business was mixed as sales in Asian priority markets continued to grow, but Euro currency pressures impacted profitability. Performance in Europe was significantly impacted by the adverse exchange rate as we absorbed the additional cost pressure rather than passing on price increases to our customers. India delivered double digit like-for-like sales and in Greater China revenue was up despite the economic uncertainty across the region.

Macro-economic and geopolitical factors continued to impact performance in our franchise business as our partners adapt to the challenging conditions across the markets where we operate particularly in Russia, Ukraine and Turkey as well as the Gulf. Despite the challenging short term trading conditions, we remain committed to the longer term opportunity which we believe exists in these markets.

GROSS MARGIN

UK gross margin was up 85bps at 42.6% as a result of strong improvement in General Merchandise.

General Merchandise gross margin was up 285bps at 56.6% mainly driven by the improvement in buying margin. The primary driver has been continued progress in sourcing initiatives as we transition towards a more flexible and direct sourcing operation, enabling us to unlock further benefits from migration to new and lower cost locations. Buying margin also benefited from the weaker dollar, as a result of our hedging approach. Unseasonal conditions during the first quarter resulted in an increase in markdown costs. In the second quarter, we improved our full price sales mix which offset some of the impact, resulting in an overall small increase in the markdown cost for the half.

Food gross margin was down 25bps at 32.5% due to investment in pricing and the unseasonal conditions over the summer resulting in a small increase in the cost of waste. These pressures have been partly offset by volume growth and ongoing operational efficiencies.

OPERATING COSTS

	26 weeks ended		
	26 Sep 15	27 Sep 14	
	£m	£m	% var
Retail staffing	479.8	468.3	+2.5
Retail occupancy	540.9	538.8	+0.4
Distribution	200.9	208.3	-3.5
Marketing and related	86.9	83.0	+4.7
Support	313.6	289.2	+8.5
Total	1,622.1	1,587.6	+2.2

UK operating costs were up £34.5m (+2.2%), in line with our expectations.

Retail staffing costs were up as a result of growth in selling space and the annual pay review. These increases were partly offset by more effective resource allocation following the implementation of a new labour planning system last year.

Occupancy costs were broadly level on the year, reflecting new space growth and inflation offset by savings from reduced interchange fees and renegotiation of key facilities contracts.

Distribution costs were down primarily due to key food logistics supplier contract renewal in the second half of last year. GM distribution costs were broadly level on the year. Marketing costs were higher due to additional investment in digital marketing.

Support costs were up largely due to higher depreciation on the new M&S.com platform and higher staff incentive accruals reflecting the improved business performance.

NATIONAL LIVING WAGE

In July, the Government announced the introduction of the National Living Wage (NLW) which will come into effect next year. As a business, we are very supportive of the new legislation.

The new NLW rate will be £7.20 per hour effective from 1 April 2016, and as our permanent customer assistant rate is already £7.41, we do not expect any short term impact on our staffing costs. We will provide more details at our results in May as part of our full year guidance.

UNDERLYING OPERATING PROFIT

Underlying group operating profit was up 3.8% at £330.9m (last year £318.6m). Within this, UK operating profit was £306.2m (last year £267.3m) and International operating profit was £24.7m (last year £51.3m).

NET FINANCE COSTS

	26 weeks ended	
	26 Sep 15	27 Sep 14
	£m	£m
Interest payable	(49.8)	(50.3)
Interest income	2.6	2.9
Net interest payable	(47.2)	(47.4)
Pension net finance income	7.5	4.8
Unwinding of discount on partnership liability	(7.2)	(8.1)
Unwinding of discounts on financial instruments and provisions	-	(0.3)
Net finance costs	(46.9)	(51.0)

Net interest payable was down 0.4% to £47.2m due to a reduction in net debt, partly offset by an increase in the average cost of funding to 5.6% (last year 4.8%) from a higher proportion of fixed rate versus floating rate debt. Additionally, higher pension finance income, lower unwinding of discounts on the partnership liability and financial instruments and provision, have also contributed to the decrease in net finance costs of £4.1m.

NON UNDERLYING ITEMS

	26 weeks ended	
	26 Sep 15	27 Sep 14
	£m	£m
Net M&S Bank (charges incurred)/ income received in relation to the insurance mis-selling provision	(27.5)	12.7
Restructuring credits	7.3	1.3
IAS 39 fair value movement of embedded derivative	(0.5)	(2.2)
Profit on disposal	1.4	-
International store review	(22.0)	-
UK store review	(26.7)	-
Adjustment to operating profit and profit before tax	**(68.0)**	**11.8**

Non-underlying adjustments to profit were £68.0m net charge (last year £11.8m net credit). Items include a £26.7m charge recognised as part of a c.£90m multi-year programme to improve the quality of the store estate, which commenced in the period, and a £22.0m charge relating to both the impairment of assets in underperforming stores in Western Europe, and closure costs from exiting some countries in the Balkans region.

TAXATION

The effective tax rate on underlying profit before tax was 19.0% (last full year 18.9%). The effective tax rate on profit before tax was 21.0% (last full year 19.7%).

Following the substantial enactment of the Finance Bill after the half year end date, the effective underlying tax rate for the full year is expected to fall from 19.0% to 17.5%. This is the result of a one off credit due to the restatement of our deferred tax liabilities to reflect lower future UK corporation tax rates.

UNDERLYING EARNINGS PER SHARE

Underlying basic earnings per share increased by 4.9% to 14.1p per share. The weighted average number of shares in issue during the period was 1,644.2m (last year 1,631.1m).

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SHAREHOLDER RETURNS

We are encouraged by the improvement in cash generation over the first half of the year, building on the increased free cash flow last year. In line with our capital allocation policy, we have raised the interim dividend by 6.3% to 6.8p per share.

At our last year end results, we announced the start of an ongoing programme of returns to shareholders. During the year, we expect to return £150m of cash to shareholders in the form of a share buyback programme, of which £39.8m has been returned in the period and c.£59.5m as at 30 October.

