

Issued: 9 November 2022

Marks and Spencer Group Plc
Half Year Results for 26 Weeks Ended 1 October 2022
“STRONG TRADING PERFORMANCE AS M&S RESHAPES FOR GROWTH”

Strong trading performance

- Profit before tax & adjusting items £205.5m (2021/22: £269.4m)
- Food sales up 5.6%; strong growth in franchise & hospitality, with other categories well ahead of 19/20
- Food adjusted operating profit £71.8m reflecting value investment and cost pressures
- Clothing & Home sales¹ up 14.0% with store sales up 18.8%, online up 4.9% against strong comparatives
- Clothing & Home adjusted operating profit £171.4m; reflecting strong sales growth and full price mix
- Ocado Retail loss of £0.7m (2021/22: profit £28.1m) as demand reverts and capacity grows
- International constant currency sales up 13.7%; operating profit before adj. items £39.0m
- Statutory profit before tax of £208.5m (2021/22: £187.3m)

Reshaping for growth and increasing resilience to outperform in the downturn

- Food volume outperforms market; Gist acquisition completed
- Clothing & Home rebuilding style and value, with growth in market share and profitability
- Ocado Retail driving customer growth; re-energising proposition under new leadership
- International building an increasingly global business through strong partnerships
- Accelerating store rotation; strong pipeline to FY25 of 10 new full line and 27 new food stores
- Digital and online investment driving growth; sales of third-party brands more than double
- Cost reduction and efficiency programme building for FY24
- Robust balance sheet and access to substantial liquidity

Stuart Machin, Chief Executive said:

“Trading in the first half has been robust with both businesses growing ahead of the market, reflecting the beginnings of a reshaped M&S. In Food, investment in trusted value has driven top-line growth but short-term profit has been reduced, although the acquisition of Gist gives us control of one of our biggest cost and efficiency levers. Clothing has delivered a stand-out performance from a market leading position in value with improving style credentials. The programme to renew and rotate our store estate is driving sales and quick paybacks, while the M&S App now accounts for over a third of online Clothing & Home sales. At Ocado Retail, the customer proposition is being re-energised under new leadership. Underpinning our business is an improved balance sheet with reduced debt and a strong cash position.

This progress means we face into the current market headwinds with an increased resilience and level of confidence. Looking beyond the current stormy weather, much is in our control and our mandate is clear – to step up the pace, accelerate change, drive a simpler, leaner business and invest in growth opportunities to build a reshaped M&S.”

Group Results (26 weeks ended)	1 October 22	2 October 21	Change vs 2021/22 (%)
Statutory revenue	£5,538.2m	£5,105.3m	8.5
Sales ¹	£5,563.6m	£5,112.9m	8.8
Operating profit before adjusting items	£280.7m	£363.2m	(22.7)
Profit before tax & adjusting items	£205.5m	£269.4m	(23.7)
Adjusting items	£3.0m	£(82.1)m	(103.7)
Profit before tax	£208.5m	£187.3m	11.3
Profit after tax	£166.7m	£159.9m	4.3
Basic earnings per share	8.5p	8.2p	3.7
Adjusted basic earnings per share	7.8p	12.1p	(35.5)
Free cash flow	£(215.5)m	£287.6m	n/a
Net debt	£2.93bn	£3.15bn	(7.0)
Net debt excluding lease liabilities	£0.63bn	£0.82bn	(23.2)

There are a number of non-GAAP measures and alternative profit measures (APMs), discussed within this announcement and a glossary and reconciliation to statutory measures is provided at the end. Adjusted results are consistent with how business performance is measured internally and presented to aid comparability. Refer to adjusting items table below for further details.

¹ All references to 'sales' throughout this announcement are statutory revenue plus the gross value of consignment sales excluding VAT.

OUTLOOK

As we enter what is traditionally our strongest quarter the business continues to trade well. Trading in the first four weeks of the second half is in line with forecasts, with Clothing & Home sales up 4.2%, Food sales up 3.0% and International up 4.1%.

Overall, we expect to deliver an adjusted profit before tax in FY23 for our main businesses, including Gist, similar to the expectations set out at our FY22 results. This excludes business rates relief and the prior year contribution of Russia from the base as well as Ocado Retail, which is now expected to record a loss.

Across all M&S markets it is highly likely that conditions will become more challenging in FY24. However, the far-reaching changes made over the past few years, together with a reinvigorated product offer and strong value for money credentials provide some insulation from the gathering storm. In addition, the M&S customer base has slightly advantaged demographics.

Under new leadership, steps are now being taken to accelerate migration into growth channels - online and high performing modern stores - whilst at the same time bringing forward plans to streamline the business and reduce costs. The combination of technology-driven efficiency gains, structural cost reduction, supply chain efficiency and simplification is targeted to deliver over c.£150m of cost savings in 2023/24.

The Group enters this period of uncertainty with a significantly improved balance sheet position, with very low refinancing requirements following several years of debt reduction. However, given the macro outlook the board will defer consideration of capital allocation policy and options for reinstating capital returns to shareholders until nearer the year end.

M&S FOOD SALES OUTPERFORMANCE OFFSET BY VALUE INVESTMENT AND COST PRESSURES

M&S Food outperformed the market on both value and volume, but operating profit declined. We delivered resilient sales growth of 5.6%, with LFL sales growth of 3.0%, in a period of market-wide cost and price pressure. The business generated particularly strong growth in hospitality and franchise sales compared with last year. Sales excluding these areas grew 1.9% but remain substantially ahead of pre-Covid levels in line with our strategy to broaden the reach of the business.

Operating profit before adjusting items was £71.8m as compared to £124.0m in 2021/22 excluding £19.7m of business rates relief received in the prior period. The combination of investment in value and a first half weighted increase in operating costs led to the reduction in margin to 2.2%, although this improved through the period (Q1 2.0%, Q2 2.4%).

A reduction in gross margin of 110bps reflected continued investment in quality and price.

- M&S Food did not pass through the full effect of inflation in its cost of goods. This ran at 11% in the period, which - net of cost reduction and product mix - impacted the overall gross margin by c.70bps.
- As demand patterns changed, waste and stock loss also increased at the start of the period although these have now normalised.

In addition, the business experienced significant cost growth, with overall costs up 8.4% on last year (ex-rates relief), resulting in a c.70bps reduction in margin.

- This was partly driven by the annualisation of logistics costs increases for fuel and transport in H2 last year, which impacted cost growth by c.1.0%
- In addition, the timing of investment in areas such as technology, data and digital was first half weighted adding 3.4% to cost growth

The acquisition of Gist Limited, which completed at the end of the period, should also help alleviate these cost pressures as we proceed with its integration into M&S.

Investing in trusted value: The strategy for M&S Food is always to provide higher quality, sustainably-sourced food at outstanding prices. At a time when family budgets are under stress it is a priority for us to sustain 'trusted value' and provide assurance for our customers.

- At the start of the year, 'Remarksable' value was relaunched focusing investment on everyday lines offering M&S quality at outstanding prices and the resulting demand has been very strong.
- The range also includes 'bigger packs, better value' on c.40 lines offering c.5% savings per unit volume and this month we 'locked' the prices of 100 family favourites through to 2023.
- The Dine-In programme has been expanded to include the Gastro range in an 'always on' family meal deal for four. At £12 this offers a high-quality, great-value alternative to eating out.

Accelerating the pace of innovation: During the period c.900 new products were introduced, up 4% on last year.

- Making M&S Collection the UK's leading premium tier for taste in categories such as soup and a first-to-market introduction of artisan sourdough in the in-store bakery. Overall bakery sales have grown by 26% since 2019.
- Resetting the soft drinks category over a hot summer, driving double digit growth.
- Introducing top performing new 'food on the move' products including 'falafel mezze' and 'bang bang' chicken salads.

Renewal roll-out performing well: The M&S Food strategy is to shift to larger stores in the renewal format which offers greater choice in core categories, appealing to a broader range of customers.

- New stores in the renewal format achieve higher sales density and are more operationally efficient.
- During the period 7 stores were converted to the new renewal format. Food sales in the larger, full renewal format stores opened in 2021 increased 17.8% in the period.

Taking control of the M&S Food supply chain: The acquisition of Gist Limited was completed, enabling M&S to address the significant headwind of supply chain costs.

- The acquisition eliminates an onerous cost-plus management contract and gives M&S control of its Food supply chain network for the first time.
- This creates immediate benefits, removing annual management fees running at c.£25m and enables near-term productivity improvements as costs are addressed. A programme of network investment will be developed to create a modern, fit for purpose operation reflecting the unique needs of the M&S Food supply chain.

CLOTHING & HOME REBUILDING STYLE, VALUE AND PROFITABILITY

M&S Clothing & Home delivered strong growth with total sales up 14.0% and LFL sales up 13.7%. Full price sales participation was broadly level on last year and well above the historic average. Market share increased 50bps to 9.1% (source Kantar 24 weeks ended 22nd September), and we generated growth across categories and channels.

Store sales were up 18.8%. Growth was driven by stores in city centres and shopping centres reflecting the return to more normal trading patterns, although high streets continued to lag. Online sales increased 4.9% and were 32% of total Clothing & Home sales, with continued strong growth in traffic and increased average order values, partly offset by higher returns rates.

Operating profit before adjusting items was £171.4m as compared to £128.4m in 2021/22 excluding business rates relief of £27.8m received in the prior period, an increase of 33%. Strong first half net margins of 9.8% reflect the rebound in store sales, a steady full price mix and operating leverage due to sales growth.

Value for money and style improving with shape of buy: M&S Clothing & Home continues to perform well on indicators of improved value for money and style, with value perception leading the market, and style perception steadily increasing.

- The shape of buy has been improved, by removing duplication and deepening core product programmes while also investing in emerging growth categories such as Kidswear and brands.
- Womenswear grew sales 15% in the period despite 5% fewer options and the overall business had 276 lines achieving sales over £1m in the first half. Sales in these lines are up 25% on 2021/22.

Strong growth in formal and event driven categories:

- Womenswear generated particularly strong growth in dresses, which were up by more than 50% and the 'holiday shop' also grew strongly.
- Men's formal shirts and smart wear were also up by more than half, reflecting improved availability and customers' focus on key occasions such as weddings, while casual sales also grew.

Clothing & Home renewal format encouraging: During the period a full line renewal store was opened in Stevenage, with the nearby legacy store in Welwyn Garden City closing.

- The store features a more intuitive layout with all key departments visible from the entrance and a redesign including fitting rooms, lighting, navigation and flexible feature displays.

- Technology runs throughout the store, including self-service checkouts in Clothing & Home, digital click and collect, digital ordering in the café, and increased use of RFID to reduce loss, improve stock accuracy and efficiency.
- The store outperformed its business case in its first three months of operation. It is attracting a younger shopper profile, over indexing on kidswear, home and beauty and has high levels of cross shopping.

Initial steps to unlock supply chain cost opportunity: Today, the Clothing & Home supply chain has an end-to-end cost to serve of c.15% which affords a substantial opportunity for efficiency by transforming stock flow from source to shelf and rapid replenishment back to shelf for returns. This includes:

- Changing from a near 100% singles picking and singles delivery process to one where a high proportion of product is delivered in full launch and ratio packs whilst continuing to reduce the proportion of hanging products towards carton fill.
- Holding more stock upstream and at source and reducing multiple handling of stock which adds labour cost, traps stock and drives markdown.
- Maximising the use of omni-channel capacity and capability to fulfil online orders. A same-day click and collect pilot was recently launched in 15 stores.
- Improving returns processes to ensure returned stock is back on sale at pace, increasing revenue recovery and availability. Already this process has reduced from an average of 20 days to less than 10.

OCADO RETAIL RE-ENERGISING UNDER NEW LEADERSHIP

Ocado Retail revenue declined 4.2% and the contribution to group share of net loss was negligible at £(0.7)m.

Re-energising the customer proposition under new leadership: During the pandemic, Ocado Retail experienced very strong trading conditions, which translated into a strong profit performance.

- Following this period of demand distortion, a renewed attention is now required to reinforce Ocado Retail's unrivalled proposition of market leading quality, service and choice underpinned by M&S Food.
- The business is now operating under a new leadership team focused on restoring the core of the customer proposition. Initial steps include the relaunch of the group's platform and front-end website later this year and improved collaboration with M&S Food to make more of the combined offer.

2022/23	M&S financial period		
	Q1	Q2	H1
Average orders per week (k)	385	374	380
Retail revenue (£m ex VAT)	557.5	531.5	1,089.0

Notes: Retail revenue comprises revenues from Ocado.com and Ocado Zoom

Strong growth in new customers: Market conditions for all online food companies are still normalising after the pandemic and as a result basket sizes have reduced with the customer order pattern having shifted back towards the end of the week.

- Despite the decline in revenue, customer growth was strong at 17% as was growth in average orders per week at 5% as customers reverted to smaller baskets and sought greater value in response to inflationary pressures.
- M&S's share of Ocado baskets performed well, increasing their participation in sales, reflecting the value of M&S product in difficult times.

Increased fixed costs and short-term headwinds: As previously reported, increased fixed costs because of CFC capacity expansion combined with higher fulfilment and delivery costs, including sharp increases in the cost of utilities and dry ice weighed on margin.

- The impact of increased fixed costs will diminish as the CFCs ramp-up;
- As online demand receded so competition for customer acquisition intensified leading to unusually high marketing costs, although these should be mitigated over time.

Capacity for substantial growth: The overall result in the near term reflects a combination of post pandemic reversion, increased capacity and cost inflation, the majority of which is expected to be temporary.

- These pressures are impacting on all online food businesses but the strong continuing customer growth at Ocado Retail together with the unexploited potential in the extended range and M&S offer illustrate the future potential.
- There is substantial scope for medium-term growth as the customer proposition is reset and as a result of the more efficient CFC pick operation.

DRIVING IMPROVED PRODUCTIVITY THROUGH STORE ROTATION

The objective for the M&S store estate is to create a more focused group of high productivity full line stores, fit for omni-channel retailing and a growing pipeline of bigger, fresher, Food locations with high quality click and collect services. New stores generate higher sales productivity and profitability and are lower cost to operate.

Rotation improves the quality of earnings: As with most retailers M&S has few stores which make a cash loss on a rent adjusted basis. However, we continue to have a tail of low productivity stores, with contribution margins in Clothing & Home well below the estimated average of c. 22% and well below estimated incremental online margins at c. 26%. As a result, rotation out of the tail can improve profitability in the medium term due to the increased contribution of new stores and the recapture of sales online at a higher margin. To achieve our stated profit and growth objectives, rotating into fewer high productivity modern omni channel stores is critical and we aim to accelerate this programme.

Grasping nettles to accelerate change: In the full line estate, the aim is to accelerate a five-year plan to reduce the net store base which currently totals 248 stores down to c.180 through closures and relocations. During the first half 2 new full line stores opened at Colchester and Stevenage and 3 were closed.

In the M&S Food estate, the ambition is to open up to c.100 new Food stores in new locations over the next five years in the bigger, fresher Food format of 12-15,000 square feet with good access and parking. During the first half 3 of these new Simply Food stores opened at Banbridge, New Milton and Wyvern Derby.

The current pipeline of new openings over the period to FY25 includes 10 full line stores and 27 Food stores and the business continues to actively market for new opportunities. New stores are being secured on strong terms, with short leases and they are generating substantially improved sales productivity compared with legacy locations and quick paybacks on the net capital invested. For instance, 2 stores were opened in H1 2021/22 at Paisley and Sears Solihull. Following 12 months of trading, both are outperforming their business cases and paying back the net capital invested in just over 2 years.

Our recent experience confirms that the programme can be accelerated by growing the pipeline of replacement stores, and recapturing sales online and in existing nearby stores, whilst also managing the cost-effective exit from legacy locations and leases. During the period, we started a programme to

increase recapture of sales from closure stores to nearby stores and online by increasing customer data capture and targeted marketing. In some cases, once we have exited a legacy store, it is possible to sell the freehold or long leasehold, while in others a residual liability remains to the end of the lease term. However, we believe there are early signs our property development team can reduce exit costs for these sites.

Using technology to lower cost to serve: New stores offer a better shopping environment with omni-channel services including improved click and collect and returns and better use of RFID to manage stock. At the same time our new full-line stores that opened in 2019/20 and 2020/21 have a 130bps lower cost to serve than the average full-line store due, amongst other things, to the reduced need for costly singles replenishment given the increased rate of sale and increased rates of self-checkout and contactless returns.

Progress in asset management: Our property asset development programme should generate capital to support our balance sheet from redeveloping or co-developing high value sites such as Marble Arch, Sauchiehall Street Glasgow, and Hammersmith.

The Planning Inquiry into the Marble Arch redevelopment is progressing, and the business is very confident that the proposed solution will produce an outstanding environmental and aesthetic outcome that will be critical to the restoration of the western precinct of Oxford Street which is in decline.

INVESTING IN DATA, DIGITAL AND OMNI-CHANNEL SERVICE

During the last three years M&S has invested substantially in developing its ability to interact with customers seamlessly online and in store and whilst enabling them to have product delivered or returned through multiple different channels. We have created a customer data engine containing a significant volume of data and attributes relating to our customer base, quadrupled the number of active app users to c.4m, relaunched and grown the Sparks loyalty programme to c.16m members and invested in developing data science capabilities across M&S.

These improvements have required substantial foundational investment of more than £200m, largely expensed through the P&L. However, this has supported the substantial growth of online sales and is now starting to deliver sales traction through increased personalisation and a better online and in store experience.

