MARKS AND SPENCER GROUP PLC
HALF YEAR RESULTS FOR 26 WEEKS ENDED 27 SEPTEMBER 2014

"M&S GROWS FIRST HALF MARGIN AND PROFIT"

Improved half year results
- Group sales[1] +1.0% to £4.9bn
- Underlying PBT[2] +2.3% to £268m
- Statutory PBT at £279m

GM sales performance impacted by September
- GM first half sales -2.3%, LFL -2.9%; Clothing -1.6%, LFL -2.2%
- Unseasonal conditions in September adversely impacted the first half by c.1.3%
- M&S.com first half sales -6.3%, improving trend and on track for growth ahead of peak trading period

Womenswear performance improved
- Sales +1.3% in the first five months of the year with improving trend
- Improvement in full price sales with increasingly positive customer feedback

General Merchandise gross margin up strongly
- Gross margin +150bps, ahead of full year guidance of +100bps
- Significant sourcing gains and lower promotional activity

Food business continues to outperform the market
- Food first half sales +3.6%; LFL +1.0%
- Specialist positioning continues to set us apart from the competition
- Gross margin +25bps

International sales[1] +1.2%, operating profit level
- Owned business performed well; franchise impacted by local currency and political issues

Tight control of costs and capex
- Operating costs +2.7%, lower than full year guidance of +4%
- Capex £176.8m, in line with c.£500-550m full year guidance

Strong cash generation
- EBITDA £578.8m, up £37.7m
- Free cash flow before dividend and share transactions up £73m
- Dividend up 0.2p to 6.4p

Marc Bolland, Chief Executive, said:

"M&S delivered sales growth and increased profit in the first half despite a tough market, particularly in September. We are pleased with the progress we have made against our key priorities for the year: GM gross margin, improving Womenswear, driving Food growth and Cash generation."

First half trading summary by division

Total revenue %	H1	*Q1*	*Q2*
UK total	+1.0	*+2.0*	*0.0*
Like-for-like	-0.7	*+0.3*	*-1.7*
GM	-2.3	*-0.8*	*-3.6**
Like-for-like	-2.9	*-1.5*	*-4.0**
Clothing and footwear	*-1.6*	*0.1*	*-3.0**
Like-for-like	*-2.2*	*-0.6*	*-3.4**
Food	+3.6	*+4.2*	*+3.0*
Like-for-like	+1.0	*+1.7*	*+0.2*
International[1]	+1.2	*+4.7*	*-1.9*
Total Group[1]	+1.0	*+2.3*	*-0.2*
M&S.com[3]	*-6.3*	*-8.1*	*-4.6*

** Q2 GM and Clothing sales were impacted by c.2.5% due to unseasonal conditions in September (first half c.1.3%)*

Looking ahead

Updated full year guidance

- GM gross margin raised from +100bps to between +150 and +200bps
- Operating costs lowered from +4% down to +3.5%
- Accelerating Simply Food store openings from 150 to 200 over three years
- All other guidance remains unchanged

Within Clothing, Womenswear performance continues to improve with growth in full price sales and increasingly positive feedback from our customers. However, the recent market conditions remain challenging, with unseasonal weather resulting in high levels of promotional activity across the market. Our focus continues to be on driving gross margin improvement.

We expect our Food business to continue to outperform the market with a higher number of new Simply Food stores planned over the next three years, up to 200 from 150 previously guided.

The M&S.com sales trend improved through the period, with the updates made to the new platform driving increased customer satisfaction and an improving conversion rate since launch. We remain on track to return to growth ahead of our peak trading period.

In our International business, we have delivered sales and profit growth in our Owned business, despite currency headwinds and unseasonal conditions across Europe. However, our Franchise business has been impacted by currency and political issues in our Middle East region and lower shipments, which we expect to continue into the second half of this year.

Higher gross margin and lower than previously guided cost growth will deliver strong full year cash generation, building on the increase in free cash flow last year. We are encouraged by the improvement to date and believe that it is now appropriate to use part of this increased cash flow to raise modestly the interim dividend by 0.2p to 6.4p per share. We will provide a further update on shareholder returns at our full year results in May 2015.

Despite some improvement in consumer confidence, market conditions continue to be challenging. As a result, we remain cautious about the outlook for the remainder of the year. However, we are confident that we are well set up for the key Christmas trading period.

We will update on our third quarter sales on 8 January 2015.

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 income received / (charges incurred) in relation to the insurance mis-selling provision, restructuring costs and IAS 39 fair value movement of embedded derivative.
[3] Memo only.

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Investor & Analyst webcast:
Investor and analyst presentation will be held at 9am on 5 November 2014. This presentation can be viewed live on the Marks and Spencer Group plc website on:
www.marksandspencer.com/investors

Fixed Income Investor Conference Call:
This will be hosted by Paul Friston, Interim Chief Finance Officer at 2pm on 5 November 2014:

Dial in number: +44 (0)20 3427 1908

A recording of this call will be available until 15 November 2014:
Dial in number: +44 (0)20 3427 0598 Access code: 1107016

Business and financial review

Summary of Results	26 weeks ended		
	27 Sept 14	28 Sept 13	% var
	£m	£m	
Group revenue[4]	4,904.1	4,880.9	+0.5
UK	4,370.4	4,328.5	+1.0
International[4]	533.7	552.4	-3.4
Underlying operating profit	318.6	320.7	-0.6
UK	267.3	269.6	-0.8
International	51.3	51.1	+0.4
Underlying profit before tax	267.6	261.6	+2.3
Non-underlying items	11.8	19.0	-
Profit before tax	279.4	280.6	-0.4
Underlying basic earnings per share	13.5p	13.5p	Level
Basic earnings per share	14.0p	15.5p	-9.7
Interim dividend per share (declared)	6.4p	6.2p	+3.2

[4] *On reported currency basis*

GROUP REVENUE

General Merchandise

General Merchandise sales were down 2.3% with like-for-like sales down 2.9%. Clothing sales were down 1.6%, down 2.2% on a like-for-like basis. Performance was impacted by unseasonal trading conditions in September which affected sales of Autumn/Winter ranges. Our focus was delivering against our key priorities: driving gross margin and improving Womenswear performance, and we have seen good progress in both.

