

Issued: 8 November 2011

MARKS AND SPENCER GROUP PLC  
HALF YEAR RESULTS 2011/12  
26 WEEKS ENDED 1 OCTOBER 2011

Marks & Spencer performs well in a challenging environment

Half-year results:

- Group sales ex VAT up 2.4% at £4.7bn
- Total UK sales ex VAT +1.6%: General Merchandise -0.8%; Food +3.9%
- Like for like UK sales ex VAT +0.5%: General Merchandise -1.3%; Food +2.1%
- International sales ex VAT +9.0%
- Underlying profit before tax<sup>1</sup> £315.2m (last year £348.6m)
- Profit before tax £320.5m (last year £348.6m)
- Underlying basic earnings per share 15.6p<sup>1</sup> (last year 16.6p)
- Basic earnings per share 16.0p (last year 16.6p)
- Interim dividend 6.2p per share (last year 6.2p)
- Net debt £1.97bn (last half year £2.2bn)

Operational highlights:

- In General Merchandise we invested in offering customers better value in a highly promotional market
- Strong performance in Food
- Maintained market share<sup>2</sup> in Clothing and Food despite tough comparatives
- Managed our cost base tightly
- Delivered more choice in stores through innovation:
  - 900 new lines launched in Food
  - first ever fast fashion collections introduced in M&S Woman

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- M&S Direct sales up 11.7% with over 3 million visits per week
- International sales up 9% with strong LFL growth in key markets
- Good progress with supply chain and IT programme implementation

### Progress against the three year plan

- Launched new 'Only at Your M&S' ranges including
  - 100 new international food brands
  - New Conran and Marcel Wanders collections in Home
- New store segmentation and in-store presentation pilot launched in 15 stores
- M&S brand and all clothing sub-brands re-launched
- French shopping website now live; new Paris store opening before Christmas
- Style Online multimedia shop trial now in 3 stores
- Exclusive new menswear collaborations announced today with Richard James

### **Marc Bolland, Chief Executive, said:**

"Marks & Spencer performed well in the first half. Sales were ahead of last year despite tough comparatives and a challenging economic environment. Our Food business in particular performed strongly. We maintained our share of the Clothing and Food markets.

"In an increasingly promotional environment, we managed costs tightly and took a decision to invest in giving our customers better value, choosing not to pass on the full extent of the increases in commodity prices.

"Against a challenging consumer backdrop, we took decisive action to manage the business through the short term while continuing our focus on investing in creating a stronger platform for future growth.

"We have a very exciting Christmas product offer for our customers with more innovation and choice than ever before."

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## Current trading and outlook

The second half of the year has started in line with our expectations. We will continue to manage the business for a challenging environment with particular focus on offering great value to our customers and tight control of costs and stock. We remain cautious about the outlook but are well set up for the all important Christmas period.

We will update on our third quarter sales on 10 January 2012.

## Guidance

Updated guidance for financial year 2011/12:

- Gross margin is expected to be broadly flat on last year due to ongoing input cost inflation and an increasingly promotional market.
- Operating costs are expected to increase c. 3% as a result of increased depreciation, space growth and inflation, as well as investment in growth initiatives, offset by underlying savings.
- The planned opening of new footage will add c. 2% to UK and c. 10% to International space.
- Group capital expenditure is expected to be around £700-£750m reflecting the latest view of the timing of the UK store update roll out programme.
- Effective tax rate is expected to be 25%.

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

*<sup>2</sup> Kantar Worldpanel Clothing value share 24 w/e 2 Oct 2011 11.5%; Kantar Worldpanel Food and Drink share 26 w/e 2 Oct 2011 3.6%*

## 2011/12 half year operating review:

Against a challenging consumer backdrop, we took decisive action to manage the business through the short term while continuing our focus on investing in creating a stronger platform for future growth. In what has been an increasingly promotional market we took a decision to invest in offering our customers better value at a time when they are managing their budgets carefully. At the same time, we focussed on managing costs tightly in order to mitigate the impact on profitability.

### **Sales**

Group sales were up 2.4% in the first half driven by a strong performance in our Food and International businesses. Revenue growth by area, as reported by period was:

<b>Total revenue %</b>	<b><u>Q1</u></b>	<b><u>Q2</u></b>	<b><u>H1</u></b>
<b><u>UK</u></b>			
General Merchandise	+0.3	- 1.9	- 0.8
Food	+5.0	+2.8	+3.9
<b>Total</b>	<b>+2.7</b>	<b>+0.5</b>	<b>+1.6</b>
<b><u>International</u></b>	<b>+7.8</b>	<b>+10.1</b>	<b>+9.0</b>
<b><u>Total Group</u></b>	<b>3.2</b>	<b>1.5</b>	<b>2.4</b>
<b><u>Like-for-like revenue %</u></b>			
General Merchandise	+0.0	- 2.5	- 1.3
Food	+3.3	+1.0	+2.1
<b>Total</b>	<b>+1.7</b>	<b>- 0.7</b>	<b>+0.5</b>

**General Merchandise** sales were down 0.8% with like-for-like sales down 1.3%. We continued to offer our customers great value and quality, from everyday wardrobe staples to our interpretation of the season's latest trends. We introduced more choice than ever before through the launch of our first fast fashion collection in M&S Woman.

Towards the end of Q1, in response to an increasingly promotional market place and earlier start of the summer sales across the high street, we took a decision to move the start of our sale by two weeks from July into June. This had a positive impact on the reported Q1 sales, and a similar adverse impact on Q2 sales. Adjusting for this timing difference, the underlying general merchandise sales would be as follows:

	<u>Q1</u>	<u>Q2</u>	<u>H1</u>
Total	-1.5	- 0.1	-0.8
Like for like	-1.8	-0.7	-1.3

**Food** sales were up 3.9%, with like-for-like sales up 2.1%, consolidating our position as the UK's leading high quality food retailer. We continued to build on our heritage of quality and innovation, focusing on our three core values of freshness, speciality and convenience. We gave our customers even greater choice with a launch of 900 new lines. We kept our prices competitive, with bigger better promotions enabling us to highlight the great value we offer, at unmatched quality.

**International** sales were up 9.0%. We saw strong like-for-like growth in our priority markets of India and China. Our franchise business also continued to perform well, with strong performance in key territories including Turkey, Russia and the Middle East. Trading in our European businesses was impacted by macroeconomic pressures, particularly in the Republic of Ireland and Greece.

### UK gross margin

UK gross margin was down 60 basis points at 41.4%. General merchandise gross margin was down 80 basis points, as a result of commodity price inflation, as well as higher cost of promotional activity and markdown due to our decision to invest in giving our customers better value. Food gross margin increased by 10 basis points with better management of promotions and waste, as well as early benefits from new systems implementation, helping to offset the commodity price increases.

## **UK operating costs**

UK operating costs were up 2.9% on last year. We managed costs tightly with a real focus on savings against a backdrop of a challenging trading environment. Retail staffing and distribution costs in particular were well controlled, despite growth in selling space, the annual pay review and other inflationary pressures. This has been delivered as a result of efficiency savings generated from investment in new store systems and supply chain.

## **Underlying operating profit**

Underlying group operating profit was £369.3m (last half year £409.2m). Within this, UK operating profit was £310.6m (last half year £344.8m) and International operating profit was £58.7m (last half year £64.4m).

## **Net debt and cash flow**

Net debt at the half year was £1.97bn. Our working capital was well managed with a £20.7m outflow, £94.1m lower than last half year. Inventory levels were up c. 15% on last half year largely due to increased cost prices and the ongoing move from Full Service Vendor to Direct sourcing in General Merchandise, which results in earlier recognition of stock. At the same time there has been a corresponding increase in payables with the payment terms reflecting the change in the operating model.

In September we renewed our revolving credit facility, which was due to expire in March 2013, on a new five year term with an option for a further two years. This £1.3bn facility provides us with flexible funding over the next five to seven years. Our funding strategy continues to ensure a mix of funding sources to provide cost effectiveness and flexibility to match the requirements of the business.

## **2011/12 half year business review:**

This time last year we set out our three year plan to grow M&S into a truly international, multi-channel retailer. We have made strong progress against our medium and long term objectives in the first six months of this year.