Investment has been made in day-to-day activities such as running the website, payment processing, Sparks giveaways and staffing, and research into personalisation. This accounts for c.40-50% of current year spend. In addition, growth investment is focused on:

- Digital product development in the current year including scaling use of the M&S App, new drop ship capability, enhanced stock visibility and the enhancement of the click and collect and returns experience.
- Sparks and personalisation developments including the new delivery pass and Sparks Plus membership and a new decisioning and recommendation platform.
- Data and data science development including the migration to our new enterprise data platform and training.

Moving to an omni-channel shopping experience: The objective of the digital investment is to enable personalised customer interaction to encourage customers to use all our sales channels and services. Known customers who shop with M&S through both the online and store channels spend significantly more than single channel customers, while those with four digital relationships through Sparks, M&S Bank, M&S.com and the App spend even more.

Digital relationships	Annual customer spend (£)	Retention Rate
Unknown	82	41%
One	200	68%
Two	427	80%
Three	813	96%
Four	1431	99%

Driving growth through the App: Customers using the M&S App account for almost a third of spend and we are able to sustain a more timely and relevant dialogue with App users across all our products and services.

- Our objective is to double M&S App usage with a long-term target of 10m users. Over the first half year active App users grew to c.4m at period end vs c.3m last year, with the App now accounting for over 32% of Clothing & Home online sales.
- To drive further growth the business is working towards launching a single digital identity across all M&S related touch points from M&S.com to Sparks, to M&S Bank and eventually including Ocado Retail. The goal is to make the M&S App indispensable to customers and to improve marketing efficiency across the business.

Becoming an attractive partner for brands: The combination of over 30m M&S customers, substantial customer data and engagement alongside omni channel purchase and return opportunities provide a highly attractive potential platform for third party brand partners.

- From minimal activity three years ago Clothing, Home & Beauty brands sales more than doubled to over £70m in the period and important new partners such as Clinique and Dune were added. In the new year, a broader sports offer will be launched.
- A curated approach is driving new customers, frequency and increased spend, while ensuring that majority of orders also contain an M&S product.
- To accelerate growth, drop-ship capability is being introduced, which will remove the costly manual processing of brands through the M&S network and improve customer service.

Increasing personalisation: The business is starting to generate substantial value from the customer data platform by personalising offers and product recommendations, making repeat purchase recommendations and using personalised language.

- For instance, 'frequently bought together' recommendations which show products most typically bought alongside the product just added to basket, are estimated to be worth an incremental £20m of revenue in the programme to date.
- In Food we have demonstrated the ability to drive an incremental £6m of revenue including from 'why not try' offers in recent testing.
- It is anticipated 20-25% of all digital interactions will be personalised this year and we estimate that personalisation will generate more than £100m of annualised incremental revenue for the business. Returns are validated through controls such as 'a/b testing' or creating 'hold-out/control groups' of similar customers to measure performance/returns.

Making it easier to pay and spend at M&S: Our objective is to provide customers with multiple options to pay at M&S and access to appropriate credit opportunities. Sparks Pay was recently launched, creating a digital credit account for Sparks members in a simple one-click payment journey.

BUILDING GLOBAL M&S THROUGH STRONG PARTNERSHIPS

International revenue increased 13.7% at constant currency and the business generated an operating profit before adjusting items of £39.0m as compared with £35.9m in 2021/22, which included a contribution of £2.0m from Russia, which we have now exited.

Strong rebound in Clothing & Home: Growth was driven by Clothing & Home sales in key markets including India, where revenue doubled following the effects of Covid lockdowns on the business last year. Food sales were adversely impacted by the exits from the majority of our operations in France and our chilled offering in the Czech Republic as well as on-going Brexit-related disruption in the Republic of Ireland. On a constant currency basis, overall store sales were up 19%, while online sales declined 9%, but were still up c.150% on pre-Covid levels.

Driving growth with key partners: We have an ambitious programme of expansion with Reliance Retail through our India joint venture. This includes increasing the product offer in growth categories such as Kildswear, the global roll-out of Sparks, and continuing to seek opportunities for new space with 3 new store openings in the period. Partner demand in the Middle East and Asia was also robust with orders recovering from the impact of Covid lockdowns last year, and as the business invested in trusted value.

Improving operations in Europe: European online sales declined reflecting subdued demand, although stores performance was robust. Consignment trading with partners has now commenced and plans are well advanced for EU-based fulfilment from a new logistics centre in Croatia, increasing speed to market and reducing cost.

Recovering profitability in the Republic of Ireland: The business in the Republic of Ireland generated a strong sales performance in Clothing & Home, but the Food business continued to be impacted by substantial costs and disruption related to EU border processes. In time, the continued investment in automation and substitution with Irish-sourced product will mitigate some of these costs. To support the growth of the core business an agreement has been signed for a five-store shop-in-shop trial with roadside retailer Applegreen.

OUTLOOK

FY23

As we enter our traditionally strongest quarter, the business continues to trade well. Trading in the first four weeks of the second half is in line with forecasts, with Clothing & Home sales up 4.2%, Food sales up 3.0% and International up 4.1%.

We are set up well for the peak trading period with improved ranges, a strong pipeline of new product and improved value positioning in both businesses. Although there are continued expected pressures on spend and unseasonably warm weather is delaying the change to autumn/winter buying, we think the peak period will present a lot of opportunity for the business with the added benefit of the unusually timed Football World Cup.

Costs will continue to be elevated although we will annualise some cost increases seen in last year's Q3. We have good visibility of all material cost increases for the balance of the year.

Overall, we expect to deliver an adjusted profit before tax in FY23 for our main businesses, including Gist, similar to the expectations set out at our FY22 results. This excludes business rates relief and the prior year contribution of Russia from the base as well as Ocado Retail, which is now expected to record a loss.

Our expectations for capital expenditure for the year remain unchanged. We anticipate around £400m of spend across the three primary investment areas of technology, supply chain and the store estate.

Setting up for FY24

We expect market conditions to become more challenging in FY24. The combined impacts of the cost-of-living squeeze and the most marked rise in the cost of doing business for many years are creating pressure on margins industry-wide.

All parts of the retail sector will be affected, and this will result in unviable capacity leaving the industry, creating opportunities for the leaner players who remain. We believe that the M&S positioning and the accelerated change underway, give scope for greater resilience and we are very confident the business will emerge with a strengthened market position and prospects for growth.

Relative position of M&S customer and proposition

In highly uncertain market conditions, there is a large variation in plausible forecasts for customer demand. Whilst we are therefore planning on a material contraction in market demand the M&S customer may prove more resilient than some market commentators assume. Overall M&S has a broad base of over 30m customers with on average, slightly higher incomes and age demographics in both Clothing & Home and Food. A high proportion of these are in above average paid jobs or retired. Despite the recovery in demand since the pandemic and return to travel these age groups shielded more and many retain a savings cushion affording some resilience to the headwinds.

Clothing & Home has market share positions of more than 15% in categories which are less acutely exposed to discretionary spend, such as leggings, underwear, sleepwear and school uniforms. Collectively these accounted for over 60% of Clothing & Home sales in the past year more than twice their overall position in the clothing market. The M&S Food business has higher market shares in convenience shopping missions, which means its customer proposition offers additional value beyond the weekly grocery shop.

Categories	M&S Market Share ¹
Bras	35.6%
Other underwear (Women's)	35.4%
Knickers	29.8%
Women's Nightdresses/shirts	21.8%
Men's nightwear	21.4%
Men's underwear	21.3%
Men's casual trousers	20.7%
Men's separates	20.0%
Tights	20.0%
Women's formal trousers	18.9%

¹ Kantar 52 week rolling data to 22 September 2022

A strengthened value position in both businesses

M&S Food offers great value alternatives for customers seeking to save money by reducing eating out. For those scratch cooking, the relaunched Remarkable value range offers everyday lines with M&S quality at competitive prices compared with mainstream supermarkets. While the 'always on' Dine-In offers restaurant quality prepared food for a family of four for just £12.

Alongside this, Clothing & Home has made great strides on value for money since 2018 and now leads the market according to external benchmarks of customer perception, with a substantially larger proportion of the clothing range below £30 than is the case for key peers.

Substantial scope for cost savings

The M&S business is undoubtedly heading into tougher times. But the pace of change has never been greater. Already, more than c.£150m of cost savings have been identified and targeted in FY24 from areas including efficiency of retail operations and the supply chain, optimisation of technology and

digital spend and simplification of the organisation. This will be supplemented longer-term by shifting volume into growth channels and rotating the store portfolio.

As outlined, in the Clothing & Home supply chain costs are higher than some industry benchmarks, with potential for optimisation across multiple areas including the returns cycle, store replenishment processes and reconfiguring packaging to reduce handling and shipping costs.

Food supply chain secondary logistics costs have risen by c. 60% over the past four years from 3.7% to 4.9% of sales. In September, the acquisition of Gist Limited was completed enabling M&S Food to take control of its logistics network for the first time, eliminating management fees and enabling the removal of duplicated overheads and other productivity initiatives.

We are also assessing the potential benefits of shared transport fleets across Clothing & Home and Food, to move to more efficient refrigeration and accelerate the in-store LED lighting programme.

Stronger balance sheet with substantial access to liquidity and limited refinancing requirement

The Group enters this period of uncertainty with an improved balance sheet position after several years of reducing debt. As at the end of the half year, the business had cash of c.£770m and committed facilities of £850m. There is limited unsecured refinancing required in the next few years with £199m bonds outstanding to be repaid in December 2023 and £350m in June 2025. The lease liability has also reduced, with visibility for potential further improvements.

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Investor & Analyst presentation and Q&A:

A pre-recorded investor and analyst presentation will be available on the Marks and Spencer Group plc website from 7:30am on 9 November 2022.

Stuart Machin, Katie Bickerstaffe and Eoin Tonge will host a Q&A session at 9.45am on 9 November 2022:

Attendees must register in advance of the call. Registration link [here](#)

A recording will be available for 48 hours after the call using the following details:

UK Freephone: 0800 032 9687
UK Direct: 0207 136 9233
Replay Global Access link [here](#).
Passcode: 54226499

Fixed Income Investor Conference Call:

This will be hosted by Eoin Tonge, Chief Finance Officer, at 2pm on 9 November 2022:

Attendees must register in advance of the call. Registration link [here](#)

A recording will be available for 48 hours after the call using the following details:

UK Freephone: 0800 032 9687
UK Direct: 0207 136 9233
Replay Global Access link [here](#).
Passcode: 74011905.

HALF YEAR FINANCIAL REVIEW

Financial Summary

	26 weeks ended			52 weeks ended
	1 Oct 22 £m	2 Oct 21 £m	Change vs 21/22 %	2 Apr 22 £m
Group statutory revenue	5,538.2	5,105.3	8.5	10,885.1
Group sales	5,563.6	5,112.9	8.8	10,909.0
UK Food	3,317.5	3,143.0	5.6	6,639.6
UK Clothing & Home	1,749.7	1,534.6	14.0	3,332.2
International	496.4	435.3	14.0	937.2
Group operating profit before adjusting items	280.7	363.2	(22.7)	709.0
UK Food	71.8	143.7	(50.0)	277.8
UK Clothing & Home	171.4	156.2	9.7	330.7
International	39.0	35.9	8.6	73.6
M&S Bank and Services	(0.8)	(0.7)	14.3	13.0
Share of result in associates and joint ventures	(0.7)	28.1	(102.5)	13.9
Interest payable on lease liabilities	(55.7)	(58.9)	(5.4)	(115.6)
Net financial interest	(19.5)	(34.9)	(44.1)	(70.5)
Profit before tax & adjusting items	205.5	269.4	(23.7)	522.9
Adjusting items	3.0	(82.1)	(103.7)	(131.2)
Profit before tax	208.5	187.3	11.3	391.7
Profit after tax	166.7	159.9	4.3	309.0
Basic earnings per share	8.5p	8.2p	3.7	15.7p
Adjusted basic earnings per share	7.8p	12.1p	(35.5)	21.7p
Dividend per share	-	-	-	-
Net debt	£2.93bn	£3.15bn	(7.0)	£2.70bn

Notes:

There are a number of non-GAAP measures and alternative profit measures ("APMs") discussed within this announcement, and a glossary and reconciliation to statutory measures is provided at the end of this report. Adjusted results are consistent with how business performance is measured internally and presented to aid comparability of performance. Refer to the adjusting items table below for further details.

Group results

Group sales were £5,563.6m. This was an increase of 8.8% versus 2021/22, driven by Food sales up 5.6%, Clothing & Home sales up 14.0% and International sales up 14.0%. Statutory revenue in the period was £5,538.2m, an increase of 8.5% versus 2021/22. The Group generated an adjusted profit before tax of £205.5m and a statutory profit before tax of £208.5m.

The Group benefited from Covid-related UK business rates relief of £47.5m in 2021/22, which was not repeated this year.

Statutory profit before tax includes total net credit for adjusting items of £3.0m.

For full details on adjusting items and the Group's related policy, see notes 1 and 3 to the financial information.

UK: Food

UK Food sales increased by 5.6%, driven by recovery of our franchise and hospitality businesses following the disruption of the pandemic, as well as higher average selling prices. Excluding franchise and hospitality, sales grew 1.9%.

Change vs 21/22 %	Q1	Q2	H1
Food	6.6	4.5	5.6
Food like-for-like sales	3.4	2.5	3.0
Food ex franchise and hospitality	1.9	1.9	1.9

M&S Food reported sales do not benefit from a direct online grocery presence, with these sales instead reported through Ocado Retail.

26 weeks ended	1 Oct 22	2 Oct 21	Change vs 21/22 %
Footfall, m (average/week)	10.2	9.5	7.4
Transactions, m (average/week)	8.8	7.4	18.9
Basket value inc VAT (£)	14.5	15.9	-8.8
Total sales ex VAT £m¹	3,317.5	3,143.0	5.6

¹ Includes M&S.com

Transactions increased year-on-year, driven by the recovery of our hospitality and franchise businesses. However, given the typically smaller basket size of transactions in these parts of our business, this has led to a reduction in overall basket value.

Sales vs 2021/22 (%)	Q1	Q2	H1	Sales vs 2021/22 (%)	Q1	Q2	H1
Retail parks	7	3	5	Franchise travel (rail/air/roadside)	114	47	72
Simply Food	2	3	2	City centre	20	14	17
High street	3	1	2	Total	45	26	35
Franchise fuel	-	4	2				
Total	3	2	3				

26 weeks ended	1 Oct 22 £m	2 Oct 21 £m	Change vs 21/22 %
Sales ¹	3,317.5	3,143.0	5.6
Operating profit before adjusting items	71.8	143.7	-50.0
Operating margin	2.2%	4.6%	-240bps

¹ 'Sales' is equal to revenue within the Food business.

The Food business in total generated operating profit before adjusting items of £71.8m compared with £143.7m in 2021/22, with last year's result benefitting from £19.7m of UK business rates relief.

The table below sets out the drivers of the movement in Food operating profit margin before adjusting items.

Operating profit margin before adjusting items	%
2021/22	4.6
Gross margin	(1.1)
Store staffing	0.2
Other store costs	(0.7)
Distribution and warehousing	(0.5)
Central Food costs	(0.3)
2022/23	2.2

- **Gross margin** decreased c.110bps primarily driven by cost inflation and investment in price. Higher stock loss added to margin pressures, although this improved over the period. These impacts were partly offset by an improved margin mix from our recovering hospitality business.
- **Store staffing** costs decreased c.20bps, primarily driven by retail restructuring efficiencies enabled by technology improvements in store, partly offset by investment in colleague pay rates.
- Last year, the Food business received c.£19.7m business rates relief from the UK government which was not repeated this year. This, along with inflation in electricity, gas and other store running costs, drove a c.70bps increase in **other store costs** (c.60bps relating to rates relief).
- **Distribution and warehousing** costs increased c.50 bps as a result of investment in colleague pay rates and higher fuel, partly offset by productivity efficiencies and lower utilisation of agency workers.
- **Central Food costs** increased c.30bps, driven by investments in technology, data and digital initiatives, including cloud and other supporting infrastructure, as well as marketing spend.

Ocado Retail Ltd

The Group holds a 50% interest in Ocado Retail Ltd ("Ocado Retail"). The remaining 50% interest is held by Ocado Group plc ("Ocado Group"). Half Year Results are consistent with the quarterly results reported by Ocado Group on behalf of Ocado Retail for the quarterly periods ended 29 May 2022 and 28 August 2022.

	Q1	Q2	H1
Revenue growth vs 2021/22 (%)	-9.8	2.7	-4.2
Active customers (k)	867	946	907
Average orders per week (k)	385	374	380

Notes: Retail revenue comprises revenues from Ocado.com and Ocado Zoom. Average orders per week refers to results of Ocado.com

Revenue declined -4.2% over the 26 weeks to 28 August 2022. While active customer and order numbers have grown, basket sizes have continued to decline to pre-pandemic levels and as consumers seek value-for-money items in the inflationary environment. Revenue performance in the second quarter improved as we annualised the closure of our Erith CFC (customer fulfilment centre) after the fire in July 2021.

£m	26 weeks ended 28 Aug 22	26 weeks ended 29 Aug 21	Change %
Revenue	1,089.0	1,136.3	-4.2
EBITDA before exceptional items	9.8	80.7	-87.9
Exceptional items	31.2	3.4	817.6
Depreciation and amortisation	(28.5)	(19.3)	47.7
Operating profit	12.5	64.8	-80.7
(Loss)/profit after tax	(1.3)	56.3	-102.3
M&S 50% share of (loss)/profit after tax	(0.7)	28.1	-102.5

Exceptional items are defined within the Ocado Group plc Annual Report and Accounts 2021.

Ocado Retail EBITDA before exceptional items was down, reflecting the smaller baskets, under-utilised CFC capacity and higher fulfilment and delivery costs. These offset a reduction in administration costs reflecting the release of management long-term incentive provisions given current trading.