Womenswear sales were up 1.3% in the first five months of the year, with an improving trend up until the unseasonal weeks of September. Our product has improved significantly. Our focus on better quality and more style has resulted in more relevant and more inspiring ranges which have been well received by the fashion press. Our customers have also noticed, as evidenced by an increase in customers' scores of product style and growth in full price sales.

In-store presentation has improved with the new Womenswear sections now rolled out to all our stores and more newness being sent all the way down the chain bringing the best of our ranges to more of our customers. Our 'Rosie for Autograph' range is now available in 284 stores compared to 34 stores last year. We are pleased that the Womenswear initiatives that we have worked on over the past two years have now started to deliver results.

We invested in marketing, launching a new TV and print ad campaign unifying our Food and Fashion campaigns under 'Only M&S' format and providing customers with a clearer, more consistent message about the M&S brand.

Home sales were down in the first half as a result of the decline in M&S.com performance, with the online channel accounting for over a third of Home revenue.

Food

Sales were up 3.6%, up 1.0% on a like-for-like basis. Our strategy to be more specialist and focus on quality and innovation continues to deliver results. Despite the competition intensifying through the period, we continued to outperform the market, delivering 20 consecutive quarters of like-for-like growth.

Our specialist positioning continues to set us apart, with customers clearly recognising the difference in quality, innovation and provenance. We launched over 1,000 new lines in the first half of the year including our new 'Taste' range of prepared meals as well as new categories such as frozen meals. At the same time, we continue to highlight the great value we offer on everyday essentials in our 'Simply M&S' range of c.700 lines, all of which are competitively priced but with added M&S quality.

Our operational execution continues to improve, delivering better on-shelf availability as well as operational cost efficiencies, which have enabled us to invest in both product quality and lower prices for our customers, as well as improve our gross margin.

While the competition continues to intensify in the supermarket space, rather than joining the race to the bottom on price, we are focused on developing top-quality ranges that are competitively priced, whilst ensuring our farmers get a fair deal too.

M&S.com

Sales were down -6.3% over the first half. The sales trend improved through the first half, from -8.1% in Q1 to -4.6% in Q2 and we remain on track to return to growth ahead of our peak trading period.

We have made a number of updates to the website such as improved navigation and display and new guest checkout facility, resulting in an improvement in customer satisfaction with the website experience. This has led to increased traffic and conversion rates since launch. Five million customers have shopped on the site in the eight months since launch.

Our investment in supply chain infrastructure has enabled us to launch an improved delivery proposition including a 10pm cut-off for next day delivery to home and an extension to store collection cut-off to 5pm.

International

Sales in our International business were up 1.2% on a constant currency basis (-3.4% reported currency), to £533.7m. Operating profit was £51.3m, level on the year. We opened 23 new stores and now trade from 470 stores across 56 territories.

While trading in the Republic of Ireland continued to be difficult, in part due to last year's store closures, many of our owned businesses delivered good sales and profit performance despite currency headwinds and unseasonal conditions across Europe. Our franchise business has been impacted by currency and political issues in our Middle East region and lower shipments.

We are pleased with the strong start from our standalone Food stores in Paris and Hong Kong, with the seven stores opened in the half delivering a strong performance with sales per square foot in line with our best performing Simply Food stores in the UK.

GROSS MARGIN

UK gross margin was up 50bps at 41.8% driven by strong improvement in General Merchandise.

General Merchandise gross margin was up 150bps at 53.7%. 120bps of the increase was a result of improvement in the buying margin driven by utilising our scale to buy more effectively and optimising our existing manufacturing base. The remaining 30bps improvement was delivered through lower discounting participation.

Food gross margin was up 25bps at 32.7% due to savings delivered as a result of operational efficiencies, which have allowed us to continue to invest in product quality and innovation to stay ahead of the market, keep our prices competitive without compromising product quality, as well as improve our margins.

OPERATING COSTS

	26 weeks ended		
	27 Sept 14	28 Sept 13	
	£m	£m	% var

Retail staffing	468.3	478.5	-2.1
Retail occupancy	538.8	511.5	+5.3
Distribution	208.3	207.1	+0.6
Marketing and related	83.0	69.5	+19.4
Support	289.2	279.1	+3.6
Total	1,587.6	1,545.7	+2.7

UK operating costs were up £41.9m (2.7%), with higher depreciation contributing £45m (2.9%) of the total increase.

Retail staffing costs decreased due to the implementation of a new resource planning system which has resulted in more efficient resource allocation, whilst maintaining our high levels of customer service.

The increase in occupancy costs mainly reflects increased depreciation costs arising from investment made in the UK store environment.

Distribution costs were well managed with increases due to food volumes growth partially offset by underlying savings as well as lower volumes in General Merchandise and M&S.com.

Marketing and related costs increased due to the re-launch of the M&S brand including new TV advertising campaigns across both Food and General Merchandise.

Support costs were up largely due to higher depreciation on the new M&S.com web platform.

UNDERLYING OPERATING PROFIT

Underlying group operating profit was £318.6m (last half year £320.7m). Within this, UK operating profit was £267.3m (last half year £269.6m) and International operating profit was £51.3m (last half year £51.1m).

NET FINANCE COSTS

	26 weeks ended	
	27 Sept 14	28 Sept 13
	£m	£m
Interest payable	(50.3)	(60.9)
Interest income	2.9	5.3

Net interest payable	(47.4)	(55.6)
Pension net finance income	4.8	5.7
Unwinding of discount on partnership liability	(8.1)	(8.9)
Unwinding of discounts on financial instruments	(0.3)	(0.3)
Net finance costs	(51.0)	(59.1)

Net interest payable was down 14.7% to £47.4m due to a decrease in the average cost of funding to 4.8% (last year 5.4%) and a c.£200m reduction in net debt. This has resulted in a decrease in net finance costs of £8.1m.