CAPITAL EXPENDITURE

	26 weeks ended	
	26 Sep 15	27 Sep 14
	£m	£m
UK store environment	12.7	38.3
New UK stores	49.9	22.5
International	11.3	15.2
Supply chain and technology	100.5	103.1
Maintenance	25.4	22.7
Proceeds from property disposals	(29.1)	(25.0)
Total capital expenditure	170.7	176.8

Group capital expenditure was down by £6.1m versus last year reflecting our guidance for a sustained and consistent capital spend profile.

The reduction of investment in the UK store environment is due to the completion of many of our in-store initiatives to create a more inspiring environment for our customers. Key projects this year include the new lingerie scheme and investment in our hospitality offer.

We added c.1.5% of selling space in the UK (on a weighted average basis), trading from 16.8m square feet at the end of September 2015. 34 new stores were opened during the period, of which 32 were Simply Food stores, and 12 stores were closed, including one relocation. International space increased by c.1 % and we now expect full year space growth of c.2%, below the guidance of c.5%, reflecting the challenging macro-economic environment.

In line with our strategy to build an infrastructure fit to support the future growth of the business, we continued to invest in supply chain and technology. Implementation of our General Merchandise commercial systems, GM4, remains on track having completed the roll out of

Allocation and Replenishment and Merchandise Planning, the second component, going live during the Autumn. Investment in our one tier strategic network continues to progress with our Bradford distribution centre scheduled to open during 2016.

The proceeds from property disposals mainly relate to the deferred consideration from the sale of the White City warehouse which is being received over three years until 2016/17.

CASH FLOW AND NET DEBT

	26 weeks ended	
	26 Sep 15	27 Sep 14
	£m	£m
Underlying EBITDA	603.2	578.8
Working capital	25.5	(31.5)
Pension funding	(43.4)	(71.8)
Capex and disposals	(232.4)	(336.3)
Interest and taxation	(89.1)	(68.5)
Share transactions	(7.3)	(3.3)
Free cash flow pre shareholder returns	**256.5**	**67.4**
Dividends paid and share buyback	(230.6)	(176.2)
Free cash flow	**25.9**	**(108.8)**
Opening net debt	**(2,223.2)**	**(2,463.6)**
Exchange and other non-cash movements	(2.8)	(1.0)
Closing net debt	**(2,200.1)**	**(2,573.4)**

The business delivered strong free cash flow growth pre shareholder returns of £256.5m which, after the payment of dividends and the share buyback, resulted in net debt being £373.3m lower than last year, (£23.1m down from year end). The improved free cash flow reflects stronger business performance with underlying EBITDA of £603.2m, an increase of £24.4m (4.2%) on last year. In addition there was a £25.5m reduction in working capital, compared with an outflow during the first half of last year as a result of lower inventory levels. These movements are partially offset by capital expenditure cash payments of £232.4m which are higher than our actual capital expenditure due to the timing of year end accruals paid in the first half of this year. Pension funding in the prior half year included £28.0m of additional deficit reduction funding contributions paid into the UK defined benefit scheme. The equivalent payment for FY 15/16 will be paid in the second half of the year.

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PENSION

At 26 September 2015, the IAS 19 net retirement benefit surplus was £484.4m (year end £449.0m). The increase is due to a fall in the present value of the UK defined benefit scheme liabilities as a result of an increase in the discount rate applied from 3.10% to 3.65%. This has been partially offset by a fall in the value of the scheme assets due to equity market falls in the period.

PLAN A

This half we launched Spark Something Good, our campaign to make it simple and easy to get involved in Plan A activities. Colleagues and customers can get involved by volunteering in the community, Shwopping old clothes or donating to local and national causes. In July over 400 volunteers transformed 24 community and charity projects in London in less than 24 hours in our first ever Spark Something Good event. Similar events are now being rolled out to 24 cities.

Plan A is an integral part of our new Sparks members club. In addition to rewarding customers with 50 sparks for Shwopping, every time a customer shops with us and uses their Sparks card we are donating a penny to their chosen charity selected from nine of our charity partners.

We are playing an important role in business coalitions globally calling for strong action at climate negotiations in Paris and supporting the launch of the UN's new Global Goals. Our M&S Energy business has further contributed by launching a £400,000 fund to help Community Renewable Energy projects across the UK with 50,000 people voting on how this money should be allocated.

We have also been instrumental in helping the Consumer Goods Forum (CGF) develop its new resolution committing its members to halve operational food waste by 2025. To this end, we have launched an innovative new partnership with neighbourly.com to connect all our stores to food charities that can help distribute surplus food to people in need.

- Ends -

Principal risks and uncertainties

The principal risks and uncertainties which could impact the Group's long-term performance remain those detailed on pages 23-25 of the Group's 2015 Annual Report and Financial Statements. Information on financial risk management is also set out on pages 113-116 of the Annual Report, a copy of which is available on the Group's website www.marksandspencer.com. The key risks and mitigating activities have not changed from these:

- Brand and reputation; GM customer engagement, food safety and integrity, food competition;
- Day-to-day operation; GM margin, information security, IT change;
- Selling channels; M&S.com business resilience, international expansion; and
- People and change; our people, staff retention, programme and workstream management, GM supply chain and logistics network.

Statement of directors' responsibilities

The directors confirm that, to the best of their knowledge, this condensed consolidated interim financial information has been prepared in accordance with IAS 34 as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

The directors of Marks and Spencer Group plc are consistent with those listed in the Group's 2015 Annual Report and financial statements with the exception of John Dixon who resigned on 16 July 2015. A list of current directors is maintained on the Group's website: www.marksandspencer.com.