Ocado Retail recognised £31.2m of net exceptional items before tax, predominantly relating to the insurance income for Andover and Erith CFCs (£26.4m) and amounts relating to a change in accounting treatment for one of our CFCs (£6.8m) offset by costs relating to the development and introduction of IT systems as we transition away from Ocado Group IT services, tools and support (£1.9m).

As a result of lower EBITDA and net exceptional costs, M&S Group share of Ocado Retail loss after tax was £(0.7)m.

UK: Clothing & Home

Clothing & Home sales increased 14.0% with continued recovery of store sales back towards pre-Covid levels, and a robust performance by the online business.

Change vs 21/22 %	Q1	Q2	H1
Clothing & Home sales	18.2	10.3	14.0
Clothing & Home like-for-like sales	17.6	10.2	13.7
Clothing & Home stores sales	24.3	14.0	18.8
Clothing & Home online sales	7.0	2.9	4.9
<i>Clothing & Home statutory revenue</i>	<i>17.1</i>	<i>9.2</i>	<i>12.9</i>

To enable greater insight into these movements, we are providing further detail on the performance of each channel.

Online

26 weeks ended	1 Oct 22	2 Oct 21	Change vs 21/22 %
Traffic (m) ¹	204.0	182.9	11.5
Conversion (%) ²	7.0	7.3	(30) bps
Average order value inc VAT pre returns (£)	59.4	55.6	6.8
Returns rate (%)	30.3	25.6	(470) bps
Sales ex VAT £m	554.1	528.4	4.9

¹ Traffic: the number of site visits to M&S.com and the app.

² Conversion: the number of orders as a % of the number of site visits.

Following strong performance last year, online sales remained solid with growth throughout the period despite a tough market backdrop. Average order value grew almost 7% reflecting higher average selling prices, largely driven by mix.

The online returns rate increased year-on-year due to the introduction of third-party brands which have a higher returns rate and changes in product mix and customer behaviour. However, compared to a pre-covid returns rate of 28.8%, the increase is driven predominantly by the increase in third-party brand sales.

Stores

26 weeks ended	1 Oct 22	2 Oct 21	Change vs 21/22 %
Footfall, m (average/week)	4.4	3.7	18.9
Transactions, m (average/week)	1.7	1.6	6.3
Average basket value inc VAT pre returns (£)	37.7	35.0	7.7
Sales ex VAT £m	1,195.6	1,006.2	18.8

UK Clothing & Home store sales increased 18.8%, with all store formats seeing an improvement in sales year-on-year, also supported by higher average selling prices and mix. Average weekly footfall was up 18.9% following Covid restrictions lifting during Q1 last year, contributing to an increase in transactions.

Sales vs 2021/22 %	Q1	Q2	H1
City Centre	49	31	39
Shopping centre	42	22	31
Retail Park	19	13	16
Outlet	20	9	14
High Street	8	7	7
Total Clothing & Home stores	24.3	14.0	18.8

Total Clothing & Home

The Clothing & Home business in total generated an operating profit before adjusting items of £171.4m compared with £156.2m in 2021/22, with last year's result benefitting from £27.8m of UK business rates relief.

26 weeks ended	1 Oct 22 £m	2 Oct 21 £m	Change vs 21/22 %
Statutory revenue before adjusting items	1,724.3	1,527.0	12.9
Sales	1,749.7	1,534.6	14.0
Operating profit before adjusting items	171.4	156.2	9.7
<i>Operating margin</i>	<i>9.8%</i>	<i>10.2%</i>	<i>-40bps</i>

The table below sets out the drivers of the movement in Clothing & Home operating profit before adjusting items for the total segment and by channel.

Operating profit margin before adjusting items	Total %	Online %	Stores %
2021/22	10.2	10.2	10.1
Gross margin	(1.5)	(2.9)	(0.9)
Store staffing	0.4	0.4	0.8
Other store costs	(0.5)	0.3	(0.4)
Distribution and warehousing	0.9	0.4	0.7
Central Clothing & Home costs	0.3	(1.5)	0.8
2022/23	9.8	6.9	11.1

Overall across the Clothing & Home cost base, the impact of inflation and investments has been offset by increased leverage from the sales increase year-on-year, leading to favourable movements in costs as a percent to sales.

- **Gross margin** decreased c.150bps partly driven by headwinds in raw materials, the unhedged portion of currency purchases and freight. The growth in our third-party brands business, which is predominantly online, also has an additional dilutive impact on gross margin.
- **Store staffing** decreased c.40bps primarily driven by retail restructuring efficiencies enabled by technology improvements in store, partly offset by the investment in colleague pay rates.
- Last year, the Clothing & Home business received c.£28m business rates relief from the UK government which was not repeated this year. This, along with inflation in electricity, gas and other store running costs, partially offset by better cost leverage from higher sales drove a c.50bps increase in **other store costs** (c.160bps relating to rates relief). Both these cost pressures more heavily impact our stores business.
- **Distribution and warehousing** decreased c.90bps, as better cost leverage from higher sales, along with a favourable delivery mix offset cost inflation and increased expenditure to service third party brands.
- **Central Clothing & Home costs** decreased c.30bps driven by better cost leverage from higher sales. This offset increased investment in technology, data and digital initiatives and additional costs to support brands. These investments are all heavily weighted to our online business when allocated by channel.

International

International sales increased 13.7% at constant currency (“CC”), driven by a strong recovery in India after the easing of Covid trading restrictions and solid growth in the Middle East. Our European business was impacted by challenging economic trading conditions, with the rationalisation of markets across France and Russia and a highly promotional online market, partly offset by strong store performance in Ireland.

Store sales increased 19% as we annualise on FY22 Q1 lockdowns across India and Ireland and customers return to pre Covid buying habits. Online sales decreased 8.6% but remain in substantial growth on 19/20.

Change vs 21/22 %	Q1 CC	Q2 CC	H1 CC	H1 Reported
Total sales	16.9	10.9	13.7	14.0

26 weeks ended	1 Oct 22 £m	2 Oct 21 £m	Change vs 21/22 %	Change vs 21/22 CC %
Sales¹				
Clothing & Home	365.7	296.9	23.2	22.3
Food	130.7	138.4	(5.6)	(5.0)
Total	496.4	435.3	14.0	13.7
<i>Memo: Online sales</i>	<i>78.4</i>	<i>85.3</i>	<i>(8.1)</i>	<i>(8.6)</i>

¹ 'Sales' is equal to revenue within the International business.

The strong Clothing & Home sales performance was driven by post-Covid recovery in India and Ireland, which was heavily impacted by lockdowns last year, and strong shipments to the Middle East, despite the exit from Russia.

Food sales declined due to the exits of the majority of our French franchise business and the chilled business in the Czech Republic, and the continuing impact of EU-related border issues on the island of Ireland. Excluding France, sales were level with 2021/22.

Operating profit before adjusting items was up 8.6% to £39.0m, showing strong recovery and resilience despite market exits and continued EU-border related headwinds.

The table below sets out the drivers of the movement in International operating profit margin before adjusting items.

Operating profit margin before adjusting items	%
2021/22	8.2
Gross margin	0.9
Store staffing	0.5
Other store costs	(1.5)
Distribution and warehousing	(0.2)
Central International costs	-
2022/23	7.9

- **Gross margin** increased c.90bps largely driven by recovery of Clothing & Home store sales post-covid in India and Ireland, improving margin mix.
- **Store staffing** decreased c.50bps due to better fixed cost leverage from higher sales.
- Last year, the International business received government relief in owned markets and rent concessions in India which were not repeated this year (c.£6.5m). This, along with rising energy prices, resulted in a 150bps increase in **other store costs**.
- **Distribution and warehousing** increased c.20bps primarily driven by cost inflation and higher operational and administrative costs.
- **Central International costs** increased in line with sales as stores returned to a fully operational state post lockdowns.

M&S Bank and Services

M&S Bank and Services loss before adjusting items was up £0.1m to £(0.8)m. An increase in the bad debt provision due to the deterioration of the macro-economic environment was only partly offset by an increase in the demand for travel money and an increase in credit card sales.

Net finance cost

	26 weeks ended			52 weeks ended
	1 Oct 22 £m	2 Oct 21 £m	Change vs 21/22 £m	2 Apr 22 £m
Interest payable	(37.9)	(44.7)	6.8	(85.1)
Interest income	8.5	6.9	1.6	9.6
Net interest payable	(29.4)	(37.8)	8.4	(75.5)
Pension net finance income	14.2	6.4	7.8	13.2
Unwind of discount on Scottish Limited Partnership liability	(2.4)	(1.7)	(0.7)	(4.4)
Unwind of discount on provisions	(1.9)	(1.8)	(0.1)	(3.8)
Net financial interest	(19.5)	(34.9)	15.4	(70.5)
Net interest payable on lease liabilities	(55.7)	(58.9)	3.2	(115.6)
Net finance costs before adjusting items	(75.2)	(93.8)	18.6	(186.1)
Adjusting items included in net finance costs	112.2	(0.9)	113.1	5.6
Net finance costs	37.0	(94.7)	131.7	(180.5)

Net finance costs before adjusting items decreased £18.6m to £75.2m. This was driven by higher pension finance income due to the higher IAS 19 pension surplus in March 2022 compared with March 2021, as well as lower interest on our outstanding bonds as a result of the partial buyback of our 2023 and 2025 maturities in May 2022.

Group profit before tax and adjusting items

Group profit before tax and adjusting items was £205.5m, down 23.7% on 2021/22. The profit decrease was largely due to a decline in Food and Ocado Retail, offset by an increase in Clothing & Home and International operating profits.

As a reminder, Group profits in H1 2021/22 benefitted from £47.5m UK business rates relief.

Group profit before tax

Group profit before tax was £208.5m, up £21.2m on 2021/22. This includes a net credit for adjusting items of £3.0m (2021/22: charge of £82.1m).

Adjusting items

The Group makes certain adjustments to statutory profit measures in order to derive alternative performance measures (APMs) that provide stakeholders with additional helpful information and to aid comparability of the performance of the business. For further detail on these charges/gains and the Group's policy for adjusting items, please see notes 1 and 3 to the financial information.

	26 weeks ended			52 weeks ended
	1 Oct 22	2 Oct 21	Change vs 21/22	2 Apr 22
	£m	£m	£m	£m
Strategic programmes – UK store estate	(26.3)	(58.1)	31.8	(161.4)
Strategic programmes – Organisation	(14.6)	1.9	(16.5)	14.3
Strategic programmes – UK logistics	-	(1.7)	1.7	21.9
Strategic programmes – International store closures and impairments	-	-	-	0.4
Store impairments and other property charges	(36.3)	-	(36.3)	60.0
Acquisition of Gist Limited	(24.4)	-	(24.4)	-
Remeasurement of contingent consideration including discount unwind	112.2	(0.9)	113.1	5.6
Amortisation and fair value adjustments arising as part of the investment in Ocado Retail Limited	(7.0)	(25.4)	18.4	(32.5)
M&S Bank charges	(1.0)	(1.0)	-	(16.0)
Franchise restructure	0.4	(11.9)	12.3	(41.3)
Directly attributable (gains)/expenses resulting from the Covid-19 pandemic	-	15.0	(15.0)	17.8
Adjustments to profit before tax	3.0	(82.1)	85.1	(131.2)

Adjusting items were a net credit in the period of £3.0m.

A charge of £26.3m has been recognised in relation to store closures identified as part of UK Store Estate rotation plans. The charge reflects a revised view of latest store exit routes, assumptions underlying estimated store closure costs, as well as charges relating to the impairment of buildings and fixtures and fittings, and depreciation as a result of shortening the useful economic life of stores.

A non-cash charge of £14.6m has been recognised within the organisational change strategic programme relating to the updating of assumptions regarding the sub-let of previously closed Merchant Square offices.

A non-cash charge of £36.3m has been recognised in relation to store impairments, driven by an increase in discount rate as a result of changes in the macro-economic environment.

A charge of £24.4m has been recognised relating to the acquisition of Gist to transform our supply chain; £18.2m of charges relate to the settlement of our pre-existing relationship with Gist Limited and there were £6.2m of other costs, predominantly £5.7m of transaction costs incurred.

A credit of £112.2m has been recognised in the period, representing the revaluation of the contingent consideration payable of £190.7m (£156.3m plus interest) for the investment in Ocado Retail Limited. Whilst we have reflected a change in the fair value of the final contingent consideration liability, we are discussing the matter with Ocado Group plc and a range of outcomes is possible.

A non-cash charge of £7.0m has been recognised with respect to the amortisation of intangible assets acquired on the purchase of our share in Ocado Retail partly offset by the related deferred tax credit.

Charges of £1.0m have been incurred relating to M&S Bank, primarily due to the insurance mis-selling provision.

In 2021/22, the Group announced the restructure of our franchise operations in France in response to increased EU border costs and recognised a charge for £10.3m of closure costs. Following finalisation of costs, £0.4m of the provision has been released, with no future costs currently expected.

Taxation

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 adjusting items.

The taxation charge in the income statement for the half year is based on the forecast full year tax rate on profit before adjusting items of 24.8% (last half year 12.4%; last full year 18.2%). This is higher than the UK statutory rate primarily due to the impact of the recapture of tax relief on SLP distributions, which have resumed in the year, and non-taxable Ocado losses.

The effective tax rate on adjusting items is 303.3% (last half year 7.2%; last full year 9.6%). This has been distorted by the £(112.2)m credit relating to the remeasurement of the Ocado contingent consideration. Excluding the Ocado contingent consideration remeasurement would reduce the ETR on adjusting items to 9.0%.

Overall, the effective tax rate on (loss)/profit before taxation was 20.0% (last half year 14.6%; last full year 21.1%).

Earnings per share

Basic earnings per share was 8.5p (2021/22: 8.2p), due to the increase in profit year-on-year. The weighted average number of shares in issue during the period was 1,962.4m (2021/22: 1,957.6m).

Adjusted basic earnings per share was 7.8p (2021/22: 12.1p) due to lower adjusted profit year-on-year.

Cash flow

	26 weeks ended			52 weeks ended
	1 Oct 22 £m	2 Oct 21 £m	Change vs 21/22 £m	2 Apr 22
Adjusted operating profit	280.7	363.2	(82.5)	709.0
Depreciation and amortisation before adjusting items	250.6	253.9	(3.3)	510.7
Cash lease payments	(174.0)	(173.1)	(0.9)	(344.3)
Working capital	(148.8)	111.5	(260.3)	239.7
Defined benefit scheme pension funding	(36.9)	(36.3)	(0.6)	(36.8)
Capex and disposals	(183.6)	(125.5)	(58.1)	(213.5)
Financial interest and taxation	(85.4)	(52.6)	(32.8)	(87.6)
Acquisitions, investments, and divestments	(98.7)	(17.8)	(80.9)	(41.4)
Employee-related share transactions	15.0	18.7	(3.7)	39.1
Share of (profit)/loss from associate	0.7	(28.1)	28.8	(13.9)
Adjusting items outflow	(35.1)	(26.3)	(8.8)	(61.8)
Free cash flow	(215.5)	287.6	(503.1)	699.2
Dividends paid	-	-	-	-
Free cash flow after shareholder returns	(215.5)	287.6	(503.1)	699.2
Opening net debt excluding lease liabilities	(420.1)	(1,110.0)	689.9	(1,110.0)
Free cash flow after shareholder returns	(215.5)	287.6	(503.1)	699.2
Exchange and other non-cash movements excluding leases	7.2	(1.6)	8.8	(9.3)
Closing net debt excluding lease liabilities	(628.4)	(824.0)	195.6	(420.1)
Opening net debt	(2,698.8)	(3,515.9)	817.1	(3,515.9)
Free cash flow after shareholder returns	(215.5)	287.6	(503.1)	699.2
Decrease in lease obligations	109.9	107.9	2.0	216.0
New lease commitments and remeasurements	(141.6)	(38.2)	(103.4)	(100.6)
Exchange and other non-cash movements	17.3	4.4	12.9	2.5
Closing net debt	(2,928.7)	(3,154.2)	225.5	(2,698.8)

The business had a free cash outflow of £(215.5)m, largely driven by lower EBITDA generation, a working capital outflow, increased capital expenditure and the acquisition of Gist. For further detail on working capital movements and capex and disposals refer to the sections below.

Defined benefit scheme pension funding of £36.9m reflects the agreed SLP interest distribution to the pension scheme.

Increased financial interest and tax payments of £32.8m were principally due to the resumption of UK corporation tax payments in the period. No UK corporation tax was paid in the comparative period due to utilisation of FY21 tax losses.

Acquisitions, investments and divestments were driven principally by the payment of £95.4m relating to the acquisition of Gist, net of cash received.

Employee-related share transactions decreased due to a reduction in anticipated colleague incentive scheme charges.

Adjusting items cash outflow was £35.1m. This included £20.0m relating to the exit of the Russian franchise business, £11.9m relating to the UK store estate strategy, £1.8m for the Gist acquisition transaction fees and £1.0m relating to the M&S Bank insurance mis-selling provisions.

Working capital

The business had a cash outflow from working capital of £148.8m which was higher than anticipated due to phasing. This partly related to a decrease in payment terms for our Clothing & Home suppliers as anticipated. In addition, stock increased over the period in our Clothing & Home, Food and International businesses driven by both cost price inflation and increased units as we build our holding in advance of the peak trading period across all our main businesses.

Alongside this, quicker supply chain lead times than last year in Clothing & Home resulted in early arrival of stock. However, overall in Clothing & Home, despite the higher stock value at cost, units are lower than pre-covid levels.