NON-UNDERLYING PROFIT ITEMS

Non-underlying adjustments to profit were £11.8m net income (last year £19.0m net income). The current year adjustments include an ex-gratia payment of £40.0m (last year nil) from HSBC following agreement reached over a number of issues in connection with the M&S Bank Relationship Agreement (including the extent of historic mis-selling charges). This will be received in the second half.

TAXATION

The taxation charge on underlying profits is based on an estimated full year effective tax rate of 19.0% (last full year 18.8%).

UNDERLYING EARNINGS PER SHARE

Underlying basic earnings per share were level on last year at 13.5p per share. The weighted average number of shares in issue during the period was 1,631.1m (last year 1,609.8m).

DIVIDEND

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. The Board believes that it is now appropriate to use part of this increased cash flow to raise modestly the interim dividend by 0.2p to 6.4p per share.

CAPITAL EXPENDITURE

	26 weeks ended	
	27 Sept 14	28 Sept 13

	£m	£m
UK store environment	38.3	48.5
New UK stores	22.5	23.1
International	15.2	30.5
Supply chain and technology	103.1	118.4
Maintenance	22.7	25.4
Proceeds from property disposals	(25.0)	(25.0)
Total capital expenditure	**176.8**	**220.9**

Group capital expenditure was down £44.1m versus last year in line with our plans, as a number of large infrastructure projects have now been completed.

We continued to invest in our UK store estate in order to create a more inspiring environment for our customers. Our new Womenswear scheme has now been rolled out to all stores and we are currently rolling out new look and feel Menswear departments.

We added c.1.5% of selling space in the UK (on a weighted average basis), trading from 16.7m square feet at the end of September 2014. We opened 23 new stores in the period including 22 Simply Food stores, and closed six stores. In our International business, space increased by c.4%, predominantly in our key strategic territories of India, Western Europe and the Middle East.

In line with our strategy to build an infrastructure fit to support the future growth of the business, we continue to invest in supply chain and technology. Our e-commerce distribution centre in Castle Donington is now processing 100% of the M&S.com orders and has enabled us to launch an improved service delivery proposition. We are continuing with the implementation of GM4, our new General Merchandise commercial systems, with the first component, Allocation and Replenishment, currently being rolled out.

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

CASH FLOW AND NET DEBT

	26 weeks ended	
	27 Sept 14	28 Sept 13
	£m	£m
Underlying EBITDA	578.8	541.1
Working capital	(31.5)	(153.3)
Pension funding	(71.8)	(45.6)
Capex and disposals	(336.3)	(266.8)

Interest and taxation	(68.5)	(78.0)
Dividends and share transactions	(179.5)	(167.0)
Net cash outflow	**(108.8)**	**(169.6)**
Opening net debt	**(2,463.6)**	**(2,614.3)**
Exchange and other non-cash movements	(1.0)	(3.3)
Closing net debt	**(2,573.4)**	**(2,787.2)**
Free cash flow pre dividends and share transactions	**70.7**	**(2.6)**

The improvement in free cash flow before dividend and share transactions of £73.3m reflects a £121.8m reduction in working capital outflow and a £37.7m increase in underlying EBITDA. These movements are partially off-set by an increase in outflow on capital expenditure of £69.5m, due to the timing difference in March 2014 year-end accruals paid in the first half of this year, and an increase in pension contributions of £26.2m due to the timing of a UK defined benefit scheme funding payment.

PENSION

At 27 September 2014 the IAS 19 net retirement benefit surplus was £194.5m (last year £113.1m). The increase is due to movement in the UK defined benefit surplus, specifically an increase in the market value of scheme assets attributable to higher than expected returns. This is partly offset by an increase in the present value of scheme liabilities due to a decrease in the discount rate from 4.45% to 3.90%.

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

- Ends

Principal risks and uncertainties

The principal risks and uncertainties which could impact the Group's long-term performance remain those detailed on pages 15-17 of the Group's 2014 Annual Report and Financial Statements. Information on financial risk management is also set out on pages 112-115 of the Annual Report, a copy of which is available on the Group's website www.marksandspencer.com. The key risks have not changed from these:

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

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 2014 Annual Report and financial statements with the exception of Alan Stewart who resigned on 10 July 2014. 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					
		27 Sept 2014			28 Sept 2013		
		Underlying	Non-underlying	Total	Underlying	Non-underlying	Total
	Notes	£m	£m	£m	£m	£m	£m
Revenue	2	**4,904.1**	**-**	**4,904.1**	**4,880.9**	**-**	**4,880.9**
Operating profit	2, 3	**318.6**	**11.8**	**330.4**	**320.7**	**19.0**	**339.7**
Finance income	4	7.7	-	7.7	11.0	-	11.0
Finance costs	4	(58.7)	-	(58.7)	(70.1)	-	(70.1)
Profit before tax		**267.6**	**11.8**	**279.4**	**261.6**	**19.0**	**280.6**
Income tax (expense)/credit	5	(50.9)	(2.9)	(53.8)	(52.2)	13.5	(38.7)
Profit for the period		**216.7**	**8.9**	**225.6**	**209.4**	**32.5**	**241.9**
Attributable to:							
Owners of the parent		219.4	8.9	228.3	217.1	32.5	249.6
Non-controlling interests		(2.7)	-	(2.7)	(7.7)	-	(7.7)
		216.7	**8.9**	**225.6**	**209.4**	**32.5**	**241.9**
Basic earnings per share	6	13.5p	0.5p	14.0p	13.5p	2.0p	15.5p
Diluted earnings per share	6	13.3p	0.5p	13.8p	13.3p	2.0p	15.3p