By order of the Board

Marc Bolland
Chief Executive

Consolidated income statement

		26 weeks ended					
		26 Sept 2015			27 Sept 2014		
		Underlying	Non-underlying	Total	Underlying	Non-underlying	Total
	Notes	£m	£m	£m	£m	£m	£m
Revenue	2	**4,951.3**	**-**	**4,951.3**	**4,904.1**	**-**	**4,904.1**
Operating profit	2, 3	**330.9**	**(68.0)**	**262.9**	**318.6**	**11.8**	**330.4**
Finance income	4	10.1	-	10.1	7.7	-	7.7
Finance costs	4	(57.0)	-	(57.0)	(58.7)	-	(58.7)
Profit before tax		**284.0**	**(68.0)**	**216.0**	**267.6**	**11.8**	**279.4**
Income tax (expense)/credit	5	(53.9)	8.6	(45.3)	(50.9)	(2.9)	(53.8)
Profit for the period		**230.1**	**(59.4)**	**170.7**	**216.7**	**8.9**	**225.6**
Attributable to:							
Owners of the parent		232.1	(59.4)	172.7	219.4	8.9	228.3
Non-controlling interests		(2.0)	-	(2.0)	(2.7)	-	(2.7)
		230.1	**(59.4)**	**170.7**	**216.7**	**8.9**	**225.6**
Basic earnings per share (pence)	6	14.1p	(3.6p)	10.5p	13.5p	0.5p	14.0p
Diluted earnings per share (pence)	6	14.0p	(3.6p)	10.4p	13.3p	0.5p	13.8p

		52 weeks ended 28 March 2015		
		Underlying	Non-underlying	Total
	Notes	£m	£m	£m
Revenue	2	**10,311.4**	**-**	**10,311.4**
Operating profit	2,3	**762.5**	**(61.2)**	**701.3**
Finance income	4	15.5	-	15.5
Finance costs	4	(116.8)	-	(116.8)
Profit before tax		**661.2**	**(61.2)**	**600.0**
Income tax (expense)/credit	5	(124.8)	6.5	(118.3)
Profit for the year		**536.4**	**(54.7)**	**481.7**
Attributable to:				
Owners of the parent		541.2	(54.7)	486.5
Non-controlling interests		(4.8)	-	(4.8)
		536.4	**(54.7)**	**481.7**
Basic earnings per share (pence)	6	33.1p	(3.4p)	29.7p
Diluted earnings per share (pence)	6	32.9p	(3.4p)	29.5p

Consolidated statement of comprehensive income

		26 weeks ended		52 weeks ended
		26 Sept 2015	27 Sept 2014	28 March 2015
	Notes	£m	£m	£m
Profit for the year		**170.7**	**225.6**	**481.7**
Other comprehensive income/(expense):				
Items that will not be reclassified to profit or loss				
Remeasurements of retirement benefit schemes	8	35.3	(26.9)	193.7
Tax (charge)/credit on retirement benefit schemes		(7.0)	5.4	(40.2)
		28.3	(21.5)	153.5
Items that may be reclassified subsequently to profit or loss				
Foreign currency translation differences		(9.7)	1.0	(7.5)
Cash flow and net investment hedges				
- fair value movements in other comprehensive income		(71.2)	74.9	221.2
- reclassified and reported in net profit		55.2	(35.8)	(60.0)
- amount recognised in inventories		(47.3)	25.2	(21.6)
Tax credit/(charge) on cash flow hedges and net investment hedges		12.6	(11.1)	(21.2)
		(60.4)	54.2	110.9
Other comprehensive (expense)/income for the period, net of tax		(32.1)	32.7	264.4
Total comprehensive income for the period		**138.6**	**258.3**	**746.1**
Attributable to:				
Owners of the parent		140.6	261.0	750.9
Non-controlling interests		(2.0)	(2.7)	(4.8)
		138.6	**258.3**	**746.1**

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Consolidated statement of financial position

	Notes	As at 26 Sept 2015 £m	As at 27 Sept 2014 £m	As at 28 March 2015 £m
Assets				
Non-current assets				
Intangible assets		875.0	823.2	858.2
Property, plant and equipment		4,926.5	5,047.3	5,031.1
Investment property		15.7	15.7	15.6
Investment in joint ventures		12.7	13.1	12.2
Other financial assets		3.0	3.0	3.0
Retirement benefit asset	8	496.1	206.2	460.7
Trade and other receivables		263.2	285.0	283.3
Derivative financial instruments	10	60.7	52.4	75.8
Deferred tax assets		-	-	1.2
		6,652.9	**6,445.9**	**6,741.1**
Current assets				
Inventories		853.8	947.0	797.8
Other financial assets		14.7	14.6	11.6
Trade and other receivables		351.6	383.0	321.8
Derivative financial instruments	10	49.6	34.2	117.9
Cash and cash equivalents		246.6	191.4	205.9
		1,516.3	**1,570.2**	**1,455.0**
Total assets		**8,169.2**	**8,016.1**	**8,196.1**
Liabilities				
Current liabilities				
Trade and other payables		1,724.6	1,609.6	1,642.4
Partnership liability to the Marks & Spencer UK Pension Scheme	9	71.9	71.9	71.9
Borrowings and other financial liabilities		355.7	618.7	279.4
Derivative financial instruments	10	10.5	16.7	7.7
Provisions		33.1	33.0	46.2
Current tax liabilities		74.7	77.8	64.0
		2,270.5	**2,427.7**	**2,111.6**
Non-current liabilities				
Retirement benefit deficit	8	11.7	11.7	11.7
Trade and other payables		332.0	314.0	319.7
Partnership liability to the Marks & Spencer UK Pension Scheme	9	376.4	433.0	441.0
Borrowings and other financial liabilities		1,737.8	1,684.3	1,745.9
Derivative financial instruments	10	21.6	66.6	20.0
Provisions		52.2	44.7	32.1
Deferred tax liabilities		305.8	247.5	315.3
		2,837.5	**2,801.8**	**2,885.7**
Total liabilities		**5,108.0**	**5,229.5**	**4,997.3**
Net assets		**3,061.2**	**2,786.6**	**3,198.8**
Equity				
Issued share capital		410.3	408.8	412.0
Share premium account		395.7	362.7	392.4
Capital redemption reserve		2,204.6	2,202.6	2,202.6
Hedging reserve		10.7	3.5	64.3
Other reserve		(6,542.2)	(6,542.2)	(6,542.2)
Retained earnings		6,584.9	6,353.2	6,670.5
Total shareholders' equity		**3,064.0**	**2,788.6**	**3,199.6**
Non-controlling interests in equity		(2.8)	(2.0)	(0.8)
Total equity		**3,061.2**	**2,786.6**	**3,198.8**

The notes on pages 19 to 26 form an integral part of the condensed consolidated interim financial information.