## 1) Focus on the UK

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

### Brand

In November last year, we launched 'Only at Your M&S', a brand positioning which encapsulates our special qualities and highlights the lengths to which we go in order to deliver unique 'M&S only' products. We have since used this new brand message in all our ads.

We have re-launched our clothing brands in line with our plans to increase the role of the M&S brand and to turn sub-brands into real assets, moving them from being simply labels to true brands with which customers can easily identify. Our new advertising reflected this with individual sub-brands highlighted for the first time in bespoke campaigns showcasing each brand's identity and personality. We started with Autograph and Limited Collection in womenswear and have now rolled this out across each sub-brand.

We have completed the recruitment of brand directors and brand managers, who are working with the buying teams to ensure brand values are consistently applied: from packaging, to in-store presentation and external marketing.

Our new TV advertising concentrated on positioning the overall M&S brand to our core female customers for the first time. In 'The Rendezvous', we focussed on our more mature customers, highlighting our innovative shapewear and stylish occasionwear, and our fashion offer for our younger customers took centre stage in 'The Date'. This week we unveiled our new Christmas TV ad, exclusively featuring The X Factor finalists.

### Stores

In October we launched 15 pilot stores, designed to trial a more inspiring shopping environment, new approach to store segmentation and improved in-store navigation.

The pilot stores will test different initiatives in different locations and store formats over our busiest trading period in the third quarter. The outcome of the trials will be evaluated after Christmas. The successful initiatives will then be rolled out to up to a further 80 stores by April 2012. Phase 2 will be rolled out to all stores by summer 2013.

In these stores, we achieved a much clearer segmentation of our sub-brands, giving them more distinct identities in stores, through improved use of walls, key anchor visual merchandising and different mannequins, making it easier for our customers to shop our stores and identify which brand most appeals to them.

Our new store segmentation and macro spacing trial reflects a more local approach to store ranging and a new space template to ensure the most efficient space allocation and layout for each store, meaning that stores of the same size will no longer necessarily carry the same catalogue. For example, our Tamworth store has been segmented as a 'Family first' store, and allocated a higher proportion of sub-brands and kidswear, due to the large concentration of young families in the surrounding area.

A new in-store navigation scheme, designed to deliver a clear and consistent signage structure, is also being trialled in our pilot stores. We are currently in the process of rolling out new packaging and labelling across General Merchandise and Food in all our stores, designed to enhance the clarity of our sub-brands. This will be completed by March 2012.

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

In line with plans outlined last year, we have recommenced our modernisation programme, designed to deliver an improved in-store environment in some 90 stores not modernised in the last programme. In the first half we have completed work on 13 stores, with a further 25 stores to follow in the second half.

## Clothing

We held our share of the Clothing market at 11.5% with growth across menswear, lingerie and kidswear.

At a time when quality and value continued to be the key drivers behind clothing purchases, our customers recognised that M&S was the place to come to for their essential wardrobe staples, such as tights, which were up 41% on last year, and smart trousers up 10%. The unpredictable British weather helped us deliver strong sales on knitwear, as customers added an extra layer to their summer look, whilst sales of our innovative swimsuits featured in our 'Only at Your M&S' Tummy Tuck adverts rose by 39%.

We made the season's key looks work for the M&S customer and launched our first-ever core fast-fashion range under our M&S Woman brand delivered on a six week lead time. This interpretation of the colour blocking trend really appealed and we sold c. 100,000 singles over the half. Customers also loved our modern twist on their favourite key pieces like court shoes, which were up 62% on the year.

We catered to our customers' desire to trade up, by delivering more choice in our 'Better and Best' products resulting in good performance in these ranges. However we did not have a strong enough 'Good' offer last season, as this end of the market became more competitive in a very promotional environment.

We took action to address this through the launch of our Outstanding Value campaign in summer which reduced prices on key opening price point lines and reminded our customers of the great values and quality we offer in 'Good'. We have now followed this with a much stronger 'Good' offer for next Spring, which is traditionally a more value driven time of the year.

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

## Home

We have made good progress against our objective of developing a 'lifestyle' approach to our Home offer, segmenting it into Classic, Contemporary and Design. The Classic range, designed in house, continues to represent the best of M&S.

In September we launched a preview of our new 'Conran Exclusive Design, Only at M&S' collection, in 24 stores. This now forms the basis of our Contemporary offer and consists of 70 lines across a wide range of home products including furniture, bedding, lighting and kitchenware. We have had a positive customer response to the preview with best sellers including a tiered vase and felt cushions. The full collection will be available from spring. We have also introduced a new range of design-led products, by the leading European designer Marcel Wanders as part of our Christmas Gift Shop. The collection includes contemporary gifting and homeware products.

## Food

We held our market share at 3.6% despite lower space growth and lower price inflation relative to the market.

We continued our focus on innovation, giving our customers even greater choice by launching 900 new lines, in line with our target to refresh 25% of range each year. We re-launched entire ranges including deli which delivered a great performance. We have also worked on raising customers' awareness of innovation through advertising, promotions and in-store cafés.

In a very competitive market, we worked on highlighting the great value we offer on core products and delivering bigger, more impactful promotions. Our Dine In promotion continues to grow in popularity despite increased competition. Building on its success we have launched a new 'Take Away' deal offering a meal for two from our Indian and Chinese ranges for £10.

We have introduced around 200 of the additional 1,000 lines planned in order to improve space utilisation in our Food halls and offer our customers even greater choice by filling gaps in the existing ranges. These include 100 new best in class international brands, from across the world, available exclusively at M&S.

We have worked on improving our on-shelf availability and reducing levels of waste through better planning and merchandising. Last year we rolled out a new stock management system which provided us with real time data and better stock visibility. We continue to implement a new SRD system which will deliver a step change in availability and further improve our customer service. In September, we introduced staff zoning across our Food halls. Each member of staff now has responsibility for a specific area of the store, allowing them to provide customers with better service though improved on-shelf availability and more product knowledge. Early signs of this initiative are encouraging.

### UK space growth

We added 1.7% of space in the first half, and remain on track to deliver our target of c. 3% per annum for the next three years. By this time, we believe we will have the right balance of space and better access for our customers, through both store and Shop Your Way.

We had a good start at our new flagship store at Westfield Stratford, which opened in September, and at 136,000 sq ft is our third largest store. We also completed four major extension projects including Norwich and Westwood Cross, extending the store space to provide a better representation of the M&S brand in these markets. We opened seven new Simply Food stores.

## **2) Multi-channel**

M&S Direct sales were up 11.7% over the first half. Site traffic grew by 13% to over 3 million visits per week.

Our multi-channel operations continue to be a key area of growth, as our customers increasingly shop with us via a range of different channels, and we have made great progress against our objectives in the first half.

Laura Wade-Gery joined us in July as Executive Director, Multi-channel e-commerce. She has recruited a team of industry leaders, and we are confident we now have a great team in place to drive the delivery of all aspects of the plan.

Over the year we worked on developing our multi-channel business, making it even easier and more convenient to shop with M&S. As part of the work on our pilot stores, we looked at ways of bringing multi-channel functionality into stores. As a result, we have commenced a three store trial of a new initiative called Style Online.

This multi-media area uses the latest technology to provide customers with a more interactive and inspirational shopping experience and allows us to extend the reach of our sub-brands into stores that wouldn't normally be able to offer them. Style Online features samples of the latest fashions from Limited Collection, Autograph and per una. Customers can use the interactive screens to browse and search the latest products or build outfits. Customers can order using touch screen ordering points or via dedicated style advisors equipped with tablet computers.

In October we started to build our online capabilities in international markets with the launch of our first local language, local currency website in France. We have had positive early feedback on the website.

While work on designing our new web platform continues, we are working with Amazon to maximise the opportunities available on our current platform. In the first half, we extended our existing entertaining food 'Click and Collect' service, to include everyday dining across 100 of our food hall favourites. For the first time our Christmas food ordering service is available online, with sales 16% ahead of last year. We also launched a personalisation service, allowing customers to personalise a number of key garments including jeans, chinos and dresses according to their size and preference.

### **3) International**

Our strategy is to transform M&S into an international, multi-channel retailer and reduce our dependency on the UK economic cycle. We have made good progress in the first half. We opened a total of 12 new stores and now have 369 stores in 42 countries.

Jan Heere joined us in May, as Director of International. Jan has been building up organisational capability across our International business. We have now recruited experienced Regional Directors for our three key regions – Europe, Asia and The Gulf - and now have a very strong team in place to drive the business forward.