		52 weeks ended 29 March 2014		
		Underlying	Non-underlying	Total
	Notes	£m	£m	£m
Revenue	2	**10,309.7**	**-**	**10,309.7**
Operating profit	2	**741.9**	**(47.4)**	**694.5**
Finance income	4	20.1	4.9	25.0
Finance costs	4	(139.1)	-	(139.1)
Profit before tax		**622.9**	**(42.5)**	**580.4**
Income tax (expense)/credit	5	(117.1)	42.7	(74.4)
Profit for the year		**505.8**	**0.2**	**506.0**
Attributable to:				
Owners of the parent		520.0	4.8	524.8
Non-controlling interests		(14.2)	(4.6)	(18.8)
		505.8	**0.2**	**506.0**
Basic earnings per share (pence)	6	32.2p	0.3p	32.5p
Diluted earnings per share (pence)	6	31.9p	0.3p	32.2p

Consolidated statement of comprehensive income

		26 weeks ended		52 weeks ended
		27 Sept 2014	28 Sept 2013	29 March 2014
	Notes	£m	£m	£m
Profit for the year		**225.6**	241.9	506.0
Other comprehensive (expense)/income:				
Items that will not be reclassified to profit or loss				
Remeasurements of retirement benefit schemes	8	(26.9)	(144.2)	(85.3)
Tax credit on retirement benefit schemes		5.4	42.0	31.8
		(21.5)	(102.2)	(53.5)
Items that may be reclassified subsequently to profit or loss				
Foreign currency translation differences		1.0	(17.4)	(22.3)
Cash flow and net investment hedges				
- fair value movements in other comprehensive income		74.9	(92.0)	(109.9)
- reclassified and reported in net profit		(35.8)	31.1	36.4
- amount recognised in inventories		25.2	3.7	18.7
Tax (charge)/credit on cash flow hedges and net investment hedges		(11.1)	13.1	12.2
		54.2	(61.5)	(64.9)
Other comprehensive income/(expense) for the period, net of tax		32.7	(163.7)	(118.4)
Total comprehensive income for the period		**258.3**	**78.2**	**387.6**
Attributable to:				
Owners of the parent		261.0	85.9	406.4
Non-controlling interests		(2.7)	(7.7)	(18.8)
		258.3	**78.2**	**387.6**

Consolidated statement of financial position

	Notes	As at 27 Sept 2014 £m	As at 28 Sept 2013 £m	As at 29 March 2014 £m
Assets				
Non-current assets				
Intangible assets		823.2	740.7	808.4
Property, plant and equipment		5,047.3	5,002.0	5,139.9
Investment property		15.7	15.8	15.7
Investment in joint ventures		13.1	12.1	12.7
Other financial assets		3.0	3.0	3.0
Retirement benefit asset	8	206.2	126.2	200.7
Trade and other receivables		285.0	315.2	313.5
Derivative financial instruments	10	52.4	51.5	40.6
		6,445.9	**6,266.5**	**6,534.5**
Current assets				
Inventories		947.0	920.1	845.5
Other financial assets		14.6	12.6	17.7
Trade and other receivables		383.0	321.3	309.5
Derivative financial instruments	10	34.2	5.8	13.7
Cash and cash equivalents		191.4	166.7	182.1
		1,570.2	**1,426.5**	**1,368.5**
Total assets		**8,016.1**	**7,693.0**	**7,903.0**
Liabilities				
Current liabilities				
Trade and other payables		1,609.6	1,476.6	1,692.8
Partnership liability to the Marks & Spencer UK Pension Scheme	9	71.9	71.9	71.9
Borrowings and other financial liabilities		618.7	764.9	448.7
Derivative financial instruments	10	16.7	37.9	51.5
Provisions		33.0	50.6	44.8
Current tax liabilities		77.8	55.3	39.6
		2,427.7	**2,457.2**	**2,349.3**
Non-current liabilities				
Retirement benefit deficit	8	11.7	13.1	11.7
Trade and other payables		314.0	298.5	334.0
Partnership liability to the Marks & Spencer UK Pension Scheme	9	433.0	487.7	496.8
Borrowings and other financial liabilities		1,684.3	1,687.2	1,655.1
Derivative financial instruments	10	66.6	75.9	75.4
Provisions		44.7	28.0	31.4
Deferred tax liabilities		247.5	195.7	242.6
		2,801.8	**2,786.1**	**2,847.0**
Total liabilities		**5,229.5**	**5,243.3**	**5,196.3**
Net assets		**2,786.6**	**2,449.7**	**2,706.7**
Equity				
Issued share capital		408.8	404.0	408.1
Share premium account		362.7	321.2	355.5
Capital redemption reserve		2,202.6	2,202.6	2,202.6
Hedging reserve		3.5	(38.0)	(41.8)
Other reserve		(6,542.2)	(6,542.2)	(6,542.2)
Retained earnings		6,353.2	6,126.7	6,325.1
Total shareholders' equity		**2,788.6**	**2,474.3**	**2,707.3**
Non-controlling interests in equity		(2.0)	(24.6)	(0.6)
Total equity		**2,786.6**	**2,449.7**	**2,706.7**

The notes on pages 17 to 24 form an integral part of the condensed consolidated interim financial information.