Capital expenditure

	26 weeks ended 1 Oct 22 £m	26 weeks ended 2 Oct 21 £m	Change vs 21/22 £m
UK store remodelling	26.0	27.5	(1.5)
New UK stores	20.8	19.3	1.5
International	5.5	5.0	0.5
Supply chain	16.0	14.9	1.1
IT and M&S.com	40.1	23.0	17.1
Property asset replacement	42.3	20.8	21.5
Capital expenditure before property acquisitions and disposals	150.7	110.5	40.2
Property acquisitions and disposals	-	(2.2)	2.2
Capital expenditure	150.7	108.3	42.4
Movement in capital accruals	32.9	17.2	15.7
Capex and disposals as per cash flow	183.6	125.5	58.1

Group capital expenditure before disposals increased £40.2m to £150.7m compared to 2021/22 due to increased investment in property asset replacement and technology.

UK store remodelling costs related principally to 7 Renewals during the half as well as upgrades to Clothing & Home space.

Spend on new UK stores primarily related to opening of 2 new Full Line stores (Stevenage and Colchester) together with 3 new Simply Food stores.

Supply chain expenditure reflects continued investment in our underlying base food infrastructure together with spend on upgrading vehicles and other technology.

IT and M&S.com spend includes costs related to technology replacement and upgrades in stores, continued investment in website development and digital capabilities and further spend on upgrading supply chain infrastructure.

Property asset replacement has increased in the current year versus 2021/22, primarily driven the timing of spend last year, which was weighted towards the second half the of the year due to an in-depth review of the estate being carried out in H1 post the pandemic. This includes roof works and replacement of fridges, freezers, boilers, lifts and escalators.

Capital accruals were higher at the end of 2021/22 compared to 2020/21, as capital expenditure normalised towards pre-pandemic levels after a year in which we had constrained spend for cash conservation measures. This has resulted in a higher cash outflow for capital expenditure in the period.

Net debt

Group net debt increased by £229.9m since the start of the year driven by the free cash outflow and a net increase in lease liabilities.

New lease commitments and remeasurements in the period were £141.6m, largely relating to 5 new UK leases, the consolidation of Gist Limited lease liabilities, lease additions in India, and UK property and logistics liability remeasurements. This was offset by £109.9m of capital lease repayments.

The composition of Group net debt is as follows:

	26 weeks ended			52 weeks ended
	1 Oct 22	2 Oct 21	vs 21/22	2 Apr 22
	£m	£m	£m	£m
Cash and cash equivalents	772.7	951.9	(179.2)	1,197.9
Medium Term Notes	(1,396.0)	(1,680.6)	284.6	(1,529.5)
Current financial assets and other	110.9	92.6	18.3	99.4
Partnership liability	(116.0)	(187.9)	71.9	(187.9)
Net debt excluding lease liabilities	(628.4)	(824.0)	195.6	(420.1)
Lease liabilities	(2,300.3)	(2,330.2)	29.9	(2,278.7)
- Full-line stores	(902.1)	(944.8)	42.7	(919.5)
- Simply Food stores	(699.8)	(719.4)	19.6	(712.8)
- Offices, warehouses and other	(484.5)	(466.9)	(18.0)	(449.5)
- International	(213.9)	(199.1)	(14.4)	(196.9)
Group net debt	(2,928.7)	(3,154.2)	225.5	(2,698.8)

Our medium term notes include five bonds, with maturities out to 2037, and the associated accrued interest. During the period we bought back part of the 2023 and 2025 bonds, reducing our near-term liquidity draws. The full breakdown of our maturities is as follows:

Bond and maturity date	Value (£m)
Dec 2023, GBP	199
Jun 2025, GBP	350
May 2026, GBP	300
Jul 2027, GBP	250
Dec 2037, USD	194
Total principal value	1,293
Other ¹	103
Total carrying value	1,396

¹ Includes accrued interest and foreign exchange revaluation

Full-line store lease liabilities include £209.7m relating to stores identified as part of the UK store estate strategic programme. Of the remaining full-line stores lease liability, the liability-weighted average lease length is c.26 years, although the average lease term to break is shorter at c.20 years. However, these average lease lengths are skewed by five particularly long leases we hold, with the longest of these having 134 years remaining. These five leases, with a combined lease liability of c.£108m, are not deemed probable for closure in our UK store estate programme as they are currently trading well in

locations we wish to remain in. Excluding these five leases, the average term to break of leases outside the programme is c.16 years.

Simply Food store lease liabilities include £24.9m relating to stores identified as part of the UK store estate strategic programme. Of the remaining lease liability, the average lease length to break is c.10 years.

Within offices, warehouses and other lease liabilities, £144.0m relates to the sublet lease on our Merchant Square offices. Average lease length of all other offices and warehouses to break is c.8 years.

International leases relate primarily to India (c.£105m) and Ireland (c.£65m). Average lease length to break in India is close to nil, as the majority of these leases are past the break point, and so we have the flexibility to exit these at any time on several months' notice. Average length to lease break or expiry in Ireland is c.8 years.

Pension

At 1 October 2022, the IAS 19 net retirement benefit surplus was £840.0m (2021/22: £734.2m). There has been a decrease of £198.2m from the start of the year largely driven by revisions of discount and inflation rates since the start of the period.

The most recent actuarial valuation of the Marks & Spencer UK Pension Scheme was carried out as at 31 March 2021 and showed a funding surplus of £687m. This is an improvement on the previous position at 31 March 2018 (statutory surplus of £652m), primarily due to lower assumed life expectancy. The Company and Trustees have confirmed, in line with the current funding arrangement, that no further contributions will be required to fund past service as a result of this valuation (other than those already contractually committed under the existing Marks and Spencer Scottish Limited Partnership arrangements).

The pension scheme is fully hedged for movements in gilt yields. However, on an IAS 19 basis there is an inherent basis risk to the scheme valuation, with the pension assets moving with underlying movements in rates and scheme liabilities exposed to movements in corporate bonds. In a normal period, this always results in some dislocation between movements in the scheme assets and liabilities. However, the recent economic volatility, particularly in bond markets, led to a larger dislocation. Nevertheless, there has been no material worsening of the scheme's overall funding position.

Subsequent to the end of the period, the Company agreed to provide the scheme with a £250m short term liquidity facility to meet excess collateral calls, as a result of the market volatility. The facility has not been used and remains undrawn and expires on 19 January 2023.

Liquidity

At 1 October 2022, the Group held cash balances of £772.7m (Full year 2021/22: £1,197.9m). In the period, as part of our approach to liability management, the Group bought back c.£150m of bonds due for maturity in 2023 and 2025.

The Group currently has an unused £850m revolving credit facility which is due to expire in June 2025. With the facility undrawn, the Group now has liquidity headroom of £1.6bn.

Dividend

At the full-year results in May 2022, we stated that the board would consider the scale and timing of a resumption of dividend payments closer to the year end. Consistent with that announcement, we have not declared a dividend at these results.

Statement of financial position

Net assets were £3,013.3m at the period end, an increase of 3.3% since the start of the year largely due to free cash generation.

Important Notice:

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 forward-looking statements are subject to various risks and uncertainties, including, but not limited to, 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 including, but not limited to, those related to the Covid-19 pandemic 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. For further information regarding risks to Marks & Spencer's business, please consult the risk management section of the 2022 Annual Report (pages 45-54).

The forward-looking statements contained in this document speak only as of the date of this announcement, and Marks & Spencer does not undertake to update any forward-looking statement to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

- Ends -

Principal risks and uncertainties

The principal risks and uncertainties (PRUs) which could impact the Group's long-term performance were set out on pages 49-54 of the Group's 2022 Annual Report and Financial Statements, a copy of which can be found on the Group's website www.marksandspencer.com. This disclosure also incorporated details of mitigating activities relevant to each risk. Information on financial risk management was also included on pages 165-175. An update on the PRUs is set out below.

Business environment

The disclosure in the Annual Report and Financial Statements set out the impact of three overarching events that have a pervasive impact on the principal risks and uncertainties of the business – the aftermath of the COVID 19 pandemic, the Russian invasion of Ukraine and the increasingly acute cost of living crisis. The consequences of these events, the majority of which have deteriorated significantly since the year-end, include:

- energy price increases;
- cost of goods inflation (including the impact of sterling depreciating against the US dollar);
- increasing interest rates;
- a decline in consumer spending;
- supplier resilience and viability;
- global supply chain pressures and disruption to the supply of natural, refined and manufactured materials and products;
- the knock-on impact of industrial action in other sectors;
- labour constraints;
- ongoing global socio-political tensions and fragility;
- the risk of a prolonged recession; and
- changes in government policy.

All of these factors continue to influence the suite of principal risks due to the inherent uncertainty of how long the issues will continue and the severity of their impact. The specific principal risks and uncertainties most impacted are The Uncertain Trading Environment; Business Transformation; Business Continuity & Resilience; Information Security; Corporate Compliance & Responsibility; and Liquidity & Funding.

Change to our risk profile: Gist

In addition to the factors above, the key change in the business risk profile since the year end is the acquisition of Gist. While this gives greater control of our food logistics operations, it will add an additional layer to a number of our existing principal risks. This includes integrating, embedding and operating the processes of a logistics business under M&S ownership, achieving the anticipated synergies, the legal and regulatory obligations of managing a logistics network, environmental management of the estate and fleet, additional cyber security risk from the introduction of new systems into the M&S environment, successful onboarding of new colleagues, and the management of the inherited service to other retailers. The specific principal risks and uncertainties most impacted by the acquisition are Business Transformation; Business Continuity & Resilience; Talent, Culture & Capability; Information Security; Corporate Compliance & Responsibility; and Climate Change & Environmental Responsibility.

Following completion of the transaction on 30th September, a full assessment of the mitigating activities to manage these risks has commenced as part of the overall business integration activities.

Principal risks & uncertainties

The Board of Directors have considered the principal risks and uncertainties disclosed in the Annual Report and Accounts for the year ended 2 April 2022 and, while the broad risk categories disclosed remain consistent, underlying elements of some have changed as a consequence of the external issues described above and the acquisition of Gist. The order of the principal risks and uncertainties has also been amended to reflect the Board's current assessment of priority.

Our summary principal risk statements are set out below – the numbers in brackets show the risk order included in the 2022 Annual Report and Financial Statements:

1 (1)	An uncertain trading environment: Our ability to deliver improvements in trading performance and invest in value could be significantly affected by the individual or aggregate impact of an increasingly complex set of external factors. The worsening cost of living crisis, the invasion in Ukraine and aftermath of the pandemic (as set out above), alongside the potential for further geo-political and economic uncertainties (including interest rate and foreign exchange movements) have combined to generate a difficult and unpredictable trading environment. In this environment, an inability to effectively manage the cost base of the business would also impact future performance.
2 (2)	Business transformation: A failure to prioritise, accelerate and successfully implement the suite of critical transformation projects could impact medium- and longer-term growth ambitions. These include modernising our supply chain and logistics operations (including the successful integration of the Gist acquisition), improving the IT infrastructure and underlying systems, and reshaping and modernising our UK store estate. While each initiative is individually significant and has its own inherent risks, the aggregate impact of simultaneously delivering these challenging projects could also create further risks to successful implementation.
3 (3)	Ocado Retail: A failure to effectively manage the strategic and operational relationship with Ocado Retail and/or Ocado Group could significantly impact the value of our investment, the achievement of our multi-channel food strategy, our brand, trading performance and our ability to deliver shareholder value.

4 (6)	Business continuity and resilience: Significant operational failures or resilience issues at key business locations, such as Castle Donington (our primary online Clothing & Home distribution centre), at any of our key international sourcing locations or in the recently acquired food logistics network, could result in significant business interruption. More broadly, an inability to effectively respond to global events, such as the invasion of Ukraine, a shortage of raw materials or other products used in our business, or significant supply chain disruption and/or a resurgence of the pandemic could also impact business performance.
5 (4)	Talent, culture and capability: An inability, individually or collectively, to: <ul style="list-style-type: none"> • attract, retain and develop the right talent, skills and capabilities, particularly for key/specialist roles; • successfully respond to labour cost pressures; • meet the expectations of the post-pandemic labour market; or • achieve cultural change to respond to the challenges being faced could impact the delivery of core operational activities and longer-term strategic objectives, including aspects of our transformation programme.
6 (7)	Product safety and integrity: Failure to prevent and/or effectively respond to a food or product safety incident, or to maintain their integrity, could impact customer confidence in our brand and business performance.
7 (8)	Information security: Failure to adequately prevent or respond to a data breach or cyber-attack could adversely impact our reputation, result in significant fines, business disruption, loss of information for our customers, employees or business and/or loss of stakeholder and customer confidence.
8 (11)	Liquidity and funding: An inability to maintain affordable short- and long-term funding to meet business needs or to effectively manage associated risks (such as hedging activities) could impact our ability to transform at pace, as well as have an adverse impact on business performance or viability.
9 (9)	Corporate compliance and responsibility: A failure to deliver against our legal and regulatory obligations or broader corporate responsibility commitments would undermine our reputation as a responsible retailer, may result in legal exposure or regulatory sanctions, and could negatively impact our ability to operate and/or remain relevant and trusted by our customers and other stakeholders.
10 (10)	Climate change and environmental responsibility: An inability to reduce the environmental impact of our business and progress towards our net zero targets (including those linked to our recent acquisition and supply chains) as well as managing the consequences of climate change on our business, including the increased frequency of extreme weather events, would fail to meet the expectations of our customers, colleagues, investors and other stakeholders, impacting our brand, future trading performance and other business costs, including financing.
11 (5)	EU border challenges: A failure to continue managing the cost consequences and operational friction from the complexity of border arrangements between the UK and the European Union (EU) or further developments in the Trade and Cooperation Agreement ("TCA"), including the Northern Ireland Protocol, could have a significant and long-term impact on our Irish business and overall trading performance.

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 UK-adopted IAS 34 and that the interim management report includes a fair review of the information required by DTR 4.2.4R, DTR 4.2.7R and DTR 4.2.8R, namely:

- the condensed set of financial statements gives a true and fair view of the assets, liabilities, financial position, cash flows and profit or loss of the issuer, or undertakings included in the consolidation;
- 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.

There have been no changes to the directors of Marks and Spencer Group plc to those listed in the Group's 2022 Annual Report and Financial Statements. A list of current directors is maintained on the Group's website: www.marksandspencer.com.

By order of the Board

Stuart Machin
Chief Executive

Condensed consolidated income statement

	Notes	26 weeks ended		52 weeks ended
		1 Oct 2022 (Unaudited)	2 Oct 2021 (Unaudited)	2 April 2022 (Audited)
		Total £m	Total £m	Total £m
Revenue	2	5,538.2	5,105.3	10,885.1
Share of result in associate - Ocado Retail Limited	2, 3, 8	(7.7)	2.7	(18.6)
Operating profit	2, 3	171.5	282.0	572.2
Finance income	4	137.7	16.0	33.9
Finance costs	4	(100.7)	(110.7)	(214.4)
Profit before tax	2, 3	208.5	187.3	391.7
Income tax expense	5	(41.8)	(27.4)	(82.7)
Profit for the period		166.7	159.9	309.0
Attributable to:				
Owners of the parent		166.1	160.3	306.6
Non-controlling interests		0.6	(0.4)	2.4
		166.7	159.9	309.0
Earnings per share				
Basic	6	8.5p	8.2p	15.7p
Diluted	6	8.3p	7.9p	15.1p
Reconciliation of adjusted profit before tax:				
Profit before tax		208.5	187.3	391.7
Adjusting items	3	(3.0)	82.1	131.2
Profit before tax & adjusting items – non-GAAP measure		205.5	269.4	522.9
Adjusted earnings per share – non-GAAP measure				
Basic	6	7.8p	12.1p	21.7p
Diluted	6	7.7p	11.7p	20.9p

Condensed consolidated statement of comprehensive income

	Notes	26 weeks ended		52 weeks ended
		1 Oct 2022 (Unaudited) £m	2 Oct 2021 (Unaudited) £m	2 April 2022 (Audited) £m
Profit for the period		166.7	159.9	309.0
Other comprehensive income/(expense):				
Items that will not be reclassified subsequently to profit or loss				
Remeasurements of retirement benefit schemes	9	(247.7)	59.8	357.0
Tax credit/(charge) on retirement benefit schemes		62.0	(58.5)	(127.6)
Loss on disposal of investment held at fair value through other comprehensive income ("FVOCI")		-	-	(3.7)
		(185.7)	1.3	225.7
Items that may be reclassified subsequently to profit or loss				
Foreign currency translation differences				
- movement recognised in other comprehensive income		22.2	(0.6)	(13.5)
- reclassified and reported in profit or loss		-	-	(0.5)
Cash flow hedges				
- fair value movements in other comprehensive income		271.4	61.3	91.3
- reclassified and reported in profit or loss		(42.9)	(4.2)	(10.5)
Tax charge on cash flow hedges		(51.0)	(11.0)	(14.7)
		199.7	45.5	52.1
Other comprehensive income for the period, net of tax		14.0	46.8	277.8
Total comprehensive income for the period		180.7	206.7	586.8
Attributable to:				
Owners of the parent		180.1	207.1	584.4
Non-controlling interests		0.6	(0.4)	2.4
		180.7	206.7	586.8

Condensed consolidated statement of financial position

	Notes	As at 1 Oct 2022 (Unaudited) £m	As at 2 Oct 2021 (Unaudited) £m	As at 2 April 2022 (Audited) £m
Assets				
Non-current assets				
Intangible assets		201.4	204.5	192.5
Property, plant and equipment		5,056.5	4,918.1	4,902.3
Investment property		14.9	15.1	15.0
Investment in joint ventures and associates	8	804.0	827.9	810.9
Other financial assets	11	7.0	10.7	4.5
Retirement benefit asset	9	845.0	742.2	1,043.9
Trade and other receivables		255.2	257.5	270.6
Derivative financial instruments	11	112.6	21.3	21.4
Deferred tax assets		9.9	-	-
		7,306.5	6,997.3	7,261.1
Current assets				
Inventories	3	1,017.6	778.0	706.1
Other financial assets	11	10.5	24.0	17.6
Trade and other receivables		295.5	256.5	217.1
Derivative financial instruments	11	199.8	22.6	43.6
Current tax assets		0.8	21.6	-
Cash and cash equivalents		772.7	951.9	1,197.9
		2,296.9	2,054.6	2,182.3
Assets held for sale ¹		-	20.5	-
		2,296.9	2,075.1	2,182.3
Total assets		9,603.4	9,072.4	9,443.4
Liabilities				
Current liabilities				
Trade and other payables		2,230.9	1,872.4	1,960.9
Partnership liability to the Marks & Spencer UK Pension Scheme	10	73.0	71.9	71.9
Borrowings and other financial liabilities		197.2	407.8	247.2
Derivative financial instruments	11	20.3	21.0	3.2
Provisions		37.1	35.6	53.6
Current tax liabilities		38.5	-	34.0
		2,597.0	2,408.7	2,370.8
Non-current liabilities				
Retirement benefit deficit	9	5.0	8.0	5.7
Trade and other payables		175.3	192.9	188.2
Partnership liability to the Marks & Spencer UK Pension Scheme	10	49.9	117.7	120.4
Borrowings and other financial liabilities		3,499.1	3,603.0	3,561.0
Derivative financial instruments	11	0.7	-	0.4
Provisions		77.8	86.7	91.8
Deferred tax liabilities		185.3	123.7	187.2
		3,993.1	4,132.0	4,154.7
Total liabilities		6,590.1	6,540.7	6,525.5
Net assets		3,013.3	2,531.7	2,917.9
Equity				
Issued share capital		19.8	19.6	19.7
Share premium account		910.7	910.4	910.6
Capital redemption reserve		2,680.4	2,680.4	2,680.4
Hedging reserve		92.7	11.2	17.6
Cost of hedging reserve		5.5	4.0	3.6
Other reserve		(6,542.2)	(6,542.2)	(6,542.2)
Foreign exchange reserve		(51.7)	(60.5)	(73.9)
Retained earnings		5,893.3	5,506.4	5,897.9
Equity attributable to owners of the parent		3,008.5	2,529.3	2,913.7
Non-controlling interests		4.8	2.4	4.2
Total equity		3,013.3	2,531.7	2,917.9

¹ Last half year, the assets held for sale of £20.5 million were properties in the United Kingdom, previously used in the Group's distribution network, which the Group sold in the second half of 2021/22.