India and Shanghai continue to be key priority markets. Working with our partner, Reliance Retail, we have accelerated the pace of growth in India, opening three new stores in the half, with a further five stores due to open in the second half. In Shanghai, we opened one new store and now trade from five stores, with a further four planned to open in the second half. Our Hong Kong stores also continued to perform strongly and we opened one new store.

Trading in Greece and the Republic of Ireland continued to be impacted by the weakness in the local economies. We have closed three stores in Greece and Eastern Europe. After identifying operational issues at our Czech business, we have responded quickly by taking full management control of the business. We have put in place an experienced M&S retail team who are currently working on bringing the performance back in line.

Our flagship store in Paris, at 100 Champs-Élysées will open before Christmas. The store is complemented by our new French website which is helping us capitalise on the strong awareness of the M&S brand in France. The store will trade from 1,400sq m, selling the best of our womenswear and lingerie ranges as well as a carefully chosen selection of food. We have signed leases to open a further four full line stores in Paris, and continue to look for convenient sites for Simply Food stores.

Our Franchise businesses performed very well, with continued strength in markets including Russia, Turkey and the Gulf. Like-for-like sales growth has been strong in most markets, with six new store openings, and a further 20 planned for the second half.

### **Supply Chain and IT**

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

The first phase of our warehouse consolidation programme is now well underway. Following the opening of our new one million sq ft warehouse in Bradford, construction is now under way on a second site in the East Midlands, which will be a combined National Distribution Centre and a dedicated e-commerce facility, due to open in early in 2013.

We have continued to work on improving the efficiency of our supply chain. We further reduced the proportion of international products shipped via the UK, with over 30% of stock now moving direct to its destination through our four regional hubs in Sri Lanka, China, Istanbul and Singapore.

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

The final phase of the SAP roll-out, our new core business system, is now in its final stages, and will go live from April 2012. This will include a new stock ledger, which will provide improved management information including product level profitability. Following the start of roll-out of a new forecasting and ordering system in Foods, we are in the process of implementing a space planning and ranging system, which will deliver improved availability and waste management.

## **Plan A**

Plan A, our eco and ethical programme, continues to be at the heart of how we do business and is helping us put products in our stores that make our customers' lives healthier and more sustainable. It also saves us money and helps protect future supplies. Our customers expect us to do the right thing and are getting involved in huge numbers.

It continues to have a positive effect on the local communities we source from and where we trade and we're making excellent progress. Of the 180 commitments we've set ourselves, 105 have been achieved already with a further 18 on course to be completed by April.

The past six months has seen the launch of two new, major Plan A customer initiatives.

In June M&S launched Forever Fish – a major campaign to help customers and their children learn more about fish, clean our British beaches and protect UK marine life.

Funded by the profits from the 5p carrier bag charge at M&S Food halls, over the next three years M&S will:

- Set-up and run [www.school-of-fish.co.uk](http://www.school-of-fish.co.uk) – an interactive website, social space and educational resource for kids and parents to learn more about fish and our oceans;
- Encourage as many of M&S' 21 million customers and 78,000 employees as possible to help the Marine Conservation Society (MCS) clean British beaches;
- Invest over £1 million in WWF projects that help better manage UK fish stocks;
- Help customers make healthy and more sustainable choices by promoting more high quality, sustainably-sourced fish and introducing lesser known and more plentiful species such as Dab and Flounder.

In July M&S announced a new partnership with UNICEF to transform the lives of the world's poorest children. M&S is asking customers not to take a hanger home when they buy clothes and will instead donate 50p for every £1 saved from hanger recycling to UNICEF, the world's leading children's organisation. The aim is to raise at least £1.9million over the next three years to fund a critical new project in two locations within the Mymensingh and Dhaka regions of Bangladesh, providing all the basics children need for a better future, such as clean water, education and healthcare.

In February 2012 we will hold our annual Plan A conference, which will celebrate five years since launch and host more than 2,000 suppliers. As well as hearing about progress on Plan A and supplier sustainability schemes, a wide range of experts from different organisations will be on hand to answer questions and give advice.

## Financial Review

26 weeks ended

### Summary of Results

	1 Oct 11	2 Oct 10	% var
	£m	£m	
Group revenue	4,677.5	4,569.7	+2.4
UK	4,173.9	4,107.7	+1.6
International	503.6	462.0	+9.0
Underlying operating profit	369.3	409.2	-9.8
UK	310.6	344.8	-9.9
International	58.7	64.4	-8.9
Underlying profit before tax	315.2	348.6	-9.6
Non-underlying items	5.3	-	-
Profit before tax	320.5	348.6	-8.1
Underlying earnings per share	15.6p	16.6p	- 6.0
Earnings per share	16.0p	16.6p	- 3.6
Interim dividend per share (declared)	6.2p	6.2p	level

### Revenues

Group revenues were up 2.4% in the first half driven by a good performance in our Food and International businesses.

UK revenues were up 1.6% in total with a like-for-like increase of 0.5%, reflecting a challenging trading environment and tougher comparatives as we progressed through the half. We added 1.7% of space, 1.3% in General Merchandise and 2.5% in Food, on a weighted average basis.

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International revenues were up 9.0%, or 7.7% on a constant currency basis. We saw good like-for-like growth in our priority markets of India and China. Our franchise business also continued to perform well, with strong performance in key territories including Turkey, Russia and the Middle East. Trading in our European businesses was impacted by macroeconomic pressures, particularly in the Republic of Ireland and Greece.

## Operating profit

Underlying operating profit was £369.3m, down 9.8%.

In the UK, underlying operating profit was down 9.9% at £310.6m. Gross margin was down 60 basis points at 41.4%. General merchandise gross margin was down 80 basis points at 52.3%, as a result of commodity price inflation, higher cost of promotional activity and markdown, as well as VAT and currency pressure. Food gross margin was up 10 basis points at 31.6% as a result of better buying and management of waste helping to mitigate commodity price increases.

UK operating costs were up 2.9% to £1,442.1m. A breakdown of the costs is shown below:

	<u>26 weeks ended</u>		
	1 Oct 11	02 Oct 10	% inc
	£m	£m	
Retail staffing	424.7	418.5	1.5%
Retail occupancy	487.5	481.6	1.2%
Distribution	190.0	189.1	0.5%
Marketing and related	77.2	64.3	20.1%
Support	262.7	247.8	6.0%
<b>Total</b>	<b>1,442.1</b>	<b>1,401.3</b>	<b>2.9%</b>

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Retail staffing costs were well controlled despite growth in selling space and the annual pay review, as a result of efficiency savings generated from investment in new store systems.

The increase in occupancy costs reflects additional new space, rent and rates inflation and higher energy costs offset by lower depreciation in stores and success in rent and rates as well as service charge reviews.

Distribution costs were well managed despite volume increases in Food and Direct as well as inflationary pressure, as we continued to see the benefits of initiatives to improve supply chain efficiency.

The growth in marketing costs reflects an increase in the number of advertising campaigns to support the launch of the 'Only at Your M&S' branding as well as the re-launch of our clothing sub-brands.

The increase in support costs is driven by additional IT depreciation.

The underlying UK operating profit includes a contribution of £25.9m (last year £22.6m) from the Group's continuing economic interest in M&S Money.

International operating profit was down 8.9% at £58.7m (last year £64.4m). Franchise operating profits were up 34.6% to £51.0m due to the strong sales growth. Owned store operating profits were £7.7m, down 70.9%, reflecting macroeconomic pressures in the Republic of Ireland and Greece, some operational issues in the Czech joint venture, as well as continued investment in new stores in France, India and China.

## Non-underlying profit items

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

	<u>26 weeks ended</u>	
	1 Oct 11	2 Oct 10
	£m	£m
Fair value gain on financial instrument	9.1	-
Fair value movement on embedded derivative	(1.4)	-
Strategic programme costs	(2.4)	-
<b>Total non-underlying profit items</b>	<b>5.3</b>	<b>-</b>

The liability for the put option over the non-controlling interest in the Czech Group has been re-valued in line with the latest business plan. The resulting non-cash credit of £9.1m has been recognised within non-underlying finance costs.

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

The strategic programme costs of £2.4m are related to the cost of implementing the strategy announced in November 2010.