Consolidated statement of changes in equity

	Ordinary share capital	Share premium account	Capital redemption reserve	Hedging reserve	Other reserve[1]	Retained earnings	Total	Non-controlling interest	Total equity
	£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 income	-	-	-	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
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 share capital	Share premium account	Capital redemption reserve	Hedging reserve	Other reserve[1]	Retained earnings	Total	Non-controlling interest	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m
As at 31 March 2013	403.5	315.1	2,202.6	9.2	(6,542.2)	6,150.3	2,538.5	(19.0)	2,519.5
Profit/(loss) for the period	-	-	-	-	-	249.6	249.6	(7.7)	241.9
Other comprehensive (expense)/income:									
Foreign currency translation	-	-	-	(0.2)	-	(17.2)	(17.4)	-	(17.4)
Remeasurements of retirement benefit schemes	-	-	-	-	-	(144.2)	(144.2)	-	(144.2)
Tax credit on retirement benefit schemes	-	-	-	-	-	42.0	42.0	-	42.0
Cash flow and net investment hedges									
- fair value movements in other comprehensive income	-	-	-	(94.9)	-	2.9	(92.0)	-	(92.0)
- reclassified and reported in net profit	-	-	-	31.1	-	-	31.1	-	31.1
- amount recognised in inventories	-	-	-	3.7	-	-	3.7	-	3.7
Tax on cash flow hedges and net investment hedges	-	-	-	13.1	-	-	13.1	-	13.1
Other comprehensive expense	**-**	**-**	**-**	**(47.2)**	**-**	**(116.5)**	**(163.7)**	**-**	**(163.7)**
Total comprehensive (expense)/income	**-**	**-**	**-**	**(47.2)**	**-**	**133.1**	**85.9**	**(7.7)**	**78.2**
Transactions with owners:									
Dividends	-	-	-	-	-	(173.6)	(173.6)	-	(173.6)
Transactions with non-controlling shareholders	-	-	-	-	-	-	-	2.1	2.1
Shares issued on exercise of employee share options	0.5	6.1	-	-	-	-	6.6	-	6.6
Credit for share-based payments	-	-	-	-	-	12.3	12.3	-	12.3
Deferred tax on share schemes	-	-	-	-	-	4.6	4.6	-	4.6
As at 28 September 2013	**404.0**	**321.2**	**2,202.6**	**(38.0)**	**(6,542.2)**	**6,126.7**	**2,474.3**	**(24.6)**	**2,449.7**

	Ordinary share capital	Share premium account	Capital redemption reserve	Hedging reserve	Other reserve[1]	Retained earnings	Total	Non-controlling interest	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m
As at 31 March 2013	403.5	315.1	2,202.6	9.2	(6,542.2)	6,150.3	2,538.5	(19.0)	2,519.5
Profit/(loss) for the year	-	-	-	-	-	524.8	524.8	(18.8)	506.0
Other comprehensive (expense)/income:									
Foreign currency translation	-	-	-	(0.7)	-	(21.6)	(22.3)	-	(22.3)
Remeasurements of retirement benefit schemes	-	-	-	-	-	(85.3)	(85.3)	-	(85.3)
Tax credit on retirement benefit schemes	-	-	-	-	-	31.8	31.8	-	31.8
Cash flow and net investment hedges									
- fair value movements in other comprehensive income	-	-	-	(117.6)	-	7.7	(109.9)	-	(109.9)
- reclassified and reported in net profit	-	-	-	36.4	-	-	36.4	-	36.4
- amount recognised in inventories	-	-	-	18.7	-	-	18.7	-	18.7
Tax on cash flow hedges and net investment hedges	-	-	-	12.2	-	-	12.2	-	12.2
Other comprehensive expense	**-**	**-**	**-**	**(51.0)**	**-**	**(67.4)**	**(118.4)**	**-**	**(118.4)**
Total comprehensive (expense)/income	**-**	**-**	**-**	**(51.0)**	**-**	**457.4**	**406.4**	**(18.8)**	**387.6**
Transactions with owners:									
Dividends	-	-	-	-	-	(273.6)	(273.6)	-	(273.6)
Transactions with non-controlling shareholders	-	-	-	-	-	(39.3)	(39.3)	37.2	(2.1)
Shares issued on exercise of employee share options	4.6	40.4	-	-	-	-	45.0	-	45.0
Credit for share-based payments	-	-	-	-	-	21.3	21.3	-	21.3
Deferred tax on share schemes	-	-	-	-	-	9.0	9.0	-	9.0
As at 29 March 2014	**408.1**	**355.5**	**2,202.6**	**(41.8)**	**(6,542.2)**	**6,325.1**	**2,707.3**	**(0.6)**	**2,706.7**

[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 27 Sept 2014 £m	26 weeks ended 28 Sept 2013 £m	52 weeks ended 29 March 2014 £m
Cash flows from operating activities				
Cash generated from operations	12	475.5	349.9	1,175.5
Income tax paid		(21.1)	(35.7)	(45.9)
Net cash inflow from operating activities		**454.4**	**314.2**	**1,129.6**
Cash flows from investing activities				
Proceeds on property disposals		25.0	25.0	25.0
Purchase of property, plant and equipment		(290.0)	(210.6)	(440.1)
Purchase of intangible assets		(71.3)	(88.8)	(201.5)
Sale/(purchase) of current financial assets		3.2	3.8	(1.7)
Interest received		7.8	5.3	3.4
Net cash used in investing activities		**(325.3)**	**(265.3)**	**(614.9)**
Cash flows from financing activities				
Interest paid[1]		(55.2)	(47.2)	(132.7)
Cash inflow from borrowings		9.4	181.6	167.5
Drawdown of syndicated loan notes		87.0	35.8	154.1
Redemption of medium-term notes		-	-	(400.0)
Decrease in obligations under finance leases		(2.0)	(2.8)	(7.3)
Payment of liability to the Marks & Spencer UK Pension Scheme		(54.4)	(52.8)	(50.3)
Equity dividends paid		(176.2)	(173.6)	(273.6)
Shares issued on exercise of employee share options		7.9	6.6	44.2
Purchase of own shares held in employee trusts		(11.2)	-	-
Net cash used in financing activities		**(194.7)**	**(52.4)**	**(498.1)**
Net cash (outflow)/inflow from activities		**(65.6)**	**(3.5)**	**16.6**
Effects of exchange rate changes		(0.9)	(0.9)	(1.6)
Opening net cash		175.7	160.7	160.7
Closing net cash		**109.2**	**156.3**	**175.7**

[1] Includes interest on the partnership liability to the Marks and Spencer UK Pension Scheme. Prior half year has been re-presented to include £19.1m interest on the partnership liability to the Marks and Spencer UK pension scheme, reclassified from payment of liability to the Marks and Spencer UK pension scheme.