The notes on pages 36 to 57 form an integral part of the condensed consolidated interim financial information.

Condensed consolidated statement of changes in equity

26 weeks ended 1 October 2022 (Unaudited)	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Cost of hedging reserve £m	Other reserve ¹ £m	Foreign exchange reserve £m	Retained earnings ² £m	Total £m	Non- controlling interest £m	Total equity £m
As at 3 April 2022	19.7	910.6	2,680.4	17.6	3.6	(6,542.2)	(73.9)	5,897.9	2,913.7	4.2	2,917.9
Profit for the period	-	-	-	-	-	-	-	166.1	166.1	0.6	166.7
Other comprehensive income/(expense):											
Foreign currency translation	-	-	-	-	-	-	22.2	-	22.2	-	22.2
- movement recognised in other comprehensive income	-	-	-	-	-	-	-	-	-	-	-
Remeasurements of retirement benefit schemes	-	-	-	-	-	-	-	(247.7)	(247.7)	-	(247.7)
Tax charge on retirement benefit schemes	-	-	-	-	-	-	-	62.0	62.0	-	62.0
Cash flow hedges	-	-	-	-	-	-	-	-	-	-	-
- fair value movements in other comprehensive income	-	-	-	268.8	2.6	-	-	-	271.4	-	271.4
- reclassified and reported in profit or loss	-	-	-	(42.9)	-	-	-	-	(42.9)	-	(42.9)
Tax on cash flow hedges	-	-	-	(50.3)	(0.7)	-	-	-	(51.0)	-	(51.0)
Other comprehensive income/(expense)	-	-	-	175.6	1.9	-	22.2	(185.7)	14.0	-	14.0
Total comprehensive income/(expense)	-	-	-	175.6	1.9	-	22.2	(19.6)	180.1	0.6	180.7
Cash flow hedges recognised in inventories	-	-	-	(124.1)	-	-	-	-	(124.1)	-	(124.1)
Tax on cash flow hedges recognised in inventories	-	-	-	23.6	-	-	-	-	23.6	-	23.6
Transactions with owners:											
Shares issued in respect of employee share options	0.1	0.1	-	-	-	-	-	-	0.2	-	0.2
Credit for share-based payments	-	-	-	-	-	-	-	15.0	15.0	-	15.0
As at 1 October 2022	19.8	910.7	2,680.4	92.7	5.5	(6,542.2)	(51.7)	5,893.3	3,008.5	4.8	3,013.3
26 weeks ended 2 October 2021 (Unaudited)											
As at 4 April 2021	489.2	910.4	2,210.5	(54.8)	4.6	(6,542.2)	(59.9)	5,325.2	2,283.0	2.8	2,285.8
Profit for the period	-	-	-	-	-	-	-	160.3	160.3	(0.4)	159.9
Other comprehensive income/(expense):											
Foreign currency translation	-	-	-	-	-	-	(0.6)	-	(0.6)	-	(0.6)
- movement recognised in other comprehensive income	-	-	-	-	-	-	-	-	-	-	-
Remeasurements of retirement benefit schemes	-	-	-	-	-	-	-	59.8	59.8	-	59.8
Tax charge on retirement benefit schemes	-	-	-	-	-	-	-	(58.5)	(58.5)	-	(58.5)
Cash flow hedges	-	-	-	-	-	-	-	-	-	-	-
- fair value movements in other comprehensive income	-	-	-	62.1	(0.8)	-	-	-	61.3	-	61.3
- reclassified and reported in profit or loss	-	-	-	(4.2)	-	-	-	-	(4.2)	-	(4.2)
Tax on cash flow hedges	-	-	-	(11.2)	0.2	-	-	-	(11.0)	-	(11.0)
Other comprehensive income/(expense)	-	-	-	46.7	(0.6)	-	(0.6)	1.3	46.8	-	46.8
Total comprehensive income/(expense)	-	-	-	46.7	(0.6)	-	(0.6)	161.6	207.1	(0.4)	206.7
Cash flow hedges recognised in inventories	-	-	-	23.8	-	-	-	-	23.8	-	23.8
Tax on cash flow hedges recognised in inventories	-	-	-	(4.5)	-	-	-	-	(4.5)	-	(4.5)
Transactions with owners:											
Buy back and cancellation of own shares ³	(469.9)	-	469.9	-	-	-	-	-	-	-	-
Shares issued on exercise of employee share options	0.3	-	-	-	-	-	-	(0.3)	-	-	-
Credit for share-based payments	-	-	-	-	-	-	-	18.7	18.7	-	18.7
Deferred tax on share schemes	-	-	-	-	-	-	-	1.2	1.2	-	1.2
As at 2 October 2021	19.6	910.4	2,680.4	11.2	4.0	(6,542.2)	(60.5)	5,506.4	2,529.3	2.4	2,531.7
52 weeks ended 2 April 2022 (Audited)											
As at 4 April 2021	489.2	910.4	2,210.5	(54.8)	4.6	(6,542.2)	(59.9)	5,325.2	2,283.0	2.8	2,285.8
Profit for the year	-	-	-	-	-	-	-	306.6	306.6	2.4	309.0
Other comprehensive income/(expense):											
Foreign currency translation	-	-	-	-	-	-	(13.5)	-	(13.5)	-	(13.5)
- movement recognised in other comprehensive income	-	-	-	-	-	-	-	-	-	-	-
- reclassified and reported in profit or loss	-	-	-	-	-	-	(0.5)	-	(0.5)	-	(0.5)
Remeasurements of retirement benefit schemes	-	-	-	-	-	-	-	357.0	357.0	-	357.0
Tax charge on retirement benefit schemes	-	-	-	-	-	-	-	(127.6)	(127.6)	-	(127.6)
Loss on disposal of investments held at FVOCI	-	-	-	-	-	-	-	(3.7)	(3.7)	-	(3.7)
Cash flow hedges	-	-	-	-	-	-	-	-	-	-	-
- fair value movements in other comprehensive income	-	-	-	92.1	(0.8)	-	-	-	91.3	-	91.3
- reclassified and reported in profit or loss	-	-	-	(10.5)	-	-	-	-	(10.5)	-	(10.5)
Tax on cash flow hedges	-	-	-	(14.5)	(0.2)	-	-	-	(14.7)	-	(14.7)
Other comprehensive income/(expense)	-	-	-	67.1	(1.0)	-	(14.0)	225.7	277.8	-	277.8
Total comprehensive income/(expense)	-	-	-	67.1	(1.0)	-	(14.0)	532.3	584.4	2.4	586.8
Cash flow hedges recognised in inventories	-	-	-	6.5	-	-	-	-	6.5	-	6.5
Tax on cash flow hedges recognised in inventories	-	-	-	(1.2)	-	-	-	-	(1.2)	-	(1.2)
Transactions with owners:											
Transactions with non-controlling shareholders	-	-	-	-	-	-	-	(1.7)	(1.7)	(1.0)	(2.7)
Shares issued in respect of employee share options	0.4	0.2	-	-	-	-	-	(0.3)	0.3	-	0.3
Buy back and cancellation of own shares ³	(469.9)	-	469.9	-	-	-	-	-	-	-	-
Credit for share-based payments	-	-	-	-	-	-	-	38.8	38.8	-	38.8
Deferred tax on share schemes	-	-	-	-	-	-	-	3.6	3.6	-	3.6
As at 2 April 2022	19.7	910.6	2,680.4	17.6	3.6	(6,542.2)	(73.9)	5,897.9	2,913.7	4.2	2,917.9

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.

² Included within "Retained earnings" is the fair value through other comprehensive income reserve.

³ On 8 July 2021, the Company reduced the nominal value of its 1,957,779,626 ordinary shares in issue at that date from £0.25 to £0.01. The reduction was completed by subdividing each £0.25 ordinary share in issue into 1 ordinary share of £0.01 and 1 deferred share of £0.24. All deferred shares were then bought back for total aggregate consideration of £0.01 and cancelled. The Company's issued share capital remains unchanged and each shareholder's proportionate interest in the share capital of the Company remains unchanged. Aside from the change in nominal value, the rights attaching to the ordinary shares (including voting and dividend rights and rights on a return of capital) remain unchanged.

Condensed consolidated statement of cash flows

	Notes	26 weeks ended		52 weeks ended
		1 Oct 2022 (Unaudited) £m	2 Oct 2021 (Unaudited) £m	2 April 2022 (Audited) £m
Cash flows from operating activities				
Cash generated from operations	13	326.2	656.6	1,385.7
Income tax paid		(26.2)	(5.0)	(7.7)
Net cash inflow from operating activities		300.0	651.6	1,378.0
Cash flows from investing activities				
Proceeds on property disposals		-	2.2	43.9
Purchase of property, plant and equipment		(143.6)	(102.8)	(192.8)
Purchase of intangible assets		(40.0)	(24.9)	(64.6)
Sale/(purchase) of current financial assets		7.8	(5.6)	0.8
Purchase of non-current financial assets		(3.5)	(1.0)	(3.3)
Proceeds on disposal of non-current financial assets		0.2	-	5.2
Purchase of investment in joint venture and associates ¹		-	(16.8)	(37.8)
Acquisition of subsidiary, net of cash acquired ²		(95.4)	-	(4.5)
Loans to related parties		-	-	(1.0)
Interest received		6.8	2.9	8.4
Net cash used in investing activities		(267.7)	(146.0)	(245.7)
Cash flows from financing activities				
Interest paid ³		(130.1)	(115.7)	(216.6)
Redemption of Medium Term Notes		(150.6)	-	(163.6)
Repayment of lease liabilities		(109.9)	(107.9)	(216.0)
Payment of liability to the Marks & Spencer UK Pension Scheme		(71.9)	-	-
Shares issued on exercise of employee share options		-	-	0.3
Net cash used in financing activities		(462.5)	(223.6)	(595.9)
Net cash (outflow)/inflow from activities		(430.2)	282.0	536.4
Effects of exchange rate changes		5.0	0.2	(8.2)
Opening net cash		1,197.9	669.7	669.7
Closing net cash		772.7	951.9	1,197.9

¹Last full year includes £33.8m outflow in relation to contingent consideration settled with Ocado Retail Limited and £4.0m outflow on the acquisition of 27% of the issued share capital of Nobody's Child Limited.

²£95.4m on purchase of Gist Limited. Consideration of £163.2m net of cash acquired £67.8m. Last full year relates to £4.5m outflow on the acquisition of 77.7% of the issued share capital of The Sports Edit Limited.

³Includes interest paid on the partnership liability to the Marks & Spencer UK Pension Scheme of £5.9m (last half year: £nil; last full year: £nil) and interest paid on lease liabilities of £64.1m (last half year: £65.2m; last full year: £128.3m).

Notes to the financial statements (Unaudited)

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 2 April 2022 is an extract from the published Annual Report and Financial Statements which were approved by the Board of Directors on 24 May 2022, have been reported on by the Group's auditors and delivered to the Registrar of Companies. The audit report on the Annual Report and Financial Statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under s498 (2) or (3) of the Companies Act 2006.

Basis of preparation

The financial information has been prepared in accordance with the UK-adopted International Accounting Standard 34 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Going concern basis

The financial statements have been prepared on a going concern basis. In adopting the going concern basis, the directors have considered the business activities as set out on pages 1 to 11 and the principal risks and uncertainties as set out on pages 28 to 29.

The Group continues to maintain a robust financial position providing it with sufficient access to liquidity, through a combination of cash and committed facilities, to meet its needs in the short and medium term. At 1 October 2022, the Group had available liquidity of £1,647.7, comprising cash and cash equivalents of £772.7m, an undrawn committed syndicated bank revolving credit facility ("RCF") of £850.0m (set to mature in June 2025), and undrawn uncommitted facilities amounting to £25.0m. The Group's net debt at 1 October 2022 was £2,928.7m, an increase of £229.9m since 2 April 2022, primarily driven by a free cash flow outflow due to the working capital movement in the period.

The forecast cashflows for the next 12-month period to November 2023 used to support the assessment of going concern incorporate a latest estimate of the ongoing impact of current market conditions on the Group and include a number of assumptions including sales growth and customer behaviour. In forming their outlook on the future financial performance, the directors considered a variety of downsides that the Group might experience, such as increasing energy costs, inflation rate increases, pressures on costs and margin, and the potential negative impact of shifts in customer behaviour. The downside scenario also assumed that a delay on transformation benefits resulted in a decline in the incremental sales expected from the transformation.

Based on the forecast cashflows, throughout the next 12-month period to November 2023, the Group does not anticipate needing to draw on its available facilities and has adequate headroom to meet the covenant requirements.

As a result, the directors believe that the Group is well placed to manage its financing and other principal risks satisfactorily and that the Group will be able to operate within the level of its facilities for the foreseeable future, being a period of at least 12 months from the approval of the financial statements. For this reason, the directors consider it appropriate for the Group to adopt the going concern basis in preparing its interim financial statements.

Accounting policies

The results for the first half of the financial year have been reviewed, not audited and are prepared on the basis of the accounting policies set out in the Group's 2022 Annual Report and Financial Statements.

Several amendments apply for the first time during the period but have not led to any changes to the Group's accounting policies or have any other material impact on the financial position or performance of the Group.

Alternative performance measures

In reporting financial information, the Group presents alternative performance measures (APMs) which are not defined or specified under the requirements of IFRS.

The Group believes that these APMs, which are not considered to be a substitute for, or superior to, IFRS measures, provide stakeholders with additional helpful information on the performance of the business. The APMs are consistent with how the business performance is planned and reported within the internal management reporting to the Board and Executive Committee. Some of these measures are also used for the purpose of setting remuneration targets.

The key APMs that the Group uses include: sales; like-for-like revenue growth; operating profit before adjusting items; profit before tax and adjusting items; adjusted basic earnings per share; net debt; net debt excluding lease liabilities; and free cash flow. Each of these APMs, and others used by the Group, are set out in the Glossary, including explanations of how they are calculated and how they can be reconciled to a statutory measure where relevant.

The Group reports some financial measures, primarily International sales, on both a reported and constant currency basis. The constant currency basis, which is an APM, retranslates the previous year revenues at the average actual periodic exchange rates used in the current financial year. This measure is presented as a means of eliminating the effects of exchange rate fluctuations on the year-on-year reported results.

The Group makes certain adjustments to the statutory profit measures in order to derive many of these APMs. The Group's policy is to exclude items that are considered significant in nature and/or quantum to the financial statement line item or applicable disclosure note or are consistent with items that were treated as adjusting in prior periods. The Group's definition of adjusting items is consistent with prior periods. Treatment as an adjusting item provides stakeholders with additional useful information to assess the year-on-year or period-on-period trading performance of the Group. On this basis, the following items were included within adjusting items for the 26-week period ended 1 October 2022:

- Net charges associated with the strategic programme in relation to the review of the UK store estate.
- Significant restructuring costs and other associated costs arising from strategic or operational changes that are not considered by the Group to be part of the normal operating costs of the business.
- Impairment charges and provisions that are considered to be significant in nature and/or value to the trading performance of the business.
- Charges and reversals of previous impairments arising from the write-off of assets and other property charges that are considered to be significant in nature and/or value.
- Adjustments to income from M&S Bank due to a 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.
- Amortisation of the identified intangible assets arising as part of the investment in Ocado Retail Limited.
- Remeasurement of contingent consideration including discount unwind.
- Directly attributable gains and expenses resulting from the Covid-19 pandemic.
- (New) Significant costs relating to the acquisition of Gist Limited.