## Net finance costs

	<u>26 weeks ended</u>	
	1 Oct 11	2 Oct 10
	£m	£m
Interest payable	(67.9)	(69.4)
Interest income	1.7	1.4
<b>Net interest payable</b>	<b>(66.2)</b>	<b>(68.0)</b>
Pension finance income (net)	12.4	17.9
Fees payable	-	(8.5)
Unwinding of discounts on financial instruments	(0.3)	(2.0)
<b>Underlying net finance costs</b>	<b>(54.1)</b>	<b>(60.6)</b>
Fair value movement on financial instruments	9.1	-
<b>Net finance costs</b>	<b>(45.0)</b>	<b>(60.6)</b>

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Net interest payable was down 2.6% at £66.2m. This reflects a lower net debt position versus last year, partially offset by an increase in the Group's average cost of funding to 6.5% (last year 6.0%). Underlying net finance costs were down £6.5m, reflecting lower net interest payable and a one-off fee paid on the transfer of derivatives to the pension scheme last year. Pension finance income was £12.4m (last year £17.9m).

## Taxation

The taxation charge is based on an estimated full year effective tax rate on underlying profits of 25.0% (last year 25.1%), reflecting the impact on deferred tax of the recently announced changes to the corporation tax rate.

## Underlying earnings per share

Underlying earnings per share decreased by 6.0% to 15.6p per share. The weighted average number of shares in issue during the period was 1,575.6m (last year 1,576.8m).

## Dividend

The Board is recommending an interim dividend of 6.2p (last year 6.2p).

## Capital expenditure

	<u>26 weeks ended</u>	
	1 Oct 11	2 Oct 10
	£m	£m
Store modernisation programme	22.9	38.9
Focus on the UK	12.8	-
New stores	80.7	21.0
International	43.5	9.7
Supply chain and technology	69.0	64.9
Maintenance	25.6	24.0
<b>Total capital expenditure</b>	<b>254.5</b>	<b>158.5</b>

Group capital expenditure for the half was £254.5m. As previously announced we commenced our investment in UK stores in order to create a more inspiring environment and trial a new approach to segmentation and in-store navigation.

We added 1.7% of selling space in the UK (on a weighted average basis), trading from 15.8m square feet at the end of September 2011. We opened nine new stores during the half year, including a 136,000 sq ft flagship in the new Westfield Shopping Centre in Stratford, as well as seven simply food stores.

We continued to invest in our supply chain and technology in line with our strategy to build an infrastructure fit to support the future growth of the business.

### Cash flow and net debt

	<u>26 weeks ended</u>	
	1 Oct 11	2 Oct 10
	£m	£m
Underlying EBITDA	594.1	633.7
Working capital	(20.7)	(114.8)
Pension funding	(46.8)	(43.9)
Capex and disposals	(310.4)	(184.1)
Interest and taxation	(102.0)	(140.8)
Dividends and share issues / purchases	(181.9)	(147.2)
<b>Net cash (outflow)/inflow</b>	<b>(67.7)</b>	<b>2.8</b>
<b>Opening net debt</b>	<b>(1,900.9)</b>	<b>(2,068.4)</b>
Exchange and other non-cash movements	(2.7)	(110.4)
<b>Closing net debt</b>	<b>(1,971.3)</b>	<b>(2,176.0)</b>

The Group reported a net cash outflow of £67.7m (£2.8m inflow last year). The outflow reflects a decline in underlying EBITDA of £39.6m, a higher final dividend payment in July (up £20.5m), purchases of own shares (up £13.2m), and increased capital expenditure (up £126.3m) reflecting investment in our UK stores as well as supply chain and IT. These outflows have been partly offset by improved working capital (down £94.1m) and lower tax paid (down £29.9m).

Net debt was £1,971.3m (last year end £1,900.9m), down £204.7m on last half year.

In September we renewed our revolving credit facility, which was due to expire in March 2013, on a new five year term with an option for a further two years. This £1.3bn facility provides us with flexible funding over the next five to seven years. Our funding strategy continues to ensure a mix of funding sources to provide cost effectiveness and flexibility to match the requirements of the business.

### **Pensions**

At 1 October 2011 the IAS 19 net retirement benefit surplus was £221.2m (2 April 2011 £168.5m). The market value of scheme assets increased by £326.8m, due to improved asset performance. This has been offset by the £274.4m increase in the present value of the scheme liabilities due to a decrease in the discount rate from 5.5% to 5.1%, partly offset by the reduction in the inflation rate from 3.4% to 3.1%.

- Ends -

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**Investor & Analyst webcast:**

Investor and analyst presentation will be held at 9am on 8 November 2011. This presentation can be viewed live on the Marks and Spencer Group plc website on:

[www.marksandspencer.com/thecompany](http://www.marksandspencer.com/thecompany).

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

**Fixed Income Investor Conference Call:**

This will be hosted by Alan Stewart, Chief Finance Officer at 2 pm on 8m November 2011:

Dial in number: +44 (0)20 8515 2301

A recording of this call will be available until 18 November 2011

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

Access code: 4484677#

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

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#### **Principal risks and uncertainties**

The principal risks and uncertainties which could impact the Group's long-term performance remain those detailed on pages 45 - 47 of the Group's 2011 Annual Report and Financial Statements. Information on financial risk management is also set out on pages 97 - 100 of the Annual Report, a copy of which is available on the Group's website [www.marksandspencer.com](http://www.marksandspencer.com). The key risk categories have not changed from these:

- Financial risk, including the UK and global economic outlook, product costs and financial position
- People development, change programmes and retention
- Selling channels such as store environment, food competition, M&S Direct and International
- Operational threats, including stock management, supply chain management, key supplier failure and IT security
- Reputational risk relating to the management of our brand, our customers and the quality of our food products

#### **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 listed in the Group's 2011 Annual Report and financial statements with the exception of the appointment of Laura Wade-Gery on 4 July 2011, and the resignation of Louise Patten on 13 July 2011.

A list of current Directors is maintained on the Group's website: [www.marksandspencer.com](http://www.marksandspencer.com).

By order of the Board

Marc Bolland  
Chief Executive

Alan Stewart  
Chief Finance Officer

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**Consolidated income statement**

	Notes	26 weeks ended		52 weeks ended
		1 Oct 2011	2 Oct 2010	2 April 2011
		£m	£m	£m
<b>Revenue</b>	3	<b>4,677.5</b>	<b>4,569.7</b>	<b>9,740.3</b>
<b>Operating profit</b>	3	<b>365.5</b>	<b>409.2</b>	<b>836.9</b>
Finance income	5	14.1	19.3	42.3
Finance costs	5	(59.1)	(79.9)	(98.6)
<b>Profit before tax</b>		<b>320.5</b>	<b>348.6</b>	<b>780.6</b>
Income tax expense	6	(77.7)	(94.2)	(182.0)
<b>Profit for the period</b>		<b>242.8</b>	<b>254.4</b>	<b>598.6</b>
<b>Attributable to:</b>				
Equity shareholders of the Company		<b>252.4</b>	<b>261.2</b>	<b>612.0</b>
Non-controlling interests		(9.6)	(6.8)	(13.4)
		<b>242.8</b>	<b>254.4</b>	<b>598.6</b>
Basic earnings per share	7	16.0p	16.6p	38.8p
Diluted earnings per share	7	15.9p	16.4p	38.4p

**Non-GAAP measures: Underlying profit before tax**

<b>Profit before tax</b>		320.5	348.6	780.6
Adjusted for:				
Profit on property disposals	4	-	-	(2.9)
IAS 19 Ireland one-off pension credit	4	-	-	(10.7)
IAS 36 Impairment of investment property	4	-	-	6.3
IAS 39 Fair value movement of financial instrument	4	(9.1)	-	(54.3)
IAS 39 Fair value movement of embedded derivative	4	1.4	-	(20.3)
Strategic programme costs	4	2.4	-	15.6
<b>Underlying profit before tax</b>	2	<b>315.2</b>	<b>348.6</b>	<b>714.3</b>
Underlying basic earnings per share	7	15.6p	16.6p	34.8p
Underlying diluted earnings per share	7	15.5p	16.4p	34.4p

**Consolidated statement of comprehensive income**

	26 weeks ended		52 weeks ended
	1 Oct 2011	2 Oct 2010	2 April 2011
	£m	£m	£m
<b>Profit for the period</b>	<b>242.8</b>	<b>254.4</b>	<b>598.6</b>
<b>Other comprehensive income:</b>			
Foreign currency translation differences	(5.3)	(19.9)	(16.4)
Actuarial gains/(losses) on retirement benefit schemes	5.4	(101.0)	286.0
Tax on retirement benefit scheme	(1.4)	25.3	(78.0)
Cash flow and net investment hedges			
- fair value movements	97.0	(26.5)	(57.8)
- reclassified and reported in net profit	(36.1)	33.6	42.1
- amount recognised in inventories	16.4	(13.4)	(11.2)
Tax on cash flow hedges and net investment hedges	(16.5)	2.9	19.4
Other comprehensive income/(loss) for the period, net of tax	59.5	(99.0)	184.1
<b>Total comprehensive income for the period</b>	<b>302.3</b>	<b>155.4</b>	<b>782.7</b>
<b>Attributable to:</b>			
Equity shareholders of the Company	311.9	162.2	796.1
Non-controlling interests	(9.6)	(6.8)	(13.4)
	<b>302.3</b>	<b>155.4</b>	<b>782.7</b>

The notes on pages 22 to 27 form an integral part of this condensed consolidated interim financial information.