Reconciliation of net cash flow to movement in net debt

	Notes	26 weeks ended 27 Sept 2014 £m	26 weeks ended 28 Sept 2013 £m	52 weeks ended 29 March 2014 £m
Opening net debt		**(2,463.6)**	**(2,614.3)**	**(2,614.3)**
Net cash (outflow)/inflow from activities		(65.6)	(3.5)	16.6
(Decrease)/increase in current financial assets		(3.2)	(3.8)	1.7
(Increase)/decrease in debt financing		(40.0)	(161.8)	136.0
Exchange and other non cash movements		(1.0)	(3.8)	(3.6)
Movement in net debt		**(109.8)**	**(172.9)**	**150.7**
Closing net debt	13	**(2,573.4)**	**(2,787.2)**	**(2,463.6)**

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 29 March 2014 is an extract from the published Annual Report and Financial Statements which were approved by the board of Directors on 19 May 2014, have been reported on by the Group's previous 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 27 September 2014 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS34 Interim Financial Reporting as adopted by the European Union.

The comparative figures for the financial year ended 29 March 2014 and the half year ended 28 September 2013 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 2014 Annual Report and Financial Statements, except as described below.

The following IFRS, IFRS IC interpretations and amendments are effective for the first time in this financial year:

IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements' and IFRS 12 'Disclosure of Interests in Other Entities' and the amendments to IAS 27 (2011) 'Separate Financial Statements' and IAS 28 (2011) 'Investments in Associations and Joint Ventures'. These have not had a material impact on the Group.

There are no other new standards or amendments to standards which are mandatory for the first time in this financial year that have had any material impact on the Group.

There are no other 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;
- one-off pension credits arising on changes of the defined benefit pension scheme rules;
- interest and fees relating to significant and one-off repayments from tax litigation claims;
- restructuring costs;
- significant and one-off impairment charges 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 insurance mis-selling provision.

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.

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 27 September 2014		
	Management £m	Adjustment[1] £m	Statutory £m
General Merchandise	1,883.6	(2.8)	1,880.8
Food	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	1,010.4		
Food	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**

[1]Adjustments to revenue relate to an adjustment for refunds recognised in cost of sales for management accounting purposes. Management profit excludes the adjustments (income or charges) made to reported profit before tax that are one-off in nature, significant and distort the Group's underlying performance (see note 3). Management gross profit for the UK segment excludes certain expenses resulting in an adjustment between cost of sales and selling and administrative expenses of £152.6m (last half year £166.0m, last full year £345.3m).

[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.

	26 weeks ended 28 September 2013		
	Management £m	Adjustment[1] £m	Statutory £m
General Merchandise	1,930.1	(5.2)	1,924.9
Food	2,403.6	-	2,403.6
UK Revenue	4,333.7	(5.2)	4,328.5
Franchised	201.9	-	201.9
Owned	350.5	-	350.5
International Revenue	552.4	-	552.4
Group Revenue[2]	**4,886.1**	**(5.2)**	**4,880.9**
General Merchandise	1,005.2		
Food	780.6		
UK gross profit	1,785.8	(166.0)	1,619.8
UK operating costs	(1,545.7)	217.1	(1,328.6)
M&S Bank	29.5	(25.0)	4.5
UK operating profit	269.6	26.1	295.7
International operating profit	51.1	(7.1)	44.0
Group operating profit[2]	**320.7**	**19.0**	**339.7**
Finance income	11.0	-	11.0
Finance costs	(70.1)	-	(70.1)
Profit before tax	**261.6**	**19.0**	**280.6**

2 Segmental Information (continued)

	52 weeks ended 29 March 2014		
	Management	Adjustment[1]	Statutory
	£m	£m	£m
General Merchandise	4,094.5	(2.0)	4,092.5
Food	5,063.2	-	5,063.2
UK Revenue	9,157.7	(2.0)	9,155.7
Franchised	404.0	-	404.0
Owned	750.0	-	750.0
International Revenue	1,154.0	-	1,154.0
Group Revenue	**10,311.7**	**(2.0)**	**10,309.7**
General Merchandise	2,074.9		
Food	1,646.7		
UK gross profit	3,721.6	(345.3)	3,376.3
UK operating costs	(3,159.6)	377.2	(2,782.4)
M&S Bank	57.2	(50.8)	6.4
UK operating profit	619.2	(18.9)	600.3
International operating profit	122.7	(28.5)	94.2
Group operating profit	**741.9**	**(47.4)**	**694.5**
Finance income	20.1	4.9	25.0
Finance costs	(139.1)	-	(139.1)
Profit before tax	**622.9**	**(42.5)**	**580.4**

	As at	As at	As at
	27 Sept 2014	28 Sept 2013[3]	29 March 2014
	£m	£m	£m
UK assets	7,527.1	7,198.7	7,411.4
International assets	489.0	494.3	491.6
Total assets	**8,016.1**	**7,693.0**	**7,903.0**

[3]Re-presentation of the prior half year for an adjustment relating to an intercompany offset between UK and International segmental assets whilst not affecting total assets.

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 M&S Bank 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 £112.7m. The deduction in the period is £27.2m, with a further £14.0m expected in the second half of the year. 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 historic mis-selling charges). This has resulted in an ex gratia payment of £40.0m by HSBC which has been recognised as a non underlying credit in the period (net of £0.1m legal fees), consistent with the deduction to the Group's fee income. On the same basis as previous periods, any future increase in the liability recognised by M&S Bank will result in a further reduction in the Group's fee income;
- Restructuring costs relating to the Group's strategy to transition to a one tier distribution network and the closure costs of the legacy logistics sites (current period cost of £4.3m). Restructuring costs have been incurred in Ireland in previous periods following a thorough commercial review of the Ireland business. In the current period, resolution has been reached on a number of employee matters resulting in recognition of a net credit of £5.6m;
- 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%;
- The profit on property disposal in the prior year relates to the sale of a warehouse site and mock shop in White City on 26 July 2013 to St James Group Ltd for a total consideration of £100m, £25m received on completion and the remaining consideration to be deferred over three years. The property has been leased back to Marks and Spencer plc for a period of five years and has been recognised as an operating lease;
- Pension credit recognised in the prior year as a result of changes to the Marks and Spencer Ireland defined benefit scheme rules (£17.5m) whereby the discretions for post retirement pension increases were removed and prior year pension credit arising from the cessation of the practice of granting pension increases to transferred-in pensions for all members in the UK defined benefit scheme (£10.0m);
- International store review in the prior full year relates to the impairment of assets (£13.6m) and onerous lease provisions (£8.3m) in poor performing international stores in non-strategic locations in China and the Czech Group;
- Strategic programme costs relating to the strategy announcements made in November 2010 and included the costs associated with the initial Focus on the UK plans. These included asset write-offs and accelerated depreciation. These costs were not considered normal operating costs of the business. We do not anticipate incurring any further cost in relation to this programme; and
- Interest income (and related fees incurred) in the prior year on tax repayment relating to the successful outcome of litigation in relation to the Group's claim for UK tax relief of losses of its former European subsidiaries.