Consolidated statement of changes in equity

	Ordinary	Share	Capital	Hedging	Other	Retained	Total	Non-	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
As at 28 March 2015	412.0	392.4	2,202.6	64.3	(6,542.2)	6,670.5	3,199.6	(0.8)	3,198.8
Profit/(loss) for the period	-	-	-	-	-	172.7	172.7	(2.0)	170.7
Other comprehensive (expense)/income:									
Foreign currency translation	-	-	-	(0.3)	-	(9.4)	(9.7)	-	(9.7)
Remeasurements of retirement benefit schemes	-	-	-	-	-	35.3	35.3	-	35.3
Tax charge on retirement benefit schemes	-	-	-	-	-	(7.0)	(7.0)	-	(7.0)
Cash flow and net investment hedges									
- fair value movements in other comprehensive	-	-	-	(73.8)	-	2.6	(71.2)	-	(71.2)
- reclassified and reported in net profit	-	-	-	55.2	-	-	55.2	-	55.2
- amount recognised in inventories	-	-	-	(47.3)	-	-	(47.3)	-	(47.3)
Deferred tax on cash flow hedges and net investment hedges	-	-	-	12.6	-	-	12.6	-	12.6
Other comprehensive (expense)/income	**-**	**-**	**-**	**(53.6)**	**-**	**21.5**	**(32.1)**	**-**	**(32.1)**
Total comprehensive (expense)/income	**-**	**-**	**-**	**(53.6)**	**-**	**194.2**	**140.6**	**(2.0)**	**138.6**
Transactions with owners:									
Dividends	-	-	-	-	-	(190.8)	(190.8)	-	(190.8)
Shares issued on exercise of employee share options	0.3	3.3	-	-	-	-	3.6	-	3.6
Purchase of own shares held by employee trusts	-	-	-	-	-	(10.9)	(10.9)	-	(10.9)
Shares purchased in buy-back	(2.0)	-	2.0	-	-	(90.0)	(90.0)	-	(90.0)
Credit for share-based payments	-	-	-	-	-	14.3	14.3	-	14.3
Deferred tax on share schemes	-	-	-	-	-	(2.4)	(2.4)	-	(2.4)
As at 26 September 2015	**410.3**	**395.7**	**2,204.6**	**10.7**	**(6,542.2)**	**6,584.9**	**3,064.0**	**(2.8)**	**3,061.2**

	Ordinary	Share	Capital	Hedging	Other	Retained	Total	Non-	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
As at 30 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
Profit/(loss) for the period	-	-	-	-	-	228.3	228.3	(2.7)	225.6
Other comprehensive (expense)/income:									
Foreign currency translation	-	-	-	(0.7)	-	1.7	1.0	-	1.0
Remeasurements of retirement benefit schemes	-	-	-	-	-	(26.9)	(26.9)	-	(26.9)
Tax credit on retirement benefit schemes	-	-	-	-	-	5.4	5.4	-	5.4
Cash flow and net investment hedges									
- fair value movements in other comprehensive	-	-	-	67.7	-	7.2	74.9	-	74.9
- reclassified and reported in net profit	-	-	-	(35.8)	-	-	(35.8)	-	(35.8)
- amount recognised in inventories	-	-	-	25.2	-	-	25.2	-	25.2
Deferred tax on cash flow hedges and net investment hedges	-	-	-	(11.1)	-	-	(11.1)	-	(11.1)
Other comprehensive income/(expense)	**-**	**-**	**-**	**45.3**	**-**	**(12.6)**	**32.7**	**-**	**32.7**
Total comprehensive income/(expense)	**-**	**-**	**-**	**45.3**	**-**	**215.7**	**261.0**	**(2.7)**	**258.3**
Transactions with owners:									
Dividends	-	-	-	-	-	(176.2)	(176.2)	-	(176.2)
Transactions with non-controlling shareholders	-	-	-	-	-	-	-	1.3	1.3
Shares issued on exercise of employee share options	0.7	7.2	-	-	-	-	7.9	-	7.9
Purchase of own shares held by employee trusts	-	-	-	-	-	(12.7)	(12.7)	-	(12.7)
Credit for share-based payments	-	-	-	-	-	6.5	6.5	-	6.5
Deferred tax on share schemes	-	-	-	-	-	(5.2)	(5.2)	-	(5.2)
As at 27 September 2014	**408.8**	**362.7**	**2,202.6**	**3.5**	**(6,542.2)**	**6,353.2**	**2,788.6**	**(2.0)**	**2,786.6**

	Ordinary £m	Share £m	Capital £m	Hedging £m	Other £m	Retained £m	Total £m	Non- £m	Total £m
As at 30 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
Profit/(loss) for the year	-	-	-	-	-	486.5	486.5	(4.8)	481.7
Other comprehensive (expense)/income:									
Foreign currency translation	-	-	-	(2.0)	-	(5.5)	(7.5)	-	(7.5)
Remeasurements of retirement benefit schemes	-	-	-	-	-	193.7	193.7	-	193.7
Tax charge on retirement benefit schemes	-	-	-	-	-	(40.2)	(40.2)	-	(40.2)
Cash flow and net investment hedges									
- fair value movements in other comprehensive	-	-	-	210.9	-	10.3	221.2	-	221.2
- reclassified and reported in net profit	-	-	-	(60.0)	-	-	(60.0)	-	(60.0)
- amount recognised in inventories	-	-	-	(21.6)	-	-	(21.6)	-	(21.6)
Deferred tax on cash flow hedges and net investment hedges	-	-	-	(21.2)	-	-	(21.2)	-	(21.2)
Other comprehensive income	**-**	**-**	**-**	**106.1**	**-**	**158.3**	**264.4**	**-**	**264.4**
Total comprehensive income/(expense)	**-**	**-**	**-**	**106.1**	**-**	**644.8**	**750.9**	**(4.8)**	**746.1**
Transactions with owners:									
Dividends	-	-	-	-	-	(280.7)	(280.7)	-	(280.7)
Transactions with non-controlling shareholders	-	-	-	-	-	-	-	4.6	4.6
Shares issued on exercise of employee share options	3.9	36.9	-	-	-	-	40.8	-	40.8
Purchase of own shares held by employee trusts	-	-	-	-	-	(24.2)	(24.2)	-	(24.2)
Release of share-based payments	-	-	-	-	-	(1.1)	(1.1)	-	(1.1)
Deferred tax on share schemes	-	-	-	-	-	6.6	6.6	-	6.6
As at 28 March 2015	**412.0**	**392.4**	**2,202.6**	**64.3**	**(6,542.2)**	**6,670.5**	**3,199.6**	**(0.8)**	**3,198.8**

[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.