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Consolidated statement of financial position

	Notes	As at		As at
		1 Oct 2011	2 Oct 2010	2 April 2011
		£m	£m	£m
<b>ASSETS</b>				
<b>Non-current assets</b>				
Intangible assets		563.3	484.4	527.7
Property, plant and equipment		4,645.8	4,616.3	4,662.2
Investment property		16.0	22.3	16.0
Investment in joint ventures		13.7	12.2	13.0
Other financial assets		3.0	3.0	3.0
Retirement benefit asset	9	235.0	-	182.6
Trade and other receivables		273.8	275.6	276.1
Derivative financial instruments		70.4	20.0	21.8
Deferred tax assets		-	0.8	-
		5,821.0	5,434.6	5,702.4
<b>Current assets</b>				
Inventories		834.4	727.1	685.3
Other financial assets		150.0	109.7	215.9
Trade and other receivables		253.3	289.1	250.3
Derivative financial instruments		68.1	43.7	18.4
Current tax receivable		1.6	-	1.6
Cash and cash equivalents		389.7	528.2	470.2
		1,697.1	1,697.8	1,641.7
<b>Total assets</b>		<b>7,518.1</b>	<b>7,132.4</b>	<b>7,344.1</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Trade and other payables		1,373.8	1,108.2	1,347.6
Borrowings and other financial liabilities		610.3	575.9	602.3
Partnership liability to the Marks and Spencer UK Pension Scheme	10	-	-	71.9
Derivative financial instruments		52.4	60.6	50.7
Provisions		21.0	16.6	22.7
Current tax liabilities		107.5	116.5	115.0
		2,165.0	1,877.8	2,210.2
<b>Non-current liabilities</b>				
Retirement benefit deficit	9	13.8	287.5	14.1
Trade and other payables		278.6	298.9	262.3
Borrowings and other financial liabilities		1,981.7	2,302.8	1,924.1
Derivative financial instruments		7.8	22.2	37.5
Provisions		18.9	23.9	22.0
Deferred tax liabilities		233.1	109.0	196.5
		2,533.9	3,044.3	2,456.5
<b>Total liabilities</b>		<b>4,698.9</b>	<b>4,922.1</b>	<b>4,666.7</b>
<b>Net assets</b>		<b>2,819.2</b>	<b>2,210.3</b>	<b>2,677.4</b>
<b>EQUITY</b>				
Called-up share capital		396.3	395.7	396.2
Share premium account		256.6	249.8	255.2
Capital redemption reserve		2,202.6	2,202.6	2,202.6
Hedging reserve		45.9	2.2	(11.3)
Other reserve		(6,042.4)	(5,970.5)	(6,042.4)
Retained earnings		5,965.9	5,320.0	5,873.2
<b>Total shareholders' equity</b>		<b>2,824.9</b>	<b>2,199.8</b>	<b>2,673.5</b>
Non-controlling interests in equity		(5.7)	10.5	3.9
<b>Total equity</b>		<b>2,819.2</b>	<b>2,210.3</b>	<b>2,677.4</b>

The notes on pages 22 to 27 form an integral part of this condensed consolidated interim financial information.

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**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
<b>As at 3 April 2011</b>	396.2	255.2	2,202.6	(11.3)	(6,042.4)	5,873.2	2,673.5	3.9	2,677.4
Profit/(loss) for the period	-	-	-	-	-	252.4	252.4	(9.6)	242.8
Other comprehensive income:									
Foreign currency translation	-	-	-	(0.6)	-	(4.7)	(5.3)	-	(5.3)
Actuarial gains on retirement benefit schemes	-	-	-	-	-	5.4	5.4	-	5.4
Tax on retirement benefit schemes	-	-	-	-	-	(1.4)	(1.4)	-	(1.4)
Cash flow and net investment hedges									
- fair value movements	-	-	-	94.0	-	3.0	97.0	-	97.0
- reclassified and reported in net profit	-	-	-	(36.1)	-	-	(36.1)	-	(36.1)
- amount recognised in inventories	-	-	-	16.4	-	-	16.4	-	16.4
Tax on cash flow hedges and net investment hedges	-	-	-	(16.5)	-	-	(16.5)	-	(16.5)
<b>Total comprehensive income</b>	-	-	-	<b>57.2</b>	-	<b>254.7</b>	<b>311.9</b>	<b>(9.6)</b>	<b>302.3</b>
Transactions with owners:									
Dividends	-	-	-	-	-	(170.2)	(170.2)	-	(170.2)
Shares issued on exercise of employee share options	0.1	1.4	-	-	-	-	1.5	-	1.5
Purchase of own shares held by employee trusts	-	-	-	-	-	(13.2)	(13.2)	-	(13.2)
Charge for share-based payments	-	-	-	-	-	22.4	22.4	-	22.4
Deferred tax on share schemes	-	-	-	-	-	(1.0)	(1.0)	-	(1.0)
<b>As at 1 October 2011</b>	<b>396.3</b>	<b>256.6</b>	<b>2,202.6</b>	<b>45.9</b>	<b>(6,042.4)</b>	<b>5,965.9</b>	<b>2,824.9</b>	<b>(5.7)</b>	<b>2,819.2</b>

	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
<b>As at 4 April 2010</b>	395.5	247.5	2,202.6	11.6	(5,970.5)	5,281.9	2,168.6	17.3	2,185.9
Profit/(loss) for the period	-	-	-	-	-	261.2	261.2	(6.8)	254.4
Other comprehensive income:									
Foreign currency translation	-	-	-	(0.9)	-	(19.0)	(19.9)	-	(19.9)
Actuarial losses on retirement benefit schemes	-	-	-	-	-	(101.0)	(101.0)	-	(101.0)
Tax on retirement benefit schemes	-	-	-	-	-	25.3	25.3	-	25.3
Cash flow and net investment hedges									
- fair value movements	-	-	-	(31.6)	-	5.1	(26.5)	-	(26.5)
- reclassified and reported in net profit	-	-	-	33.6	-	-	33.6	-	33.6
- amount recognised in inventories	-	-	-	(13.4)	-	-	(13.4)	-	(13.4)
Tax on cash flow hedges and net investment hedges	-	-	-	2.9	-	-	2.9	-	2.9
<b>Total comprehensive income</b>	-	-	-	<b>(9.4)</b>	-	<b>171.6</b>	<b>162.2</b>	<b>(6.8)</b>	<b>155.4</b>
Transactions with owners:									
Dividends	-	-	-	-	-	(149.7)	(149.7)	-	(149.7)
Shares issued on exercise of employee share options	0.2	2.3	-	-	-	-	2.5	-	2.5
Charge for share-based payments	-	-	-	-	-	15.6	15.6	-	15.6
Deferred tax on share schemes	-	-	-	-	-	0.6	0.6	-	0.6
<b>As at 2 October 2010</b>	<b>395.7</b>	<b>249.8</b>	<b>2,202.6</b>	<b>2.2</b>	<b>(5,970.5)</b>	<b>5,320.0</b>	<b>2,199.8</b>	<b>10.5</b>	<b>2,210.3</b>