Refer to note 3 for a summary of the adjusting items.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of the consolidated financial statements requires the Group to make estimates and judgements that affect the application of policies and reported amounts. The critical accounting judgements and key sources of estimation uncertainty remain consistent with those presented in note 1 of the Group's 2022 Annual Report and Financial Statements.

In recognition of the ongoing impact of market conditions in the period, the Group provides additional information on the following judgements and estimates.

UK store estate programme

The Group is undertaking a significant strategic programme to review its UK store estate. The most significant judgement that impacts the charge is that the stores identified as part of the programme are more likely than not to close. Significant estimation uncertainty arises in respect of determining the recoverable amount of assets and the costs to be incurred as part of the programme. The significant assumptions adopted are detailed in the Group's 2022 Annual Report and Financial Statements, with those most likely to have a material impact being closure dates and changes to future sales.

The charge recognised at 2 April 2022 reflected cash flow projections from the Group's latest budget and three-year plan. As this continues to be the most recent Board-approved budget, and trading performance in the period is ahead of those forecasts, no changes have been made to the cash flow projections. The pre-tax discount rate was adjusted to use the rate at 1 October 2022. Similarly, other assumptions have remained consistent with those used at 2 April 2022, with only small adjustments made to reflect any known changes to closure date. See note 3 for further details.

Impairment of property, plant and equipment and intangibles

Property, plant and equipment and computer software intangibles are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable.

The Group has considered whether there have been any indicators of impairment or impairment reversal during the period which would require a detailed impairment test to be performed. The Group has considered a number of different factors and, based on this, has concluded that there is an indicator of impairment during the period. As a result, a detailed impairment test has been performed. See note 3 for further details.

Inventory provisioning

The Group assesses the recoverability of inventories by applying assumptions around the future saleability and estimated selling prices of items.

At 2 April 2022, the Group had recognised a total UK Clothing & Home inventory provision of £48.3m, which did not include a provision in relation to Covid-19. At 3 April 2021, the Group had recognised a total UK Clothing & Home inventory provision of £78.2m, which included £24.2m relating specifically to the estimated impact of the Covid-19 pandemic. In the first half of 2021/22 the Group utilised £10.2m of these provisions and then released the remaining £14.0m in the second half of 2021/22. During the period, UK Clothing & Home performance has been strong and the Group has updated its assumptions regarding future trading performance.

Each c.10% increase in the volume of UK Clothing & Home inventory going into sale/clearance would reduce the net realisable value of inventory by c.£2m.

Remeasurement of contingent consideration

Contingent consideration, resulting from the investment in Ocado Retail Limited, is remeasured at fair value at each reporting date.

The fair value of the contingent consideration has been estimated using the expected present value technique and is based on probability-weighting possible scenarios and applying an appropriate discount rate to reflect the timing of the possible payment. We have considered a range of scenarios reflecting current market uncertainty, taking into account Ocado Retail's most recent trading update in September 2022. We have determined a fair value of £60.5m (last full year £172.6m). A discount rate of 9.0% was used. See note 11 for full details.

2 Segmental Information

IFRS 8 Operating Segments 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 Committee. The Executive Committee reviews the Group's internal reporting in order to assess performance and allocate resources across each operating segment.

The Group's reportable operating segments have therefore been identified as follows:

- UK Clothing & Home – comprises the retailing of womenswear, menswear, lingerie, kidswear and home products through UK retail stores and online.
- UK Food – includes the results of the UK retail food business and UK Food franchise operations, with the following five main categories: protein deli and dairy; produce; ambient and in-store bakery; meals, dessert and frozen; and hospitality and 'Food on the Move'; and direct sales to Ocado Retail Limited.
- International – consists of Marks and Spencer owned businesses in Europe and Asia and the international franchise operations.
- Ocado – includes the Group's share of profits or losses from the investment in Ocado Retail Limited.

Other business activities and operating segments, including M&S Bank and M&S Energy, are combined and presented in "All other segments". Finance income and costs are not allocated to segments as each is managed on a centralised basis.

Following completion of the acquisition of Gist Limited on 30 September 2022, the results of Gist Limited are included within the UK Food operating segment (see note 15).

The Executive Committee assesses the performance of the operating segments based on a measure of operating profit before adjusting items. This measurement basis excludes the effects of adjusting items from the operating segments.

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

	Note	26 weeks ended 1 October 2022 (Unaudited)					Group £m
		UK Clothing & Home	UK Food	International	Ocado	All other segments	
		£m	£m	£m	£m	£m	
Sales¹		1,749.7	3,317.5	496.4	-	-	5,563.6
Revenue		1,724.3	3,317.5	496.4	-	-	5,538.2
Operating profit/(loss) before adjusting items²	3	171.4	71.8	39.0	(0.7)	(0.8)	280.7
Finance income before adjusting items	3						25.5
Finance costs before adjusting items	3						(100.7)
Profit/(loss) before tax and adjusting items	3	171.4	71.8	39.0	(0.7)	(0.8)	205.5
Adjusting items	3						3.0
Profit/(loss) before tax		171.4	71.8	39.0	(0.7)	(0.8)	208.5

26 weeks ended 2 October 2021 (Unaudited)

		UK Clothing & Home £m	UK Food £m	International £m	Ocado £m	All other segments £m	Group £m
Sales¹		1,534.6	3,143.0	435.3	-	-	5,112.9
Revenue		1,527.0	3,143.0	435.3	-	-	5,105.3
Operating profit/(loss) before adjusting items²	3	156.2	143.7	35.9	28.1	(0.7)	363.2
Finance income before adjusting items	3						16.0
Finance costs before adjusting items	3						(109.8)
Profit/(loss) before tax and adjusting items	3	156.2	143.7	35.9	28.1	(0.7)	269.4
Adjusting items	3						(82.1)
Profit/(loss) before tax		156.2	143.7	35.9	28.1	(0.7)	187.3

		52 weeks ended 2 April 2022 (Audited)					Group
		UK Clothing & Home £m	UK Food £m	International £m	Ocado £m	All other segments £m	£m
Sales¹		3,332.2	6,639.6	937.2	-	-	10,909.0
Revenue		3,308.3	6,639.6	937.2	-	-	10,885.1
Operating profit before adjusting items²	3	330.7	277.8	73.6	13.9	13.0	709.0
Finance income before adjusting items	3						28.3
Finance costs before adjusting items	3						(214.4)
Profit before tax and adjusting items	3	330.7	277.8	73.6	13.9	13.0	522.9
Adjusting items	3						(131.2)
Profit before tax		330.7	277.8	73.6	13.9	13.0	391.7

¹Sales is revenue stated prior to adjustments for UK Clothing & Home brand consignment sales of £25.4m (last half year: £7.6m; last full year £23.9m).

²Operating profit/(loss) before adjusting items is stated as gross profit less operating costs prior to adjusting items. At reportable segment level costs are allocated where directly attributable or based on an appropriate cost driver for the cost.

Segment assets and liabilities, including investments in associates and joint ventures, are not disclosed because they are not reported to or reviewed by the Executive Committee.

Other disclosures

	26 weeks ended 1 October 2022 (Unaudited)	26 weeks ended 2 October 2021 (Unaudited) ¹	52 weeks ended 2 April 2022 (Audited) ¹
	£m	£m	£m
Write-down of inventories to net realisable value	117.6	85.8	197.6

¹ Includes write-back of inventories to net realisable value in relation to Covid-19. See note 3 for further detail.

3 Adjusting items

The total adjusting items reported for the 26-week period ended 1 October 2022 a net gain of £3.0m. The adjustments made to reported profit before tax to arrive at adjusted profit are:

	26 weeks ended		52 weeks ended
	1 Oct 2022 (Unaudited) £m	2 Oct 2021 (Unaudited) £m	2 Apr 2022 (Audited) £m
Included in operating profit			
Strategic programmes - UK store estate	(26.3)	(58.1)	(161.4)
Strategic programmes - Organisation	(14.6)	1.9	14.3
Strategic programmes - UK logistics	-	(1.7)	21.9
Strategic programmes - International store closures and impairments	-	-	0.4
Store impairments, impairment reversals and other property charges	(36.3)	-	60.0
Acquisition of Gist Limited	(24.4)	-	-
Amortisation and fair value adjustments arising as part of the investment in Ocado Retail Limited	(7.0)	(25.4)	(32.5)
M&S Bank charges incurred in relation to the insurance mis-selling provisions	(1.0)	(1.0)	(16.0)
Franchise restructure	0.4	(11.9)	(41.3)
Directly attributable gains resulting from the Covid-19 pandemic	-	15.0	17.8
	(109.2)	(81.2)	(136.8)
Included in net finance income/(costs)			
Remeasurement of contingent consideration including discount unwind	112.2	(0.9)	5.6
	112.2	(0.9)	5.6
Adjustment to profit before tax	3.0	(82.1)	(131.2)

Strategic programmes - UK store estate (£26.3m)

In November 2016, the Group announced a strategic programme to transform and rotate the UK store estate with the overall objective to improve our store estate to better meet our customers' needs. The Group incurred charges of £819m up to April 2022 under this programme primarily relating to closure costs associated with stores identified as part of the strategic transformation plans.

The Group has recognised a charge of £26.3m in the period in relation to those stores identified as part of the rotation plans. The charge primarily reflects the latest view of store closure plans as disclosed in the 2021/22 financial statements and latest assumptions for estimated store closure costs, as well as charges relating to the impairment of buildings and fixtures and fittings, and depreciation as a result of shortening the useful economic life of stores based on the most recent approved exit routes.

As disclosed in the accounting policies (note 1), the cash flows used within the impairment models for the UK store estate programme are based on assumptions which are sources of estimation uncertainty, and small movements in these assumptions could lead to further impairments. Management has performed sensitivity analysis on the key assumptions across the UK store estate programme.

A delay of 12 months in the probable date of each store exit would result in a decrease in the impairment charge of £35.1m. A 5% reduction in planned sales in years 2 and 3 (where relevant) would result in an increase in the impairment charge of £13.7m. Neither a 50 basis point increase in the discount rate, a 25 basis point reduction in management gross margin during the period of trading, nor a 2% increase in the costs associated with exiting a store would result in a significant increase to the impairment charge, individually or in combination with the other reasonably possible scenarios considered.

Further charges relating to the closure and rotation of the UK store estate are anticipated over the next eight and a half years as the programme progresses, the quantum of which is subject to change throughout the programme period as we get greater certainty of circumstances that need to be in place to make closure financially viable. Future charges will not include Foodhall closures at lease event where there is opportunity for a better location, as this is not in the scope of the programme.

As at 1 October 2022, the total closure programme now consists of 204 stores, 103 of which have already closed. Further charges of c.£170m are estimated within the next eight and a half financial years, bringing anticipated total programme costs since 2016 to c.£1bn. In addition, where store exit routes in the next eight and a half years lead to the recognition of gains on exit, particularly those relating to asset management, these credits will also be recognised within adjusting items as part of the programme. The anticipated total programme costs to date does not include any costs that may arise in relation to a further c.30 stores currently under consideration for closure within the next eight and a half years. At this stage these c.30 stores remain commercially supportable and in the event of a decision to close the store the exit routes are not yet certain.

These costs are reported as adjusting items on the basis that they are significant in quantum, relate to a strategic initiative focused on reviewing our store estate and to aid comparability from one period to the next.

Strategic programmes – Organisation (£14.6m)

During 2016/17, the Group announced a wide-ranging strategic review across a number of areas of the business which included UK organisation and the programme to centralise our London Head Office functions into one building. In the period, an impairment charge of £14.6m has been recognised (2021/22 £11.9m impairment reversal). This relates to the updating of assumptions and market fluctuations over the life of the sub-let of previously closed offices, notably Merchant Square. Total costs of centralising our London Head Office functions into one building incurred to date are c.£101m. Any future charges/reversals will relate to the updating of assumptions and market fluctuations over the life of the sub-let lease to September 2040.

These charges are reported as adjusting items on the basis that they are consistent with the disclosure of costs previously recognised.

Store impairments, impairment reversals and property charges (£36.3m)

The Group has recognised charges in the period associated with the carrying value of items of property, plant and equipment.

The Group considered whether the large degree of uncertainty in the wider macroeconomic environment represented a significant impairment indicator at 1 October 2022. Management concluded that the increase in discount rates in particular was a significant impairment indicator and therefore a full impairment test was undertaken.

A pre-tax discount rate of 12.7% (2021/22 9.8%) used in the calculation of cash flows is derived from the M&S Weighted Average Cost of Capital (WACC). This has increased since last year end, reflecting higher market inflation expectations and increased perceived risk in the bond market.

Other key inputs, including the latest Board-approved annual long-term plan and related cashflow forecasts, have been assessed and remain unchanged since the previous year end.

As a result, store impairment testing has identified stores where the current and anticipated future performance does not support the carrying value of the stores. A charge of £36.3m has been incurred in respect of the impairment of assets associated with these stores.

As disclosed in the accounting policies (note 1), the cash flows used within the impairment model are based on assumptions which are sources of estimation uncertainty and small movements in these assumptions could lead to further impairments. Management has performed sensitivity analysis on key assumptions in the impairment model using reasonably possible changes in these key assumptions across the UK store portfolio.

A reduction in sales of 5% from the three-year plan in year 3 could result in an increase in the impairment charge of up to c.£95m and a 25 basis point reduction in gross profit margin from year 3 onwards could increase the impairment charge by up to c.£47m. In combination, a 1% fall in sales and a 10 basis point fall in gross profit margin could increase the impairment charge by up to c.£52m. A 50 basis point increase in the discount rate could increase the impairment charge c.£53m. Reducing the long-term growth rate to 0% across all stores, would not result in a significant increase to the impairment charge, either individually or in combination.

The charges have been classified as an adjusting item on the basis of the significant quantum of the charge in the period to the results of the Group. Any future charges or reversals relating to stores previously impaired within adjusting items will continue to be recognised within adjusting items in line with the original charge. Any future charges or reversals relating to stores not previously impaired within adjusting items will be recognised in the underlying results.

Acquisition of Gist Limited (£24.4m)

On 30 September 2022 the Group completed the acquisition of Gist Limited from Streshield Limited, a subsidiary of The BOC Group Limited, as part of M&S's multi-year programme to modernise its Food supply chain network to support growth. As part of the transaction the Group has incurred £24.4m of one-off charges that are not considered to be day-to-day operational costs of our business. £18.2m of charges relate to the settlement of our pre-existing relationship with Gist Limited and there were £6.2m of other costs, predominantly £5.7m of transaction costs incurred. See note 15 for further details.

These costs are adjusting items as they relate to a major transaction and, but for the transaction, the business would not have incurred these costs and as a result are not considered to be normal operating costs of the business. Further costs are expected in 2022/23 and 2023/24 in relation to the acquisition, such as retention bonuses and integration costs.

Amortisation and fair value adjustments arising as part of the investment in Ocado Retail Limited (£7.0m)

Intangible assets of £366.0m were acquired as part of the investment in Ocado Retail Limited in 2019/20 relating to the Ocado brand and acquired customer relationships. These intangibles are being amortised over their useful economic lives of 10 – 40 years

with an amortisation charge of £8.6m recognised in the period. In addition, a further deferred tax credit of £1.6m has been recognised.

The amortisation charge and changes in the related deferred tax liability are included within the Group's share result in associate and are considered to be adjusting items as they are based on judgements about their value and economic life and are not related to the Group's underlying trading performance. These charges are reported as adjusting items on the basis that they are significant in quantum and to aid comparability from one period to the next.

M&S Bank charges incurred in relation to insurance mis-selling provisions (£1.0m)

The Group has an economic interest in Marks and Spencer Financial Services plc (trading as M&S Bank), a wholly owned subsidiary of HSBC UK Bank plc, 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 profit share received from HSBC, although future income may be impacted by significant one-off deductions.

Since the year ended 31 December 2010, M&S Bank has recognised in its audited financial statements an estimated liability for redress to customers in respect of possible mis-selling of financial products. The Group's profit share and fee income from M&S Bank has been reduced by the deduction of the estimated liability in both the current and prior years. In line with the accounting treatment under the Relationship Agreement, there is a cap on the amount of charges that can be offset against the profit share in any one year, whereby excess liabilities carried forward are deducted from the Group's future profit share from M&S Bank. The deduction in the period is £1.0m.

The treatment of this in adjusting items is in line with previous charges in relation to settlement of Payment Protection Insurance (PPI) claims and although it is recurring, it is significant in quantum in the context of the total charges recognised for PPI mis-selling to-date and is not considered representative of the normal operating performance of the Group. As previously noted, while the August 2019 deadline to raise potential mis-selling claims has now passed, costs relating to the estimated liability for redress are expected to continue. The total charges recognised in adjusting items since September 2012 for PPI is £325.5m which exceeds the total offset against profit share of £258.4m to date and this deficit will be deducted from the Group's share of future profits from M&S Bank.

Franchise restructuring (£0.4m credit)

In September 2021 the Group announced the closure of 11 franchise stores in France in response to increased EU border costs. Consequently, the Group recognised a charge of £10.3m for closure costs in 2021/22. A provision release of £0.4m has been recognised during the period in relation to the stores in France. No future costs are currently expected.

The costs/credits are considered to be adjusting items as they are one-off in nature and significant in value in total to the results of the Group and to the International segment.