Consolidated statement of cash flows

	Notes	26 weeks ended 26 Sept 2015 £m	26 weeks ended 27 Sept 2014 £m	52 weeks ended 28 March 2015 £m
Cash flows from operating activities				
Cash generated from operations	12	585.3	475.5	1,349.1
Income tax paid		(39.0)	(21.1)	(71.1)
Net cash inflow from operating activities		**546.3**	**454.4**	**1,278.0**
Cash flows from investing activities				
Proceeds on property disposals		29.1	25.0	35.4
Purchase of property, plant and equipment		(177.9)	(290.0)	(521.8)
Purchase of intangible assets		(83.6)	(71.3)	(178.0)
(Purchase)/reduction of current financial assets		(3.1)	3.2	6.0
Interest received		2.9	7.8	9.3
Net cash used in investing activities		**(232.6)**	**(325.3)**	**(649.1)**
Cash flows from financing activities				
Interest paid[1]		(53.0)	(55.2)	(115.3)
Cash inflow/(outflow) from borrowings		109.9	9.4	(165.7)
(Drawdown)/repayment of syndicated loan notes		(94.4)	87.0	(10.2)
Decrease in obligations under finance leases		(1.3)	(2.0)	(4.8)
Payment of liability to the Marks & Spencer UK Pension Scheme		(56.1)	(54.4)	(54.4)
Equity dividends paid		(190.8)	(176.2)	(280.7)
Shares issued on exercise of employee share options		3.6	7.9	40.8
Purchase of own shares by employee trust		(10.9)	(11.2)	(24.2)
Shareholder returns		(39.8)	-	-
Net cash used in financing activities		**(332.8)**	**(194.7)**	**(614.5)**
Net cash (outflow)/inflow from activities		**(19.1)**	**(65.6)**	**14.4**
Effects of exchange rate changes		(1.5)	(0.9)	(2.3)
Opening net cash		187.8	175.7	175.7
Closing net cash		**167.2**	**109.2**	**187.8**

[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	26 weeks ended 26 Sept 2015 £m	26 weeks ended 27 Sept 2014 £m	52 weeks ended 28 March 2015 £m
Opening net debt		**(2,223.2)**	**(2,463.6)**	**(2,463.6)**
Net cash (outflow)/inflow from activities		(19.1)	(65.6)	14.4
Increase/(decrease) in current financial assets		3.1	(3.2)	(6.0)
Decrease/(increase) in debt financing		41.9	(40.0)	235.1
Exchange and other non cash movements		(2.8)	(1.0)	(3.1)
Movement in net debt		**23.1**	**(109.8)**	**240.4**
Closing net debt	13	**(2,200.1)**	**(2,573.4)**	**(2,223.2)**

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Notes to the financial statements

1 General information and basis of preparation

General information

This condensed consolidated interim information for the period does not constitute statutory financial statements within the meaning of s434 of the Companies Act 2006.

The summary of results for the year ended 28 March 2015 is an extract from the published Annual Report and Financial Statements which were approved by the board of Directors on 19 May 2015, have been reported on by the Group's auditors and delivered to the Registrar of Companies. The audit report on the Annual Report and Financial Statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under s498 (2) or (3) of the Companies Act 2006.

Basis of preparation

The financial information has 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 condensed financial statement for the 26 weeks ended 26 September 2015 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34 Interim Financial Reporting as adopted by the European Union.

The comparative figures for the financial year ended 28 March 2015 and the half year ended 27 September 2014 are consistent with the Group's annual financial statements and half year financial statements respectively.

Accounting policies

The results for the first half of the financial year have not been audited and are prepared on the basis of the accounting policies set out in the Group's 2015 Annual Report and Financial Statements, except as described below.

There have been no significant changes to accounting under IFRS which have affected the Group's results. The only changes to the IFRS, IFRS IC interpretations and amendments that are effective for the first time in this financial year are the Annual Improvements to IFRSs: 2011-2013 cycle. These have not had a material impact on the Group.

There are no IFRS, IFRS IC interpretations or amendments that have been issued but are not yet effective that would be expected to have a material impact on the Group.

Taxes on income in the interim period are accrued using the tax rate that would be applicable to expected total annual earnings, adjusted for actual tax on non-underlying items.

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

• profits and losses on the disposal of properties or impairments of properties where commitment to close the store has been demonstrated;
• one-off pension credits arising on changes of the defined benefit pension schemes' 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 movements in financial instruments;
• costs relating to strategy changes that are not considered normal operating costs of the underlying business;
• adjustment 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; and
• ex-gratia payment received from HSBC in relation to the mis-selling of financial products.

Going concern basis

Based on the Group's cash flow forecasts and projections, the Board is satisfied that the Group will be able to operate within the level of its facilities for the foreseeable future. For this reason the Board considers it appropriate for the Group to adopt the going concern basis in preparing its financial statements.

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 and gross profit within the UK segment. To increase transparency, the Group has decided to include an additional voluntary disclosure analysing revenue within the reportable segments by subcategory and gross profit within the UK segment by subcategory.