	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
<b>As at 4 April 2010</b>	395.5	247.5	2,202.6	11.6	(5,970.5)	5,281.9	2,168.6	17.3	2,185.9
Profit/(loss) for the period	-	-	-	-	-	612.0	612.0	(13.4)	598.6
Other comprehensive income:									
Foreign currency translation	-	-	-	(0.7)	-	(15.7)	(16.4)	-	(16.4)
Actuarial gains on retirement benefit schemes	-	-	-	-	-	286.0	286.0	-	286.0
Tax on retirement benefit schemes	-	-	-	-	-	(78.0)	(78.0)	-	(78.0)
Cash flow and net investment hedges									
- fair value movements	-	-	-	(60.4)	-	2.6	(57.8)	-	(57.8)
- reclassified and reported in net profit	-	-	-	42.1	-	-	42.1	-	42.1
- amount recognised in inventories	-	-	-	(11.2)	-	-	(11.2)	-	(11.2)
Tax on cash flow hedges and net investment hedges	-	-	-	7.3	-	12.1	19.4	-	19.4
<b>Total comprehensive income</b>	-	-	-	<b>(22.9)</b>	-	<b>819.0</b>	<b>796.1</b>	<b>(13.4)</b>	<b>782.7</b>
Transactions with owners:									
Dividends	-	-	-	-	-	(247.5)	(247.5)	-	(247.5)
Recognition of financial liability	-	-	-	-	(71.9)	-	(71.9)	-	(71.9)
Shares issued on exercise of employee share options	0.7	7.7	-	-	-	-	8.4	-	8.4
Purchase of own shares held by employee trusts	-	-	-	-	-	(12.0)	(12.0)	-	(12.0)
Charge for share-based payments	-	-	-	-	-	31.7	31.7	-	31.7
Deferred tax on share schemes	-	-	-	-	-	0.1	0.1	-	0.1
<b>As at 2 April 2011</b>	<b>396.2</b>	<b>255.2</b>	<b>2,202.6</b>	<b>(11.3)</b>	<b>(6,042.4)</b>	<b>5,873.2</b>	<b>2,673.5</b>	<b>3.9</b>	<b>2,677.4</b>

The notes on pages 22 to 27 form an integral part of this condensed consolidated interim financial information.

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. The reserve also includes discretionary distributions to the Marks and Spencer UK Pension Scheme of £499.8m (see note 10).

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Consolidated cash flow information

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	26 weeks ended		52 weeks ended
		1 Oct 2011	2 Oct 2010	2 April 2011
		£m	£m	£m
<b>Cash flows from operating activities</b>				
Cash generated from operations	12	526.6	474.9	1,385.2
Tax paid		(65.8)	(95.7)	(185.3)
<b>Net cash inflow from operating activities</b>		<b>460.8</b>	<b>379.2</b>	<b>1,199.9</b>
<b>Cash flows from investing activities</b>				
Purchase of property, plant and equipment		(245.9)	(130.3)	(327.3)
Proceeds from sale of property, plant and equipment		-	0.4	3.5
Purchase of intangible fixed assets		(64.5)	(54.2)	(126.5)
Sale/(purchase) of financial assets		65.6	61.6	(44.3)
Interest received		1.4	-	4.1
<b>Net cash outflow from investing activities</b>		<b>(243.4)</b>	<b>(122.5)</b>	<b>(490.5)</b>
<b>Cash flows from financing activities</b>				
Interest paid		(37.6)	(45.1)	(146.4)
Cash (outflow)/inflow from borrowings		(5.8)	8.8	18.4
Repayment of syndicated bank facility		-	(17.5)	(217.5)
Monetisation of derivative assets		-	32.8	32.8
Decrease in liability to the Marks & Spencer UK Pension Scheme		(71.9)	(68.0)	(67.9)
Decrease in obligations under finance leases		(4.2)	(5.1)	(15.7)
Equity dividends paid		(170.2)	(149.7)	(247.5)
Shares issued under employee share schemes		1.5	2.5	8.4
Purchase of own shares held in employee trusts		(13.2)	-	(12.0)
<b>Net cash outflow from financing activities</b>		<b>(301.4)</b>	<b>(241.3)</b>	<b>(647.4)</b>
<b>Net cash (outflow)/inflow from activities</b>		<b>(84.0)</b>	<b>15.4</b>	<b>62.0</b>
Effects of exchange rate changes		(0.6)	(0.9)	(1.2)
Opening net cash		263.5	202.7	202.7
<b>Closing net cash</b>		<b>178.9</b>	<b>217.2</b>	<b>263.5</b>

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

		26 weeks ended		52 weeks ended
		1 Oct 2011	2 Oct 2010	2 April 2011
		£m	£m	£m
<b>Opening net debt</b>		<b>(1,900.9)</b>	<b>(2,068.4)</b>	<b>(2,068.4)</b>
Net cash (outflow)/inflow from activities		(84.0)	15.4	62.0
(Decrease)/increase in current financial assets		(65.6)	(61.6)	44.3
Decrease in debt financing		81.9	49.0	249.9
Partnership liability to the Marks and Spencer UK Pension Scheme (non-cash)		-	-	(71.9)
Exchange and other non-cash movements		(2.7)	(110.4)	(116.8)
<b>Movement in net debt</b>		<b>(70.4)</b>	<b>(107.6)</b>	<b>167.5</b>
<b>Closing net debt</b>	13	<b>(1,971.3)</b>	<b>(2,176.0)</b>	<b>(1,900.9)</b>

The notes on pages 22 to 27 form an integral part of this condensed consolidated interim financial information.

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## 1 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 2 April 2011 is an extract from the published Annual Report and Financial Statements which were approved by the board of Directors on 23 May 2011, 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 of the Companies Act 2006.

## 2 Basis of preparation

The financial information has been prepared in accordance with the Disclosure and Transparency rules of the Financial Services Authority and with International Accounting Standard (IAS) 34 - 'Interim Financial Reporting' as endorsed by the European Union. This condensed consolidated interim information should be read in conjunction with the Annual Report and Financial Statements for the year ended 2 April 2011, which have been prepared in accordance with IFRSs as adopted by the European Union.

### 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 2011 Annual Report and Financial Statements, except as described below.

- Taxes on income in the interim period are accrued using the tax rate that would be applicable to expected total annual earnings.

There are no new standards or amendments to standards which are mandatory for the first time for the financial year beginning 3 April 2011, and that will have a material impact on the results or net assets of the Group.

The directors believe that the underlying profit and earnings per share measures provide additional useful information for shareholders on the underlying performance of the business. These measures are consistent with how underlying business performance is measured internally. The underlying profit before tax measure is not a recognised profit measure under IFRS and may not be directly comparable with underlying profit measures used by other companies. The adjustments made to reported profit before tax are income and charges that are one-off in nature, significance and impact the Group's underlying performance. These adjustments include:

- Profits and losses on the disposal of properties and investment property impairment charges;
- Costs relating to strategy changes that are not considered normal operating costs of the underlying business;
- Pension credits arising on changes of the defined benefit pension schemes' rules; and
- Non-cash fair value movements in financial instruments.

### 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 Group continues to adopt the going concern basis in preparing its financial statements.

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### 3 Segmental Information

IFRS 8 requires operating segments to be identified on the basis of internal reporting about components of the Group that are regularly reviewed by the chief operating decision maker to allocate resources to the segments and to assess their performance.

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

The International segment consists of Marks & Spencer owned businesses in the Republic of Ireland, Europe and Asia, together with international franchise operations.

The executive directors assess the performance of the operating segments based on a measure of operating profit. This measurement basis excludes the effects of non-underlying items from the operating segments. Central costs are all classified as UK costs and presented within UK operating profit. The executive directors also monitor revenue within the segments. To increase transparency, the Group has decided to include an additional voluntary disclosure analysing revenue within the reportable segments.

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

	26 weeks ended 1 October 2011		
	Management £m	Adjustment <sup>2</sup> £m	Statutory £m
General Merchandise	1,985.9	(19.6)	1,966.3
Food	2,227.1	(19.5)	2,207.6
UK revenue	4,213.0	(39.1)	4,173.9
Franchised	178.4	-	178.4
Owned	326.3	(1.1)	325.2
International revenue	504.7	(1.1)	503.6
Group revenue	4,717.7	(40.2)	4,677.5
UK operating profit <sup>1</sup>	310.6	(3.8)	306.8
International operating profit	58.7	-	58.7
Group operating profit	369.3	(3.8)	365.5
Finance income	14.1	-	14.1
Finance costs	(68.2)	9.1	(59.1)
Profit before tax	315.2	5.3	320.5

<sup>1</sup> UK operating profit includes a contribution of £25.9m (last half year £22.6m and last full year £35.2m) from M&S Money under the terms of our arrangement with HSBC.