Remeasurement of contingent consideration including discount unwind (£112.2m credit)

Contingent consideration, resulting from the investment in Ocado Retail Limited, is remeasured at fair value at each reporting date with the changes in fair value recognised in profit or loss. During 2021/22, £33.8m of contingent consideration was settled, following the achievement of the first and second performance targets. A credit of £112.2m has been recognised in the period, representing the revaluation of the contingent consideration payable of £190.7m (£156.3m plus interest). See note 11 for further details. The change in fair value is considered to be an adjusting item as it relates to a major transaction and consequently is not considered representative of the normal operating performance of the Group. The remeasurement will be recognised in adjusting items until the final contingent consideration payment is made in 2024/25.

4 Finance income/(costs)

	Notes	26 weeks ended		52 weeks ended
		1 Oct 2022 (Unaudited) £m	2 Oct 2021 (Unaudited) £m	2 April 2022 (Audited) £m
Bank and other interest receivable		6.5	1.3	3.7
Pension net finance income	9	14.2	6.4	13.2
Other finance income		2.0	5.6	5.9
Interest income on subleases		2.8	2.7	5.5
Finance income before adjusting items		25.5	16.0	28.3
Finance income in adjusting items	3	112.2	-	5.6
Finance income		137.7	16.0	33.9
Other finance costs		(2.3)	(0.7)	(0.8)
Interest payable on syndicated bank facility		(2.2)	(2.2)	(4.7)
Interest payable on Medium Term Notes		(33.4)	(41.8)	(79.6)
Interest payable on lease liabilities		(58.5)	(61.6)	(121.1)
Unwinding of discount on partnership liability to the Marks and Spencer UK Pension Scheme	10	(2.4)	(1.7)	(4.4)
Unwind of discount on provisions		(1.9)	(1.8)	(3.8)
Finance costs before adjusting items		(100.7)	(109.8)	(214.4)
Finance costs in adjusting items	3	-	(0.9)	-
Finance costs		(100.7)	(110.7)	(214.4)
Net finance costs		37.0	(94.7)	(180.5)

5 Taxation

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 adjusting items.

The taxation charge in the income statement for the half year is based on the forecast full year tax rate on profit before adjusting items of 24.8% (last half year 12.4%; last full year 18.2%). This is higher than the UK statutory rate primarily due to the impact of the recapture of tax relief on SLP distributions, which have resumed in the year, and non-taxable Ocado losses.

The effective tax rate on adjusting items is 303.3% arising in the period to 1 October 2022 (last half year 7.2%; last full year 9.6%) to give an effective tax rate on profit before taxation of 20.0% (last half year 14.6%; last full year 21.1%). The effective tax rate on adjusting items has been distorted by the £112.2m credit relating to the remeasurement of the Ocado contingent consideration. Excluding the Ocado contingent consideration remeasurement would reduce the ETR on adjusting items to 9.0%.

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 period.

The adjusted earnings per share figures have also been calculated based on earnings before adjusting items that are significant in nature and/or quantum and are considered to be distortive (see note 3). These have been presented to provide shareholders with an additional measure of the Group's year-on-year performance.

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

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

	26 weeks ended		52 weeks ended
	1 Oct 2022 (Unaudited) £m	2 Oct 2021 (Unaudited) £m	2 April 2022 (Audited) £m
Profit attributable to equity shareholders of the Company	166.1	160.3	306.6
Add/(less):			
Adjusting items (see note 3)	(3.0)	82.1	131.2
Tax on adjusting items	(9.1)	(5.9)	(12.6)
Profit before adjusting items attributable to equity shareholders of the Company	154.0	236.5	425.2
	Million	Million	Million
Weighted average number of ordinary shares in issue ¹	1,962.4	1,957.6	1,958.1
Potentially dilutive share options under the Group's share option schemes	44.2	59.9	73.0
Weighted average number of diluted ordinary shares	2,006.6	2,017.5	2,031.1
	Pence	Pence	Pence
Basic earnings per share	8.5	8.2	15.7
Diluted earnings per share	8.3	7.9	15.1
Adjusted basic earnings per share	7.8	12.1	21.7
Adjusted diluted earnings per share	7.7	11.7	20.9

¹ The nominal value reduction of the Group's ordinary shares, as announced on 7 July 2021, has had no impact on the number of shares in issue.

7 Dividends

At the full-year results in May 2022, the Board stated that it would consider the scale and timing of a resumption of dividend payments at the year end.

Consistent with that announcement, a dividend has not been declared at these results.

8 Investments in Joint Ventures and Associates

The Group holds a 50% interest in Ocado Retail Limited, a company incorporated in the UK. The remaining 50% interest is held by Ocado Group Plc. Ocado Retail Limited is an online grocery retailer, operating through the ocado.com and ocadozoom.com websites.

Ocado Retail Limited is considered an associate of the Group as certain rights are conferred on Ocado Group Plc for an initial period of at least five years from acquisition in August 2019, giving Ocado Group Plc control of the company. Following this initial period, a reassessment of control will be required as the Group will have an option to obtain more power over Ocado Retail Limited if certain conditions are met. If the Group is deemed to have obtained control, Ocado Retail Limited will then be consolidated as a subsidiary of the Group. Through Board representation and shareholder voting rights, the Group is currently considered to have significant influence, therefore the investment in Ocado Retail Limited is treated as an associate and applies the equity method of accounting.

Ocado Retail Limited has a financial year end date of 27 November 2022, aligning with its parent company, Ocado Group Plc. For the Group's purpose of applying the equity method of accounting, Ocado Retail Limited has prepared financial information to the nearest quarter-end date of its financial year end, as to do otherwise would be impracticable. The results of Ocado Retail Limited are incorporated in these financial statements from 28 February 2022 to 28 August 2022. There were no significant events or transactions in the period from 29 August 2022 to 1 October 2022.

The carrying amount of the Group's interest in Ocado Retail Limited is £792.7m (last half year: £821.7m; last full year: £800.4m). The Group's share of Ocado Retail Limited losses of £7.7m (last half year: profit of £2.7m; last full year: loss of £18.6m) includes the Group's share of underlying losses of £0.7m, which includes £15.6m of exceptional income before tax related to insurance receipts (last half year: £1.7m; last full year: £1.3m) and adjusting item charges of £7.0m (last half year: £25.4m; last full year: £32.5m) (see note 3).

Summarised financial information in respect of Ocado Retail Limited (the Group's only material associate) is set out below and represents amounts in the Ocado Retail Limited financial statements prepared in accordance with IFRS, adjusted by the Group for equity accounting purposes.

	As at 28 August 2022 (Unaudited) £m	As at 27 February 2022 (Audited) £m	
Ocado Retail Limited			
Current assets	213.4	291.2	
Non-current assets	582.5	590.1	
Current liabilities	(227.7)	(223.3)	
Non-current liabilities	(361.1)	(449.8)	
Net assets	207.1	208.2	
	28 Feb 2022 to 28 Aug 2022 (Unaudited) £m	1 Mar 2021 to 29 Aug 2021 (Unaudited) £m	29 Feb 2021 to 27 Feb 2022 (Audited) £m
Revenue	1,089.0	1,136.3	2,248.8
(Loss) / profit for the period	(1.3)	56.3	27.8
Other comprehensive income	-	-	-
Total comprehensive income	(1.3)	56.3	27.8

In addition, the Group holds investments in joint ventures totalling £11.3m (last half year: £6.2m; last full year: £10.5m). The Group's share of profits totalled £0.8m (last half year: £0.6m loss; last full year: £0.7m loss).

9 Retirement benefits

	26 weeks ended		52 weeks ended
	1 Oct 2022 (Unaudited) £m	2 Oct 2021 (Unaudited) £m	2 April 2022 (Audited) £m
Opening net retirement benefit surplus	1,038.2	631.4	631.4
Current service cost	(0.1)	(0.1)	(0.2)
Administration cost	(2.4)	(2.2)	(4.8)
Net interest income	14.2	6.4	13.2
Employer contributions	38.2	38.7	41.8
Remeasurements	(247.7)	59.8	357.0
Exchange movement	(0.4)	0.2	(0.2)
Closing net retirement benefit surplus	840.0	734.2	1,038.2
Total market value of assets	7,137.1	10,619.6	10,090.7
Present value of scheme liabilities	(6,292.1)	(9,877.4)	(9,046.8)
Net funded pension plan asset	845.0	742.2	1,043.9
Unfunded retirement benefits	(2.7)	(3.8)	(2.6)
Post-retirement healthcare	(2.3)	(4.2)	(3.1)
Net retirement benefit surplus	840.0	734.2	1,038.2
Analysed in the Statement of Financial Position as:			
Retirement benefit asset	845.0	742.2	1,043.9
Retirement benefit deficit	(5.0)	(8.0)	(5.7)
Net retirement benefit surplus	840.0	734.2	1,038.2

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 5.15% (last half year: 2.05%; last full year: 2.70%) and 3.60% (last half year: 3.45%; last full year: 3.70%) respectively. The inflation rate of 3.60% 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 2.95% (last half year: 2.75%; last full year: 3.00%) has been used.

The amount of the surplus varies if the main financial assumptions change. If the discount rate decreased by 0.50%, the surplus would increase by £10m (last half year: decrease by £30m; last full year: decrease by £30m). If the discount rate increased by 0.50%, the surplus would decrease by £10m. If the discount rate decreased by 2.50%, the surplus would increase by £30m. If the discount rate increased by 2.50%, the surplus would decrease by £40m. The pension scheme is hedged against movements in gilt yields.

If the inflation rate decreased by 0.25%, the surplus would decrease by £50m (last half year: decrease by £30m; last full year: decrease by £70m). If the inflation rate decreased by 0.50%, the surplus would decrease by £90m (last half year: decrease by £60m; last full year: decrease by £130m). A one year decrease in life expectancy would increase the scheme's surplus by £120m (last half year: increase by £300m; last full year: increase by £270m).

The sensitivity analysis above is based on a change in one assumption while holding all others constant. Therefore interdependencies between the assumptions have not been taken into account within the analysis.

The most recent actuarial valuation of the Marks & Spencer UK Pension Scheme was carried out as at 31 March 2021 and showed a funding surplus of £687m. This is an improvement on the previous position at 31 March 2018 (funding surplus of £652m), primarily due to lower assumed life expectancy. The Company and Trustees have confirmed, in line with the current funding arrangement, that no further contributions will be required to fund past service as a result of this valuation (other than those already contractually committed under the existing Marks and Spencer Scottish Limited Partnership arrangements – see note 10).

With the pensioner buy-in policies purchased in September 2020, April 2019 and March 2018, the Scheme has now, in total, insured around 75% of the pensioner cash flow liabilities for pensions in payment. The buy-in policies cover specific pensioner liabilities and pass all risks to an insurer in exchange for a fixed premium payment, thus reducing the Group's exposure to changes in longevity, interest rates, inflation and other factors.

Recent increases in long-term interest rates, market inflation assumptions and the discount rate have resulted in a significant reduction in the value of both the UK Defined Benefit pension scheme's assets and liabilities. However, there has been no material worsening of the scheme's overall funding position.

The scheme has maintained its longstanding policy of substantially hedging its exposure to inflation and interest rate movements including through the use of derivatives. This is colloquially known as an LDI strategy. The scheme continues to manage its liquidity and collateral to meet its obligations as they fall due and was able to meet all its cash needs from its own resources. Subsequent to the end of the period, the Company agreed to provide the scheme with a £250m short term liquidity facility to meet excess collateral calls. The facility has not been and remains undrawn and expires on 19 January 2023.

10 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"). Under the Partnership agreement, the limited partners have no involvement in the management of the business and shall not take any part in the control of the Partnership. The general partner is responsible for the management and control of the partnership and as such, the Partnership is consolidated into the results of the Group.

The Partnership holds £1.3bn (last half year: £1.3bn and last full year: £1.3bn) of properties which have been leased back to Marks and Spencer plc. The Group retains control over these properties, including the flexibility to substitute alternative properties into the Partnership. The first limited Partnership interest (held by the Marks and Spencer UK Pension Scheme), previously entitled the Pension Scheme to receive an annual distribution of £71.9m until June 2022 from the Partnership. As a result of the Covid-19 pandemic and the need to preserve cash, in agreement with the Trustees, only £18.9m of the June 2020 payment was made with the remaining £53.0m being deferred.

During the prior period, the Group and the Pension Scheme Trustees agreed to amend the distribution dates so that the Pension Scheme is entitled to receive £71.9m in 2022, £73.0m in 2023 and £54.4m in 2024. £71.9m was paid into the scheme on 30 June 2022 as per the agreed distribution dates. The second Partnership interest (also held by the Marks and Spencer UK Pension Scheme), entitles the Pension Scheme to receive a further annual distribution of £36.4m from June 2017 until June 2031. All profits generated by the Partnership in excess of these amounts are distributable to Marks and Spencer plc.

The Partnership liability in relation to the first interest of £122.9m (last half year: £189.6m and last full year: £192.3m) is included as a financial liability in the Group's financial statements as it is a transferable financial instrument and measured at amortised cost, being the net present value of the future expected distributions from the Partnership. During the period to 1 October 2022 an interest charge of £2.4m (last half year: £1.7m and last full year: £4.4m) was recognised in the income statement representing the unwinding of the discount included in this obligation. The first limited Partnership interest of the Pension Scheme is included within the UK DB Pension Scheme assets, valued at £119.5m (last half year: £194.2m and last full year: £193.5m).

The second Partnership interest is not a transferable financial instrument as the Scheme Trustee does not have the right to transfer it to any party other than a successor Trustee. It is therefore not included as a plan asset within the UK DB pension scheme surplus reported in accordance with IAS 19. Similarly, the associated liability is not included on the Group's statement of financial position, rather the annual distribution is recognised as a contribution to the scheme each year.

11 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. The Group had no level 1 investments or financial instruments.
- 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 interest rate and foreign exchange derivatives. Fair value is calculated using discounted cash flow methodology, future cash flows are estimated based on forward exchange rates and interest rates (from observable market curves) and contract rates, discounted at a rate that reflects the credit risk of the various counterparties for those with a long maturity.
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

	(Unaudited)				(Audited)			
	As at 1 Oct 2022				As at 2 April 2022			
	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 or loss ("FVTPL")								
- derivatives held at FVTPL	-	4.1	-	4.1	-	0.6	-	0.6
- other investments ¹	-	10.5	7.0	17.5	-	17.6	4.5	22.1
Derivatives used for hedging	-	308.3	-	308.3	-	64.4	-	64.4
Liabilities measured at fair value								
Financial liabilities at fair value through profit and loss ("FVTPL")								
- derivatives held at FVTPL	-	(1.9)	-	(1.9)	-	(0.9)	-	(0.9)
- Ocado contingent consideration ²	-	-	(60.5)	(60.5)	-	-	(172.6)	(172.6)
- Gist contingent consideration ³	-	-	(23.7)	(23.7)	-	-	-	-
Derivatives used for hedging	-	(19.1)	-	(19.1)	-	(2.7)	-	(2.7)

There were no transfers between the levels of the fair value hierarchy during the period. There were also no changes made to any of the valuation techniques during the period.

¹ Within Level 3 other investments, the Group holds £6.5m of venture capital investments, managed by True Capital Limited, measured at FVTPL (last half year: £nil; last full year: £3.1m) which are Level 3 instruments. The fair value of these investments has been determined in accordance with the International Private Equity and Venture Capital ("IPEV") Valuation Guidelines. Where investments are either recently acquired or there have been recent funding rounds with third parties, the primary input when determining the valuation is the latest transaction price.

² As part of the investment in Ocado Retail Limited, a contingent consideration arrangement was agreed. The arrangement comprises three separate elements which only become payable on the achievement of three separate financial and operational performance targets. During 2021/22, £33.8m was settled, relating to the first two targets. The final target relates to Ocado Retail Limited achieving a specified target level of earnings in the financial year ending November 2023, with any resulting payment due in 2024 following completion of the Ocado Retail Limited audited FY23 statutory accounts.

The contingent consideration is accounted for in accordance with IFRS 9 and measured at fair value with changes in measurement recognised in profit or loss. The outcome is binary, meaning that a payment of £156.3m plus interest will be made if the performance target is met, whereas should it not be met, no consideration would be payable. In line with IFRS 13, fair value of the contingent consideration has been estimated using the expected present value technique and is based on probability-weighting possible scenarios and applying an appropriate discount rate to reflect the timing of the possible payment. We have considered a range of scenarios reflecting current market uncertainty, taking into account Ocado Retail's most recent trading update in September 2022. We have determined a fair value of £60.5m (last full year: £172.6m). A discount rate of 9.0% was used.

³ As part of the investment in Gist Limited, the Group has agreed to pay the former owners of Gist Limited additional consideration of up to £25.0m plus interest when freehold properties are disposed of under certain conditions (for other consideration payable please see note 15). There is no minimum amount payable. The Group has the ability to retain the properties should it wish to do so, in which case the full amount of £25.0m plus interest will be payable on the third anniversary of completion.

The fair value of the contingent consideration arrangement of £23.7m was estimated calculating the present value of the future expected cashflows. The estimates are based on a discount rate of 8.0%. A 5.0% change in the discount rate would result in a change in fair value of £0.2m.

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 (Level 1 equivalent) was £1,399.8m (last half year: £1,680.6m; last full year: £1,482.5m); the fair value of this debt was £1,217.8m (last half year: £1,820.0m; last full year: £1,549.6m) which has been calculated using quoted market prices and includes accrued interest.

The carrying value of the Partnership liability to the Marks & Spencer UK Pension Scheme (Level 2 equivalent) is £122.9m (last half year: £189.6m; last full year: £192.3m) and the fair value of this liability is £120.5m (last half year: £187.9m; last full year: £187.9m).