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

	26 weeks ended		52 weeks ended
	27 Sept 2014	28 Sept 2013	29 Mar 2014
	£m	£m	£m
Net M&S Bank income received/(charges incurred) in relation to the insurance mis-selling provision	12.7	(25.0)	(50.8)
Restructuring costs	1.3	(51.1)	(77.3)
IAS 39 Fair value movement of embedded derivative	(2.2)	(2.6)	(3.5)
Profit on property disposal	-	82.2	82.2
UK and Ireland one-off pension credit	-	17.5	27.5
International store review	-	-	(21.9)
Strategic Programme Costs	-	(2.0)	(2.0)
Fees incurred on tax repayment	-	-	(1.6)
Adjustment to operating profit	**11.8**	**19.0**	**(47.4)**
Interest income on tax repayment	**-**	**-**	4.9
Adjustment to profit before tax	**11.8**	**19.0**	**(42.5)**

4 Finance income/(costs)

	26 weeks ended		52 weeks ended
	27 Sept 2014	28 Sept 2013	29 March 2014
	£m	£m	£m
Bank and other interest receivable	2.9	5.3	8.4
Pension net finance income	4.8	5.7	11.7
Underlying finance income	**7.7**	**11.0**	**20.1**
Interest income on tax repayment	-	-	4.9
Finance income	**7.7**	**11.0**	**25.0**
Interest on bank borrowings	(1.8)	(1.7)	(3.3)
Interest payable on syndicated bank facility	(3.5)	(2.5)	(5.0)
Interest payable on medium-term notes	(44.0)	(55.6)	(110.5)
Interest payable on finance leases	(1.0)	(1.1)	(2.3)
Unwind of discount on financial instruments	(0.3)	(0.3)	(0.2)
Unwinding of discount on partnership liability to the Marks and Spencer UK Pension Scheme	(8.1)	(8.9)	(17.8)
Finance costs	**(58.7)**	**(70.1)**	**(139.1)**
Net finance costs	**(51.0)**	**(59.1)**	**(114.1)**

5 Taxation

The taxation charge on underlying profits for the 26 weeks ended 27 September 2014 is based on an estimated full year effective tax rate of 19.0% (last half year 20.0% and last full year 18.8%).

The tax charge in the income statement is based on management's best estimate of the full year effective tax rate on expected underlying profits to 28 March 2015, adjusted for actual tax on non-underlying items in the period to 27 September 2014.

The effective tax rate on overall profit before taxation is 19.3% (last half year 13.8% and last full year 12.8%).

The underlying tax rate and the effective tax rate on overall profit before taxation are both lower than the statutory UK tax rate of 21.0%, primarily due to the settlement of historic disputes with the tax authorities.

6 Earnings per share

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

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

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

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

	26 weeks ended		52 weeks ended
	27 Sept 2014	28 Sept 2013	29 March 2014
	£m	£m	£m
Profit attributable to owners of the parent	228.3	249.6	524.8
Add/(less) (net of tax):			
Net M&S Bank (income received)/charges incurred in relation to the insurance mis-selling provision	(10.1)	19.3	39.1
Restructuring costs	(0.6)	43.5	62.5
IAS 39 Fair value movement of embedded derivative	1.8	2.1	2.8
Profit on property disposal	-	(76.1)	(76.3)
UK and Ireland one-off pension credits	-	(15.3)	(23.3)
International store review	-	-	17.3
Strategic programme costs	-	1.5	1.6
Interest income on tax repayment net of fees	-	-	(2.5)
Non-underlying adjustment to tax charge in respect of prior periods	-	(7.5)	(26.0)
Underlying profit attributable to owners of the parent	**219.4**	**217.1**	**520.0**
	million	million	million
Weighted average number of ordinary shares in issue	**1,631.1**	**1,609.8**	**1,615.0**
Potentially dilutive share options under Group's share option schemes	15.0	22.8	14.1
Weighted average number of diluted ordinary shares	**1,646.1**	**1,632.6**	**1,629.1**
	pence	pence	pence
Basic earnings per share	14.0	15.5	32.5
Diluted earnings per share	13.8	15.3	32.2
Underlying basic earnings per share	13.5	13.5	32.2
Underlying diluted earnings per share	13.3	13.3	31.9

7 Dividends

	26 weeks ended 27 Sept 2014 £m	26 weeks ended 28 Sept 2013 £m	52 weeks ended 29 March 2014 £m
Final dividend of 10.8p per share (last year 10.8p per share)	176.2	173.6	173.6
Prior period interim dividend of 6.2p per share	-	-	100.0
	176.2	**173.6**	**273.6**

The directors have approved an interim dividend of 6.4p 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 £104.7m (last half year £100.0m) which will be paid on 9 January 2015 to shareholders whose names are on the Register of Members at the close of business on 14 November 2014. The ordinary shares will be quoted ex dividend on 13 November 2014. Shareholders may choose to take this dividend in shares or in cash.