<sup>2</sup> Adjustments to revenue relate to revenue deductions recognised in cost of sales for management accounting purposes. Underlying profit excludes profits and losses on the disposal of properties, impairment charges, pension credits arising on changes of the defined benefit pension schemes, non-cash fair value movements in financial instruments, and costs relating to strategic changes that are not considered normal operating costs of the underlying business (see note 4).

	26 weeks ended 2 October 2010		
	Management £m	Adjustment £m	Statutory £m
General Merchandise	2,003.1	(20.3)	1,982.8
Food	2,144.0	(19.1)	2,124.9
UK revenue	4,147.1	(39.4)	4,107.7
Franchised	153.2	-	153.2
Owned	309.7	(0.9)	308.8
International revenue	462.9	(0.9)	462.0
Group revenue	4,610.0	(40.3)	4,569.7
UK operating profit	344.8	-	344.8
International operating profit	64.4	-	64.4
Group operating profit	409.2	-	409.2
Finance income	19.3	-	19.3
Finance costs	(79.9)	-	(79.9)
Profit before tax	348.6	-	348.6

	52 weeks ended 2 April 2011		
	Management £m	Adjustment £m	Statutory £m
General Merchandise	4,273.0	(39.4)	4,233.6
Food	4,543.9	(44.5)	4,499.4
UK revenue	8,816.9	(83.9)	8,733.0
Franchised	343.7	-	343.7
Owned	665.8	(2.2)	663.6
International revenue	1,009.5	(2.2)	1,007.3
Group revenue	9,826.4	(86.1)	9,740.3
UK operating profit	677.9	1.1	679.0
International operating profit	147.0	10.9	157.9
Group operating profit	824.9	12.0	836.9
Finance income	42.3	-	42.3
Finance costs	(152.9)	54.3	(98.6)
Profit before tax	714.3	66.3	780.6

Sales of General Merchandise and Food are subject to seasonality due to higher demand during the Christmas period which falls in the second half of the financial year.

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Reportable segments' assets are reconciled to total assets as follows:

	As at		As at
	1 Oct 2011	2 Oct 2010	2 April 2011
	£m	£m	£m
UK assets	6,426.2	6,156.4	6,287.6
International assets	1,091.9	976.0	1,056.5
<b>Total assets</b>	<b>7,518.1</b>	<b>7,132.4</b>	<b>7,344.1</b>

#### 4 Non-GAAP performance measures

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

- Profit and loss on the disposal of properties - these are one-off in nature and therefore create significant volatility in reported earnings;
- IAS 19 credit arising from changes to the Marks and Spencer Ireland defined benefit pension scheme whereby members' future pensionable pay increases have been capped at 4%;
- IAS 36 impairment of investment property - the value of an investment property has been impaired to reflect its recoverable value, in line with its current market value;
- IAS 39 fair value movement on the Czech put option - the put option value has been revised to reflect the latest five year business plan;
- IAS 39 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 relate to the strategy announcements made in November 2010 and include the write-off of technology store fit-out and associated costs, due to the Group's withdrawal of this department in stores, and also the costs associated with the Focus on UK plans. These costs are not considered normal operating costs of the business.

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

	26 weeks ended		52 weeks ended
	1 Oct 2011	2 Oct 2010	2 April 2011
	£m	£m	£m
Profit on property disposals	-	-	2.9
IAS 19 Ireland one-off pension credit	-	-	10.7
IAS 36 Impairment of investment property	-	-	(6.3)
IAS 39 Fair value movement of financial instrument	9.1	-	54.3
IAS 39 Embedded derivative fair value movement	(1.4)	-	20.3
Strategic programme costs	(2.4)	-	(15.6)
	<b>5.3</b>	<b>-</b>	<b>66.3</b>

#### 5 Finance income/(costs)

	26 weeks ended		52 weeks ended
	1 Oct 2011	2 Oct 2010	2 April 2011
	£m	£m	£m
<b>Finance income</b>			
Bank and other interest receivable	1.7	1.4	4.7
Pension finance income (net)	12.4	17.9	37.6
<b>Finance income</b>	<b>14.1</b>	<b>19.3</b>	<b>42.3</b>
<b>Finance costs</b>			
Fee payable on transfer of derivative assets to the Pension Scheme	-	(8.5)	(8.5)
Interest on bank borrowings	(1.9)	(3.4)	(7.7)
Interest payable on syndicated bank facility	(0.5)	(0.8)	(1.8)
Interest payable on medium-term notes	(63.9)	(63.1)	(126.9)
Interest payable on finance leases	(1.6)	(2.1)	(4.2)
Unwind of discount on financial instruments	(0.3)	(2.0)	(3.8)
<b>Underlying finance costs</b>	<b>(68.2)</b>	<b>(79.9)</b>	<b>(152.9)</b>
Fair value movement on financial instrument	9.1	-	54.3
<b>Finance costs</b>	<b>(59.1)</b>	<b>(79.9)</b>	<b>(98.6)</b>
<b>Net finance costs</b>	<b>(45.0)</b>	<b>(60.6)</b>	<b>(56.3)</b>

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## 6 Taxation

The taxation charge for the 26 weeks ended 1 October 2011 is based on an estimated full year effective tax rate on underlying profits of 25.0% (last full year 25.1%).

The tax charge in the income statement is based on management's best estimate of the full year effective tax rate based on expected full year profits to 31 March 2012. The full year effective tax rate includes the impact to the income statement of calculating UK deferred tax balances at the reduced rate of 25%. The impact of this rate change on the interim income statement is a reduction in the half year tax charge of £3m.

Further reductions to the corporation tax rate are proposed to reduce the rate by 1% per annum to 23% by 1 April 2014. These changes had not been substantively enacted at the balance sheet date and are therefore not included in these financial statements.

## 7 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 period.

The underlying earnings per share figures have also been calculated based on earnings profits and losses on the disposal of properties, impairment charges, pension credits arising on changes of the defined benefit pension schemes, non-cash fair value movements in financial instruments, and costs relating to strategic changes that are not considered normal operating costs of the underlying business. These have been calculated to allow the shareholders to gain an understanding of the underlying trading performance of the Group.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has only one class of dilutive potential ordinary shares being those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year.

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

	26 weeks ended		52 weeks ended
	1 Oct 2011	2 Oct 2010	2 April 2011
	£m	£m	£m
<b>Profit attributable to equity holders of the parent</b>	252.4	261.2	612.0
(Less)/add (net of tax):			
Profit on property disposals	-	-	(2.9)
IAS 19 Ireland one-off pension credit	-	-	(9.4)
IAS 36 Impairment of investment property	-	-	6.3
IAS 39 Put option fair value movement	(9.1)	-	(54.3)
IAS 39 Recognition of embedded derivative	1.0	-	(15.1)
Strategic programme costs	1.8	-	11.5
<b>Underlying earnings after tax</b>	<b>246.1</b>	<b>261.2</b>	<b>548.1</b>
	million	million	million
Weighted average number of ordinary shares in issue	1,575.6	1,576.8	1,577.1
Potentially dilutive share options under Group's share option schemes	14.9	14.3	15.6
<b>Weighted average number of diluted ordinary shares</b>	<b>1,590.5</b>	<b>1,591.1</b>	<b>1,592.7</b>
	pence	pence	pence
Basic earnings per share	16.0	16.6	38.8
Diluted earnings per share	15.9	16.4	38.4
Underlying basic earnings per share	15.6	16.6	34.8
Underlying diluted earnings per share	15.5	16.4	34.4

## 8 Dividends

	26 weeks ended		52 weeks ended
	1 Oct 2011	2 Oct 2010	2 April 2011
	£m	£m	£m
Final dividend of 10.8p per share (last year 9.5p per share)	170.2	149.7	149.7
Prior period interim dividend of 6.2p per share	-	-	97.8
	<b>170.2</b>	<b>149.7</b>	<b>247.5</b>

The Directors have approved an interim dividend of 6.2p per share (last half year 6.2p 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 £97.8m (last half year £97.8m) which will be paid on 13 January 2012 to shareholders whose names are on the Register of Members at the close of business on 18 November 2011. The ordinary shares will be quoted ex dividend on 16 November 2011. Shareholders may choose to take this dividend in shares or in cash.