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

	26 weeks ended 26 September 2015		
	Management	Adjustment[1]	Statutory
	£m	£m	£m
General Merchandise revenue	1,872.7	-	1,872.7
Food revenue	2,572.0	-	2,572.0
UK revenue	4,444.7	-	4,444.7
Franchised	163.6	-	163.6
Owned	343.0	-	343.0
International revenue	506.6	-	506.6
Group revenue[2]	**4,951.3**	**-**	**4,951.3**
General Merchandise gross profit	1,059.6		
Food gross profit	835.1		
UK gross profit	1,894.7	(148.7)	1,746.0
UK operating costs	(1,622.1)	129.2	(1,492.9)
M&S Bank	33.6	(27.5)	6.1
UK operating profit	306.2	(47.0)	259.2
International operating profit	24.7	(21.0)	3.7
Group operating profit[2]	**330.9**	**(68.0)**	**262.9**
Finance income	10.1	-	10.1
Finance costs	(57.0)	-	(57.0)
Profit before tax	**284.0**	**(68.0)**	**216.0**

[1]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). Management gross profit for the UK segment excludes certain expenses resulting in an adjustment between cost of sales and selling and administrative expenses of £148.7m (last half year £152.6m, last full year £293.4m).
[2]In common with many retailers, revenue and underlying operating profit are subject to seasonal fluctuations and are weighted towards the second half of the year which includes the key Christmas period for the business.
[3]Adjustments to revenue in prior periods relate to an adjustment for refunds recognised in cost of sales for management accounting purposes. This is included in the management figure from 26 weeks ended 26 September 2015.

	26 weeks ended 27 September 2014		
	Management	Adjustment[1,3]	Statutory
	£m	£m	£m
General Merchandise revenue	1,883.6	(2.8)	1,880.8
Food revenue	2,489.6	-	2,489.6
UK revenue	4,373.2	(2.8)	4,370.4
Franchised	180.4	-	180.4
Owned	353.3	-	353.3
International revenue	533.7	-	533.7
Group revenue[2]	**4,906.9**	**(2.8)**	**4,904.1**
General Merchandise gross profit	1,010.4		
Food gross profit	814.5		
UK gross profit	1,824.9	(152.6)	1,672.3
UK operating costs	(1,587.6)	146.1	(1,441.5)
M&S Bank	30.0	12.7	42.7
UK operating profit	267.3	6.2	273.5
International operating profit	51.3	5.6	56.9
Group operating profit[2]	**318.6**	**11.8**	**330.4**
Finance income	7.7	-	7.7
Finance costs	(58.7)	-	(58.7)
Profit before tax	**267.6**	**11.8**	**279.4**

2 Segmental Information (continued)

	52 weeks ended 28 March 2015		
	Management	Adjustment[1,3]	Statutory
	£m	£m	£m
General Merchandise revenue	3,987.4	1.0	3,988.4
Food revenue	5,234.7	-	5,234.7
UK revenue	9,222.1	1.0	9,223.1
Franchised	341.3	-	341.3
Owned	747.0	-	747.0
International revenue	1,088.3	-	1,088.3
Group revenue	**10,310.4**	**1.0**	**10,311.4**
General Merchandise gross profit	2,098.9		
Food gross profit	1,718.5		
UK gross profit	3,817.4	(293.4)	3,524.0
UK operating costs	(3,207.4)	277.6	(2,929.8)
M&S Bank	60.2	(13.8)	46.4
UK operating profit	670.2	(29.6)	640.6
International operating profit	92.3	(31.6)	60.7
Group operating profit	**762.5**	**(61.2)**	**701.3**
Finance income	15.5	-	15.5
Finance costs	(116.8)	-	(116.8)
Profit before tax	**661.2**	**(61.2)**	**600.0**

Other segmental information

	As at 26 Sept 2015	As at 27 Sept 2014	As at 28 March 2015
	£m	£m	£m
UK assets	7,736.6	7,527.1	7,763.2
International assets	432.6	489.0	432.9
Total assets	**8,169.2**	**8,016.1**	**8,196.1**

3 Non-underlying items

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 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.

  Since the year ended 31 December 2012 M&S Bank has recognised an estimated liability for redress to customers in respect of possible mis-selling of financial products in its audited financial statements. 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 years. The total charge to date for the deduction in the Group's fee income is £166.7m. The deduction in the period is £27.5m. This has been treated as a non-underlying adjustment to reported profit before tax, in line with previous periods.

  On 26 September 2014, the Group reached agreement with M&S Bank and HSBC over a number of issues in connection with the Relationship Agreement (including the extent of historical mis-selling charges). This resulted in an ex gratia payment of £40.0m by HSBC which was recognised as a non-underlying credit in the prior period (net of £0.1m legal fees);

- Restructuring costs relate to the Group's strategy to transition to a one tier distribution network and the closure costs of the legacy logistics sites. The current period credit of £6.3m has resulted from an updated view of closure costs based on latest plans for the sites post closure. To date, £66.4m has been expensed in relation to this programme. Restructuring costs have also been incurred in Ireland in previous periods following a thorough commercial review of the Ireland business. A £1.0m credit has been recognised in the current period in relation to a release of an onerous lease provision following a successful assignment of a store lease during the period;

- 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%;

- International store review in the current year relates to the impairment of assets (£16.6m) in underperforming stores in Western Europe, together with closure costs incurred on exiting Montenegro, Serbia, Slovenia, Croatia and Bulgaria in the Balkans region (£5.4m). The costs in the prior year relate to impairment of assets (£34.9m) and onerous lease provisions (£2.3m) in underperforming stores within Western Europe, Ireland and China; and

- The UK store review relates to a strategic multi-year programme which has been announced at the half year. As part of this programme, nine UK stores have been closed in the period resulting in charges of £26.7m being incurred. These relate to dilapidations and sublet shortfalls (£19.5m), accelerated depreciation of fixtures and fittings (£4.5m), impairments of land and buildings (£1.8m) and redundancy costs (£0.9m).