8 Retirement benefits

	26 weeks ended 27 Sept 2014 £m	26 weeks ended 28 Sept 2013 £m	52 weeks ended 29 March 2014 £m
Opening net retirement benefit asset	**189.0**	**236.0**	**236.0**
Current service cost	(41.9)	(45.6)	(88.7)
Administration costs	(1.0)	(1.0)	(3.0)
Curtailment charge	(1.0)	(1.0)	(1.0)
UK and Ireland one-off pension credits (see note 3)	-	17.5	27.5
Net interest income	4.8	5.7	11.7
Employer contributions	71.8	45.6	92.1
Remeasurements	(26.9)	(144.2)	(85.3)
Exchange movement	(0.3)	0.1	(0.3)
Closing net retirement benefit asset	**194.5**	**113.1**	**189.0**
Total market value of assets	7,290.4	6,526.1	6,729.4
Present value of scheme liabilities	(7,084.2)	(6,399.9)	(6,528.7)
Net funded pension plan asset	206.2	126.2	200.7
Unfunded retirement benefits	(0.7)	(0.8)	(0.7)
Post-retirement healthcare	(11.0)	(12.3)	(11.0)
Net retirement benefit asset	**194.5**	**113.1**	**189.0**
Analysed in the Statement of Financial Position as:			
Retirement benefit asset	206.2	126.2	200.7
Retirement benefit deficit	(11.7)	(13.1)	(11.7)
Net retirement benefit asset	**194.5**	**113.1**	**189.0**

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 3.90% (last full year 4.45%) and 3.2% (last full year 3.4%) respectively. The inflation rate of 3.2% 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 2.2% (last full year 2.4%) has been used.

The amount of the surplus varies if the main financial assumptions change, particularly the discount rate. If the discount rate increased/decreased by 0.5% the surplus would increase/decrease by c.£50m (last full year increase/decrease by c.£50m). If the inflation rate increased/decreased by 0.25%, the surplus would decrease/increase by c.£50m (last full year decrease/increase by c.£50m).

9 Marks and Spencer Scottish Limited Partnership

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

The Partnership holds £1.6bn (last 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 £504.9m is valued at the net present value of the future expected distributions from the Partnership.

During the period to 27 September 2014 an interest charge of £8.1m (last half year £8.9m and last full year £17.8m) 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 £507.7m (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 27 Sept 2014				As at 29 March 2014
	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	-	6.5	-	6.5	-	1.6	-	1.6
Derivatives used for hedging	-	59.9	-	59.9	-	30.3	-	30.3
Embedded derivatives (see note 3)	-	-	20.2	20.2	-	-	22.4	22.4
Available-for-sale financial assets								
- Equity securities	-	-	3.0	3.0	-	-	3.0	3.0
Short term investments	-	9.6	-	9.6	-	12.4	-	12.4
Liabilities measured at fair value								
Financial liabilities at fair value through profit and loss								
- Trading derivatives	-	(0.7)	-	(0.7)	-	(0.6)	-	(0.6)
Derivatives used for hedging	-	(82.6)	-	(82.6)	-	(126.3)	-	(126.3)

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 Ended 27 Sept 2014 £m
Opening balance	25.4
Gains and losses recognised in the income statement	(2.2)
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 £2.2m loss (last half year, loss of £2.6m) 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 £1,635.5m (last half year £2,048.5m and last full year £1,605.9m); the fair value of this debt was £1,782.2m (last half year £2,118.0m and last full year £1,780.3m) which has been calculated using quoted market prices. The carrying value of the Partnership liability to the Marks & Spencer UK Pension scheme is £504.9m (last half year £559.6m and last full year £568.7m) and the fair value of this liability is £501.4m (last half year £555.8m and last full year £555.8m).

11 Capital expenditure and contingencies

A Capital Expenditure

Additions to the cost of property, plant and equipment, investment property and intangible assets are £210.0m (last half year £256.9m) and for the year ended 29 March 2014 were £757.0m. Disposals in net book value of property, plant and equipment, investment property and intangible assets are £nil (last half year £15.8m) and for the year ended 29 March 2014 were £20.5m.

B Capital commitments

	As at 27 Sept 2014	As at 28 Sept 2013	As at 29 March 2014
	£m	£m	£m
Commitments in respect of properties in the course of construction	**133.6**	**54.5**	**86.1**

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
	27 Sept 2014	28 Sept 2013	29 March 2014
	£m	£m	£m
Profit on ordinary activities after taxation	225.6	241.9	506.0
Income tax expense	53.8	38.7	74.4
Finance costs	58.7	70.1	139.1
Finance income	(7.7)	(11.0)	(25.0)
Operating profit	**330.4**	339.7	694.5
Increase in inventories	(96.8)	(146.7)	(86.4)
Increase in receivables	(34.0)	(122.3)	(45.8)
Increase in payables	81.3	92.5	107.7
Non-underlying operating cash outflows	(9.5)	(4.0)	(17.4)
Depreciation, amortisation and write-offs	264.5	220.4	504.7
Share-based payments	6.5	12.3	21.3
Pensions costs charged against operating profit	43.9	47.6	92.4
Cash contributions to pension schemes	(71.8)	(45.6)	(92.1)
Non-underlying non-cash items	(27.2)	(25.0)	(50.8)
Non-underlying operating profit items	(11.8)	(19.0)	47.4
Cash generated from operations	**475.5**	349.9	1,175.5

13 Reconciliation of net debt to statement of financial position

	As at 27 Sept 2014	As at 28 Sept 2013	As at 29 March 2014
	£m	£m	£m
Statement of financial position and related notes			
Cash and cash equivalents	191.4	166.7	182.1
Current financial assets	14.6	12.6	17.7
Bank loans and overdrafts	(616.4)	(347.3)	(445.7)
Medium term notes - net of hedging derivatives	(1,662.1)	(2,073.2)	(1,649.0)
Finance lease liabilities	(50.9)	(55.7)	(52.2)
Partnership liability to the Marks & Spencer UK Pension Scheme (note 9)	(504.9)	(559.6)	(568.7)
	(2,628.3)	**(2,856.5)**	**(2,515.8)**
Interest payable included within related borrowing and the partnership liability to the Marks and Spencer UK pension scheme	54.9	69.3	52.2
Total net debt	**(2,573.4)**	**(2,787.2)**	**(2,463.6)**

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 £1.5m during the period (last half year £1.0m) with an outstanding trade payable of £0.1m at 27 September 2014 (last half year £0.1m).

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