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## 9 Retirement benefits

	26 weeks ended		52 weeks ended
	1 Oct 2011	2 Oct 2010	2 April 2011
	£m	£m	£m
<b>Opening net retirement benefit asset/(deficit)</b>	<b>168.5</b>	<b>(366.5)</b>	<b>(366.5)</b>
Current service cost	(29.7)	(27.7)	(59.0)
One-off pension credit	-	-	10.7
Curtailed charge	(1.0)	-	(1.0)
Interest cost	(139.4)	(141.0)	(285.5)
Expected return on scheme assets	151.8	158.9	323.1
Employer contributions	65.8	189.5	259.8
Actuarial gain/(loss)	5.4	(101.0)	286.0
Exchange movement	(0.2)	0.3	0.9
<b>Closing net retirement benefit asset/(deficit)</b>	<b>221.2</b>	<b>(287.5)</b>	<b>168.5</b>

Total market value of assets	5,724.9	5,340.8	5,398.1
Present value of scheme liabilities	(5,489.9)	(5,611.8)	(5,215.5)
Net funded pension plan asset/(deficit)	235.0	(271.0)	182.6
Unfunded retirement benefits	(0.9)	(1.0)	(0.9)
Post-retirement healthcare	(12.9)	(15.5)	(13.2)
<b>Net retirement benefit asset/(deficit)</b>	<b>221.2</b>	<b>(287.5)</b>	<b>168.5</b>

### Analysed in the Statement of Financial Position as:

Retirement benefit asset	235.0	-	182.6
Retirement benefit deficit	(13.8)	(287.5)	(14.1)
<b>Net retirement benefit asset/(deficit)</b>	<b>221.2</b>	<b>(287.5)</b>	<b>168.5</b>

### Financial assumptions

The main financial assumptions used to assess the liabilities of the scheme have been updated by independent qualified actuaries to assess the liabilities of the scheme. The most significant of these are the discount rate and the inflation rate which are 5.1% (last full year 5.5%) and 3.1% (last full year 3.4%) respectively.

The amount of the surplus varies if the main financial assumptions change, particularly the discount rate. If the discount rate increased / decreased by 0.1% the IAS 19 surplus would increase / decrease by c. £90m (last year deficit would decrease / increase by c. £90m). If the inflation rate increased / decreased by 0.1%, the IAS 19 surplus would decrease / increase by c. £60m.

## 10 Marks and Spencer Scottish Limited Partnership

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

The Marks and Spencer Scottish Limited Partnership holds £1.5bn of properties which have been leased back to Marks and Spencer plc at market rates. The Group retains control over these properties, including the flexibility to substitute alternative properties. The limited partnership interest (held by the Marks and Spencer UK Pension Scheme) entitles the Pension Scheme to receive an annual distribution of £71.9m from the profits of the Partnership earned from rental income, discretionary at the instance of Marks and Spencer plc.

The discretionary right is exercisable if the Group does not pay a dividend or make any other form of return to its shareholders. This is an equity instrument, disclosed within other reserves. If the Group pays an interim dividend in relation to 2011/12, the associated distribution of £71.9m will become payable to the Pension Scheme, and reflected as a reduction in other reserves. The future value of total discretionary scheduled payments is approximately £791m (last full year £791m).

Under IAS 19, the partnership interest of the Pension Scheme in the Marks and Spencer Scottish Limited Partnership is included within the UK pension scheme assets, valued at £641.6m (last full year £656.0m). The market value of this non-quoted financial asset is measured based on the expected cash flows and benchmark asset-backed credit spreads.

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

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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 £254.5m (last half year £158.5m) and for the year ended 2 April 2011 were £491.5m. Disposals in net book value of property, plant and equipment, investment property and intangible assets are £0.7m (last half year £0.9m) and for the year ended 2 April 2011 were £3.0m.

### B Capital commitments

	As at 1 Oct 2011	As at 2 Oct 2010	As at 2 April 2011
	£m	£m	£m
Commitments in respect of properties in the course of construction	65.6	102.9	90.8

### 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 them on the Group's behalf.

See note 10 for details on the partnership arrangement with the Marks & Spencer UK Pension Scheme.

## 12 Cash flow analysis

	26 weeks ended		52 weeks ended
	1 Oct 2011	2 Oct 2010	2 April 2011
	£m	£m	£m
<b>Cash flows from operating activities</b>			
Profit after taxation	242.8	254.4	598.6
Income tax expense	77.7	94.2	182.0
Finance costs	59.1	79.9	98.6
Finance income	(14.1)	(19.3)	(42.3)
<b>Operating profit</b>	<b>365.5</b>	<b>409.2</b>	<b>836.9</b>
Increase in inventories	(149.1)	(113.9)	(72.1)
(Increase)/decrease in receivables	(18.2)	20.1	2.9
Payments to acquire leasehold properties	(1.2)	-	(1.4)
Increase/(decrease) in payables	96.4	(55.5)	175.2
Non-underlying operating cash outflow	(5.5)	(8.9)	(12.3)
Depreciation and amortisation	228.6	224.5	467.5
Share-based payments	22.4	15.6	31.7
Pension costs charged against operating profit	30.7	27.7	60.0
Cash contributions to pension schemes	(46.8)	(43.9)	(91.2)
Non-underlying operating profit items	3.8	-	(12.0)
<b>Cash generated from operations</b>	<b>526.6</b>	<b>474.9</b>	<b>1,385.2</b>

## 13 Reconciliation of net debt to consolidated statement of financial position

	As at 1 Oct 2011	As at 2 Oct 2010	As at 2 April 2011
	£m	£m	£m
<b>Consolidated statement of financial position and related notes</b>			
Cash and cash equivalents	389.7	528.2	470.2
Other current financial assets	150.0	109.7	215.9
Bank loans and overdrafts	(286.4)	(383.0)	(289.1)
Syndicated bank facility	-	(197.2)	-
Medium term notes - net of hedging derivatives	(2,229.4)	(2,227.4)	(2,194.0)
Finance lease liabilities	(75.6)	(87.0)	(78.3)
Partnership liability to the Marks & Spencer UK Pension Scheme	-	-	(71.9)
Interest payable included within related borrowings	80.4	80.7	46.3
<b>Total net debt</b>	<b>(1,971.3)</b>	<b>(2,176.0)</b>	<b>(1,900.9)</b>

## 14 Related party transactions

Supplier transactions occurred during the period between the Group and a company controlled by a close family member of Kate Bostock, an executive director of the Group. These transactions amounted to £6.1m during the period (last half year £4.2m) with an outstanding trade payable of £2.4m at 1 October 2011 (last half year £0.5m). The company was a supplier prior to Kate's employment by the Group.

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 £0.5m during the period (last half year £0.6m) with an outstanding trade payable of £0.1m at 1 October 2011 (last half year £0.1m).

The Group has entered into a rental agreement with the Lima (Bradford) Sarl joint venture. £2.3m of rental charges were incurred during the period (last half year £2.3m).

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# Independent review report to Marks and Spencer Group plc

## Introduction

We have been engaged by the company to review the condensed consolidated interim financial information in the Half Year Results 2011/12 for the six months ended 1 October 2011, which comprises the Consolidated income statement, the Consolidated statement of comprehensive Income, the Consolidated statement of financial position, the Consolidated statement of changes in equity, the Consolidated statement of cash flows, and related notes. We have read the other information contained in the Half Year Results 2011/12 and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated interim financial information.

## Directors' responsibilities

The Half Year Results 2011/12 is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Half Year Results 2011/12 in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed consolidated interim financial information included in this Half Year Results 2011/12 has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

## Our responsibility

Our responsibility is to express to the company a conclusion on the condensed consolidated interim financial information in the Half Year Results 2011/12 based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of the Disclosure and Transparency Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial information in the Half Year Results 2011/12 for the six months ended 1 October 2011 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

PricewaterhouseCoopers LLP  
Chartered Accountants  
London  
7 November 2011

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