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

	26 weeks ended		52 weeks ended
	26 Sept 2015	27 Sept 2014	28 March 2015
	£m	£m	£m
Net M&S Bank (charges incurred)/income received in relation to the insurance mis-selling provision	(27.5)	12.7	(13.8)
Restructuring credits/(costs)	7.3	1.3	(4.6)
IAS 39 fair value movement of embedded derivative	(0.5)	(2.2)	1.3
Profit/(loss) on disposal and impairment once commitment to closure	1.4	-	(6.9)
International store review	(22.0)	-	(37.2)
UK store review	(26.7)	-	-
Adjustment to operating profit and profit before tax	**(68.0)**	**11.8**	**(61.2)**

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4 Finance income/(costs)

	26 weeks ended 26 Sept 2015 £m	26 weeks ended 27 Sept 2014 £m	52 weeks ended 28 March 2015 £m
Bank and other interest receivable	2.6	2.9	5.0
Pension net finance income	7.5	4.8	10.5
Finance income	**10.1**	**7.7**	**15.5**
Interest on bank borrowings	(2.0)	(1.8)	(3.3)
Interest payable on syndicated bank facility	(2.8)	(3.5)	(6.4)
Interest payable on medium-term notes	(44.1)	(44.0)	(88.1)
Interest payable on finance leases	(0.9)	(1.0)	(2.0)
Unwind of discount on financial instruments	-	(0.3)	(0.6)
Unwind of discount on provisions	-	-	(0.3)
Unwinding of discount on partnership liability to the Marks and Spencer UK Pension Scheme (note 9)	(7.2)	(8.1)	(16.1)
Finance costs	**(57.0)**	**(58.7)**	**(116.8)**
Net finance costs	**(46.9)**	**(51.0)**	**(101.3)**

5 Taxation

The taxation charge in the income statement for the half year is based on a forecast full year underlying tax rate of 19.0% (last half year 19.0% and last full year 18.9%) which is then adjusted for tax on non-underlying items arising in the period to 26 September 2015 to give an effective tax rate on profit before taxation of 21.0% (last half year 19.3% and last full year 19.7%).

The effective tax rate on profit before taxation is higher than the statutory UK tax rate of 20% primarily due to store impairment charges which are not tax deductible.

On 8 July 2015 the Chancellor of the Exchequer announced a reduction in the rate of corporation tax to 19% from 1 April 2017 and 18% from 1 April 2020. The Finance Bill was not substantively enacted at the half year date therefore the one off impact of re-measuring UK deferred tax assets and liabilities for the rate changes is not recognised at 26 September 2015. The Finance Bill has now been substantively enacted and as a result the forecast underlying tax rate is expected to fall from 19% to 17.5%.

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 four classes 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, unvested shares granted under the Deferred Share Bonus Plan, unvested shares granted under the Restricted Share Plan and unvested shares within the Performance Share Plan that have met the relevant performance conditions at the end of the reporting period.

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

	26 weeks ended 26 Sept 2015 £m	26 weeks ended 27 Sept 2014 £m	52 weeks ended 28 March 2015 £m
Profit attributable to owners of the parent	**172.7**	**228.3**	**486.5**
Add/(less) (net of tax):			
Net M&S Bank charges incurred/(income received) in relation to the insurance mis-selling provision	22.0	(10.1)	10.9
Restructuring (credits)/costs	(5.9)	(0.6)	3.9
IAS 39 fair value movement of embedded derivative	0.4	1.8	(1.0)
(Profit)/loss on disposal and impairment once commitment to closure	(0.8)	-	4.3
International store review	22.0	-	36.6
UK store review	21.7	-	-
Underlying profit attributable to owners of the parent	**232.1**	**219.4**	**541.2**
	Million	Million	Million
Weighted average number of ordinary shares in issue	**1,644.2**	**1,631.1**	**1,635.6**
Potentially dilutive share options under Group's share option schemes	9.2	15.0	11.3
Weighted average number of diluted ordinary shares	**1,653.4**	**1,646.1**	**1,646.9**
	Pence	Pence	Pence
Basic earnings per share	10.5	14.0	29.7
Diluted earnings per share	10.4	13.8	29.5
Underlying basic earnings per share	14.1	13.5	33.1
Underlying diluted earnings per share	14.0	13.3	32.9

7 Dividends

	26 weeks ended 26 Sept 2015 £m	 27 Sept 2014 £m	52 weeks ended 28 March 2015 £m
Final dividend of 11.6p per share (last year 10.8p per share)	190.8	176.2	176.2
Prior period interim dividend of 6.4p per share	-	-	104.5
	190.8	**176.2**	**280.7**

The directors have approved an interim dividend of 6.8p per share (last half year 6.4p per share) which, in line with the requirements of IAS 10 - 'Events after the Reporting Period', has not been recognised within these results. This results in an interim dividend of £111.3m (last half year £104.5m) which will be paid on 8 January 2016 to shareholders whose names are on the Register of Members at the close of business on 13 November 2015. The ordinary shares will be quoted ex dividend on 12 November 2015. Shareholders may choose to take this dividend in shares or in cash.

8 Retirement benefits

	26 weeks ended 26 Sept 2015 £m	 27 Sept 2014 £m	52 weeks ended 28 March 2015 £m
Opening net retirement benefit asset	**449.0**	**189.0**	**189.0**
Current service cost	(48.8)	(41.9)	(82.4)
Administration costs	(2.0)	(1.0)	(2.0)
Curtailment charge	-	(1.0)	(1.0)
Net interest income	7.5	4.8	10.5
Employer contributions	43.4	71.8	143.0
Remeasurements	35.3	(26.9)	193.7
Exchange movement	-	(0.3)	(1.8)
Closing net retirement benefit asset	**484.4**	**194.5**	**449.0**
Total market value of assets	8,003.4	7,290.4	8,596.5
Present value of scheme liabilities	(7,507.3)	(7,084.2)	(8,135.8)
Net funded pension plan asset	496.1	206.2	460.7
Unfunded retirement benefits	(0.7)	(0.7)	(0.7)
Post-retirement healthcare	(11.0)	(11.0)	(11.0)
Net retirement benefit asset	**484.4**	**194.5**	**449.0**
Analysed in the Statement of Financial Position as:			
Retirement benefit asset	496.1	206.2	460.7
Retirement benefit deficit	(11.7)	(11.7)	(11.7)
Net retirement benefit asset	**484.4**	**194.5**	**449.0**

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 3.65% (last full year 3.1%) and 3.15% (last full year 3.1%) respectively. The inflation rate of 3.15% 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 2.15% (last full 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 by 0.25% the surplus would decrease by c.£100m (last full year decrease by c.£70m). If the inflation rate increased by 0.25%, the surplus would increase by c.£40m (last full year increase by c.£30m).

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9 Marks and Spencer Scottish Limited Partnership

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

The Partnership holds £1.6bn (last full 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.

The Partnership liability to the Marks and Spencer UK pension scheme of £448.3m (last full year £512.9m) is valued at the net present value of the future expected distributions from the Partnership.

During the period to 26 September 2015 an interest charge of £7.2m (last half year £8.1m and last full year £16.1m) 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 £457.2m (last full year £574.7m).

10 Financial Instruments

Fair Value Hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets and liabilities;
- Level 2: not traded in an active market, but the fair values are based on quoted market prices or alternative pricing sources with reasonable levels of price transparency. The Group's level 2 financial instruments include OTC derivatives; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data. Unlisted equity investments are included in Level 3. The fair value of embedded derivatives is determined using the present value of the estimated future cash flows based on financial forecasts. The nature of the valuation techniques and the judgement around the inputs mean that a change in assumptions could result in significant change in the fair value of the instrument.

At the end of the reporting period, the Group held the following financial instruments at fair value:

				As at 26 Sept 2015				As at 28 March 2015
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets measured at fair value								
Financial assets at fair value through profit and loss								
- Trading derivatives	-	2.2	-	2.2	-	3.1	-	3.1
Derivatives used for hedging	-	84.9	-	84.9	-	166.9	-	166.9
Embedded derivatives (see note 3)	-	-	23.2	23.2	-	-	23.7	23.7
Short term investments	-	14.7	-	14.7	-	11.6	-	11.6
Liabilities measured at fair value								
Financial liabilities at fair value through profit and loss								
- Trading derivatives	-	(1.8)	-	(1.8)	-	(0.4)	-	(0.4)
Derivatives used for hedging	-	(30.3)	-	(30.3)	-	(27.3)	-	(27.3)

There were no transfers between Level 1 and Level 2 fair value measurements, and no transfers out of Level 3 fair value measurements in the current reporting period.

The following table represents the changes in Level 3 instruments:

	26 Weeks 26 Sept 2015 £m
Opening balance	**23.7**
Gains and losses recognised in the income statement	(0.5)
Closing balance	**23.2**

The recurring gains/(losses) recognised in the income statement relate to the valuation of the embedded derivative in a lease contract. The fair value movement of the embedded derivative of £0.5m loss (last half year loss of £2.2m) is treated as an adjustment to reported profit (see note 3).

Fair value of financial instruments

With the exception of the Group's fixed rate bond debt and the Partnership liability to the Marks & Spencer UK Pension scheme, there were no material differences between the carrying value of non-derivative financial assets and financial liabilities and their fair values as at the balance sheet date.

The carrying value of the Group's fixed rate bond debt was £1,689.5m (last half year £1,635.5m and last full year £1,697.7m); the fair value of this debt was £1,818.0m (last half year £1,782.2m and last full year £1,883.6m) which has been calculated using quoted market prices. The carrying value of the Partnership liability to the Marks & Spencer UK Pension scheme is £448.3m (last half year £504.9m and last full year £512.9m) and the fair value of this liability is £445.3m (last half year £501.4m and last full year £501.3m).

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11 Capital expenditure and contingencies

A Capital expenditure

Additions to the cost of property, plant and equipment, investment property and intangible assets are £216.1m (last half year £210.0m) and for the year ended 28 March 2015 were £577.8m. Disposals in net book value of property, plant and equipment, investment property and intangible assets are £2.6m (last half year £nil) and for the year ended 28 March 2015 were £14.1m.

B Capital commitments

	As at 26 Sept 2015 £m	As at 27 Sept 2014 £m	As at 28 March 2015 £m
Commitments in respect of properties in the course of construction	165.3	133.6	102.9
Software capital commitments	25.3	-	25.5
	190.6	**133.6**	**128.4**

C 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.

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

	26 weeks ended		52 weeks ended
	26 Sept 2015 £m	27 Sept 2014 £m	28 March 2015 £m
Profit on ordinary activities after taxation	**170.7**	**225.6**	**481.7**
Income tax expense	45.3	53.8	118.3
Finance costs	57.0	58.7	116.8
Finance income	(10.1)	(7.7)	(15.5)
Operating profit	**262.9**	**330.4**	**701.3**
(Increase)/decrease in inventories	(57.9)	(96.8)	45.7
Increase in receivables	(35.1)	(34.0)	(13.0)
Increase in payables	83.0	81.3	87.6
Non-underlying operating cash (outflows)/inflows	(0.9)	(9.5)	28.6
Depreciation, amortisation and write-offs	272.3	264.5	550.1
Share-based payments	13.1	6.5	(1.1)
Pensions costs charged against operating profit	50.8	43.9	85.4
Cash contributions to pension schemes	(43.4)	(71.8)	(143.0)
Non-underlying non-cash items	(27.5)	(27.2)	(53.7)
Non-underlying operating profit items	68.0	(11.8)	61.2
Cash generated from operations	**585.3**	**475.5**	**1,349.1**

13 Reconciliation of net debt to statement of financial position

	As at 26 Sept 2015 £m	As at 27 Sept 2014 £m	As at 28 March 2015 £m
Statement of financial position and related notes			
Cash and cash equivalents	246.6	191.4	205.9
Current financial assets	14.7	14.6	11.6
Bank loans and overdrafts	(355.7)	(616.4)	(279.0)
Medium term notes - net of hedging derivatives	(1,664.2)	(1,662.1)	(1,652.0)
Finance lease liabilities	(48.2)	(50.9)	(48.6)
Partnership liability to the Marks & Spencer UK Pension Scheme (note 9)	(448.3)	(504.9)	(512.9)
	(2,255.1)	**(2,628.3)**	**(2,275.0)**
Interest payable included within related borrowing and the partnership liability to the Marks and Spencer UK pension scheme	55.0	54.9	51.8
Total net debt	**(2,200.1)**	**(2,573.4)**	**(2,223.2)**

14 Related party transactions

Supplier transactions occurred during the period 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 £1.6m during the period (last half year £1.5m) with an outstanding trade payable of £0.2m at 26 September 2015 (last half year £0.1m).

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