Lease liabilities

Future cash outflows related to the post break clause period included in the lease liability

The Group holds certain leases that contain break clause options to provide operational flexibility. In accordance with IFRS 16, the Group has calculated the full lease term, beyond break, to represent the reasonably certain lease term (except for those stores identified as part of the UK store estate programme) within the total £2,300.3m of lease liabilities held on the balance sheet.

Total undiscounted lease payments of £773.3m (last half year: £723.7m; last year end: £766.2m) relating to the period post break clause, and the earliest contractual lease exit point, are included in lease liabilities. These undiscounted lease payments should be excluded when determining the Group's contractual indebtedness under these leases, where there is a contractual right to break.

Cash flow hedge accounting

The Group hedges its exposure to foreign currency risk using forward foreign exchange contracts and hedge accounting is applied when the requirements of IFRS 9 are met, including that forecast transactions are "highly probable". The Group has continued to apply judgment in assessing whether forecast purchases remain "highly probable". There have been no de-designated hedges or realised ineffectiveness in the foreign exchange forward contracts in the period and as at 1 October 2022, all forecast purchases qualify for hedge accounting.

Trade receivables

Included within trade and other receivables is £3.5m (last half year: £4.1m; last year end: £1.1m) which, due to non-recourse factoring arrangements in place, are held within a 'hold to collect and sell' business model and are measured at fair value through other comprehensive income ("FVOCI").

12 Contingencies and commitments

Capital expenditure

Additions to the cost of property, plant and equipment, investment property and intangible assets, excluding right of use assets are £155.5m (last half year: £120.4m) and for the year ended 2 April 2022 were £326.2m. Disposals in net book value of property, plant and equipment, investment property and intangible assets, excluding right of use assets are £nil (last half year: £nil) and for the year ended 2 April 2022 were £17.8m.

Capital commitments

	As at 1 Oct 2022 (Unaudited) £m	As at 2 Oct 2021 (Unaudited) £m	As at 2 Apr 2022 (Audited) £m
Commitments in respect of properties in the course of construction	86.5	113.5	59.8
IT capital commitments	14.4	18.3	6.1
	100.9	131.8	65.9

During 2021/22, the Group committed to invest up to £25.0m, over a three-year period to 2024/25, in an innovation and consumer growth fund managed by True Capital Limited. The fund can drawdown amounts at any time over the three-year period to make specific investments. As at 1 October 2022, the Group had invested £6.8m (last half year: £1.0m; last full year: £3.3m) of this commitment, which is held as a non-current other investment and measured at fair value through profit or loss (see note 11).

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

	26 weeks ended		52 weeks ended
	1 Oct 2022 (Unaudited)	2 Oct 2021 (Unaudited)	2 April 2022 (Audited)
	£m	£m	£m
Profit on ordinary activities after taxation	166.7	159.9	309.0
Income tax expense	41.8	27.4	82.7
Finance costs	100.7	110.7	214.4
Finance income	(137.7)	(16.0)	(33.9)
Operating profit	171.5	282.0	572.2
Share of results of Ocado Retail Limited	0.7	(28.1)	(13.9)
Increase in inventories	(373.7)	(94.8)	(46.5)
Increase in receivables	(36.3)	(46.1)	(2.9)
Increase in payables	261.2	252.4	289.1
Depreciation, amortisation and write-offs	250.6	253.9	510.7
Non-cash share-based payment expense	15.0	18.7	38.8
Defined benefit pension funding	(36.9)	(36.3)	(36.8)
Adjusting items net cash outflows ^{1,2}	(34.1)	(25.3)	(45.8)
Adjusting items M&S Bank ³	(1.0)	(1.0)	(16.0)
Adjusting operating profit items	109.2	81.2	136.8
Cash generated from operations	326.2	656.6	1,385.7

¹Excludes £nil (last half year: £0.7m; last year end: £5.6m) of surrender payments included within repayment of lease liabilities in the consolidated statement of cashflows relating to leases within the UK store estate programme.

²Adjusting items net cash outflows relate to strategic programme costs associated with the UK store estate, utilisation of provisions for the International franchise restructure, and legal cost related to the acquisition of Gist Limited.

³Adjusting items M&S Bank relates to M&S Bank income recognised in operating profit offset by charges incurred in relation to the insurance mis-selling provision, which is a non-cash item.

14 Analysis of net debt

Reconciliation of net cash flow to movement in net debt

	26 weeks ended		52 weeks ended
	1 Oct 2022 (Unaudited)	2 Oct 2021 (Unaudited)	2 April 2022 (Audited)
	£m	£m	£m
Opening net debt	(2,698.8)	(3,515.9)	(3,515.9)
Net cash (outflow)/inflow from activities	(430.2)	282.0	536.4
(Decrease)/increase in current financial assets	(7.8)	5.6	(0.8)
Decrease in debt financing	332.4	107.9	379.6
New lease commitments	(141.6)	(38.2)	(100.6)
Exchange and other non-cash movements	17.3	4.4	2.5
Movement in net debt	(229.9)	361.7	817.1
Closing net debt	(2,928.7)	(3,154.2)	(2,698.8)

Reconciliation of net debt to statement of financial position

	As at	As at	As at
	1 Oct 2022 (Unaudited)	2 Oct 2021 (Unaudited)	2 April 2022 (Audited)
	£m	£m	£m
Statement of financial position and related notes			
Cash and cash equivalents	772.7	951.9	1,197.9
Current other financial assets	10.5	24.0	17.6
Medium Term Notes - net of foreign exchange revaluation	(1,318.4)	(1,652.1)	(1,494.7)
Lease liabilities	(2,300.3)	(2,330.2)	(2,278.7)
Partnership liability to the Marks & Spencer UK Pension Scheme (note 10)	(122.9)	(189.6)	(192.3)
	(2,958.4)	(3,196.0)	(2,750.2)
Interest payable included within related borrowing and the partnership liability to the Marks & Spencer UK Pension Scheme	29.7	41.8	51.4
Total net debt	(2,928.7)	(3,154.2)	(2,698.8)

15 Business combination

On 30 September 2022 the Group obtained control of Gist Limited, a logistics business, by acquiring 100% of its issued share capital. The acquisition is expected to accelerate the Group's multi-year plan to modernise its Food supply chain network to support growth.

Recognised amounts of identifiable net assets (provisional)¹	£m
Intangible assets	2.7
Property, plant and equipment	197.9
Inventories	3.3
Trade and other receivables ²	88.0
Cash and cash equivalents	67.8
Trade and other payables	(78.0)
Borrowings and other financial liabilities	(17.4)
Provisions	(2.9)
Deferred tax liabilities	(11.0)
Net identifiable assets acquired	250.4
Goodwill	9.8
Total consideration	<u>260.2</u>
Satisfied by:	
Cash	163.2
Estimated working capital adjustment	8.0
Deferred consideration	83.5
Contingent consideration arrangement (note 11)	23.7
Settlement of pre-existing relationship	(18.2)
Total consideration transferred	<u>260.2</u>
Net cash outflow arising on acquisition:	
Cash consideration	163.2
Less: cash and cash equivalents acquired	(67.8)
	<u>95.4</u>

¹ The fair value of the net assets acquired are provisional because the acquisition was completed late in the period. The fair values will be finalised within 12 months of acquisition.

² The fair value of trade and other receivables is considered equivalent to the gross contractual amount and the Group expects to collect substantially all of these.

The goodwill is attributable to the synergies expected to arise after the Group's acquisition of Gist Limited. It has been allocated to the UK Food segment. None of the goodwill is expected to be deductible for tax purposes.

The Group incurred acquisition-related costs of £6.2m, predominantly transaction costs, which have been recognised within adjusting items (see note 3).

The post-acquisition revenues and profit of Gist Limited were not material to the Group. Presenting the Group revenue and profit as if the acquisition had been completed on the first day of the financial year is impracticable because the acquisition was completed late in the period and the necessary adjustments have not yet been reliably quantified.

Settlement of pre-existing relationship

The Group and Gist Limited were parties to a long-term supply contract under which Gist Limited supplied the Group with logistics services. This pre-existing relationship was effectively terminated on 30 September 2022.

The Group has attributed £18.2m of the consideration transferred to the extinguishment of the supply contract and has recognised the amount within adjusting items (see note 3). This pre-existing relationship tied the Group to a higher cost legacy contract and this amount relates to the unfavourable aspect of the contract relative to market prices.

16 Government support

The Group benefited from business rates relief of £nil in the period (last half year: £49.9m; last full year: £62.2m).

There are no unfulfilled conditions or contingencies attached to these grants.

17 Related party transactions

The Group's related party transactions are disclosed in the Group's 2022 Annual Report. There have been no material changes in the related party transactions described in the last annual report.

Joint Ventures and Associates

Ocado Retail Limited

The following transactions were carried out with Ocado Retail Limited, an associate of the Group:

Sales and purchases of goods and services:

	26 weeks ended		52 weeks ended
	1 Oct 2022 (Unaudited) £m	2 Oct 2021 (Unaudited) £m	2 April 2022 (Audited) £m
Sales of goods and services	17.0	16.7	36.1
Purchases of goods and services	0.1	0.2	0.2

Included within trade and other receivables is a balance of £3.2m (last half year: £2.8m; last full year: £1.9m) owed by Ocado Retail Limited.

Nobody's Child Limited

Nobody's Child Limited became an associate of the Group in November 2021.

In the half year ended 1 October 2022, the Group made purchases of goods amounting to £3.9m (last full year: £1.2m).

At 1 October 2022, included within trade and other payables is an immaterial balance less than £0.1m owed to Nobody's Child Limited (last full year: £0.2m) and included within other financial assets is a balance of £0.7m owed from Nobody's Child Limited (last full year: £0.7m).

Key management compensation

Transactions between the Group and key management personnel in the period relate only to remuneration consistent with the policy set out in the Directors' Remuneration Report within the Group's 2022 Annual Report.

There have been no other material changes to the arrangements between the Group and key management personnel in the period.

Other related party transactions

The Group acquired 77.7% of the issued share capital of The Sports Edit Limited ("TSE") in February 2022. A further 4.8% of TSE's issued share capital was owned by Mr. Justin King, a Non-Executive Director of the Group (the "JK TSE Shares"). Following shareholder approval, the Group acquired the JK TSE Shares from Mr. Justin King at a total purchase price of £0.3m in July 2022.

18 Contingent assets

The Group is currently seeking damages from an independent third party following their involvement in anti-competitive behaviour that adversely impacted the Group. The Group expects to receive an amount from the claim (either in settlement or from the legal proceedings), a position reinforced by recent court judgments in similar claims. The value of the claim is confidential and is therefore not disclosed.

19 Subsequent events

Subsequent to the balance sheet date, the Group has monitored trade performance, internal actions, as well as other relevant external factors. No material changes in key estimates and judgements have been identified as adjusting post balance sheet events. Except as disclosed in note 9, there have been no material non-adjusting events since 1 October 2022.

Glossary

Alternative performance measure	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose																																												
Income Statement Measures																																															
Sales	Revenue	Consignment sales	Sales includes the gross value of consignment sales (excluding VAT) before the impact of adjusting items. Where third-party branded goods are sold on a consignment basis, only the commission receivable is included in statutory revenue. This measure has been introduced given the Group's focus on launching and growing third-party brands and is consistent with how the business performance is reported and assessed by the Board and the Executive Committee.																																												
Clothing & Home store / Clothing & Home online sales	None	Not applicable	<p>The growth in revenues on a year-on-year basis is a good indicator of the performance of the stores and online channels.</p> <table border="1"> <thead> <tr> <th></th> <th>HY 22/23 £m</th> <th>HY 21/22 £m</th> <th>%</th> </tr> </thead> <tbody> <tr> <td colspan="4">UK Clothing & Home</td> </tr> <tr> <td>Store sales¹</td> <td>1,195.6</td> <td>1,006.2</td> <td>18.8</td> </tr> <tr> <td>Consignment sales</td> <td>(9.7)</td> <td>(2.1)</td> <td></td> </tr> <tr> <td><i>Store revenue</i></td> <td><i>1,185.9</i></td> <td><i>1,004.1</i></td> <td><i>18.1</i></td> </tr> <tr> <td>Online sales¹</td> <td>554.1</td> <td>528.4</td> <td>4.9</td> </tr> <tr> <td>Consignment sales</td> <td>(15.7)</td> <td>(5.5)</td> <td></td> </tr> <tr> <td><i>Online revenue</i></td> <td><i>538.4</i></td> <td><i>522.9</i></td> <td><i>3.0</i></td> </tr> <tr> <td>UK Clothing & Home sales¹</td> <td>1,749.7</td> <td>1,534.6</td> <td>14.0</td> </tr> <tr> <td>Consignment sales</td> <td>(25.4)</td> <td>(7.6)</td> <td></td> </tr> <tr> <td>Total UK Clothing & Home revenue</td> <td>1,724.3</td> <td>1,527.0</td> <td>12.9</td> </tr> </tbody> </table> <p>¹ UK Clothing & Home store sales excludes revenue from 'shop your way' and click & collect, which are included in UK Clothing & Home online sales.</p> <p>There is no material difference between sales and revenue for UK Food and International.</p>		HY 22/23 £m	HY 21/22 £m	%	UK Clothing & Home				Store sales ¹	1,195.6	1,006.2	18.8	Consignment sales	(9.7)	(2.1)		<i>Store revenue</i>	<i>1,185.9</i>	<i>1,004.1</i>	<i>18.1</i>	Online sales ¹	554.1	528.4	4.9	Consignment sales	(15.7)	(5.5)		<i>Online revenue</i>	<i>538.4</i>	<i>522.9</i>	<i>3.0</i>	UK Clothing & Home sales ¹	1,749.7	1,534.6	14.0	Consignment sales	(25.4)	(7.6)		Total UK Clothing & Home revenue	1,724.3	1,527.0	12.9
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Like-for-like revenue growth	Movement in revenue per the income statement	Sales from non like-for-like stores	<p>The period-on-period change in revenue (excluding VAT) from stores which have been trading and where there has been no significant change (greater than 10%) in footage for at least 52 weeks and online sales. The measure is used widely in the retail industry as an indicator of sales performance. It excludes the impact of new stores, closed stores or stores with significant footage change.</p> <table border="1"> <thead> <tr> <th></th> <th>HY 22/23 £m</th> <th>HY 21/22 £m</th> <th>%</th> </tr> </thead> <tbody> <tr> <td colspan="4">UK Food</td> </tr> <tr> <td>Like-for-like</td> <td>3,175.1</td> <td>3,029.2</td> <td>4.8</td> </tr> <tr> <td>Net new space¹</td> <td>142.4</td> <td>113.8</td> <td></td> </tr> <tr> <td>Total UK Food revenue</td> <td>3,317.5</td> <td>3,143.0</td> <td>5.6</td> </tr> <tr> <td colspan="4">UK Clothing & Home</td> </tr> <tr> <td>Like-for-like</td> <td>1,715.8</td> <td>1,488.2</td> <td>15.3</td> </tr> <tr> <td>Net new space</td> <td>33.9</td> <td>46.4</td> <td></td> </tr> <tr> <td>Total UK Clothing & Home sales</td> <td>1,749.7</td> <td>1,534.6</td> <td>14.0</td> </tr> </tbody> </table> <p>¹ UK Food net new space includes sales to Ocado Retail Limited.</p>		HY 22/23 £m	HY 21/22 £m	%	UK Food				Like-for-like	3,175.1	3,029.2	4.8	Net new space ¹	142.4	113.8		Total UK Food revenue	3,317.5	3,143.0	5.6	UK Clothing & Home				Like-for-like	1,715.8	1,488.2	15.3	Net new space	33.9	46.4		Total UK Clothing & Home sales	1,749.7	1,534.6	14.0								
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Alternative performance measure	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose																												
Food ex hospitality and franchise	Movement in revenue per the income statement	Sales from hospitality and franchise categories and sales to Ocado Retail Limited	<p>The period-on-period change in Food revenue (before sales to Ocado Retail Limited) excluding the hospitality and franchise categories' revenue (excluding VAT). The hospitality category includes cafés, counters and marketplace.</p> <table border="1"> <thead> <tr> <th></th> <th>HY 22/23 £m</th> <th>HY 21/22 £m</th> <th>%</th> </tr> </thead> <tbody> <tr> <td>UK Food</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Revenue</td> <td>3,317.5</td> <td>3,143.0</td> <td>5.6</td> </tr> <tr> <td>Sales to Ocado Retail</td> <td>(14.5)</td> <td>(14.4)</td> <td></td> </tr> <tr> <td>Hospitality</td> <td>(102.7)</td> <td>(67.0)</td> <td></td> </tr> <tr> <td>Franchise</td> <td>(374.6)</td> <td>(289.9)</td> <td></td> </tr> <tr> <td>Food ex hospitality and franchise</td> <td>2,825.7</td> <td>2,771.7</td> <td>1.9</td> </tr> </tbody> </table>		HY 22/23 £m	HY 21/22 £m	%	UK Food				Revenue	3,317.5	3,143.0	5.6	Sales to Ocado Retail	(14.5)	(14.4)		Hospitality	(102.7)	(67.0)		Franchise	(374.6)	(289.9)		Food ex hospitality and franchise	2,825.7	2,771.7	1.9
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M&S.com revenue / Online revenue	None	Not applicable	<p>Total revenue through the Group's online platforms. These revenues are reported within the relevant UK Clothing & Home, UK Food and International segment results. The growth in revenues on a year-on-year basis is a good indicator of the performance of the online channel and is a measure used within the Group's incentive plans. Refer to the Remuneration Report in the FY21/22 annual report for explanation of why this measure is used within incentive plans.</p>																												
International online	None	Not applicable	<p>International revenue through International online platforms. These revenues are reported within the International segment results. The growth in revenues on a year-on-year basis is a good indicator of the performance of the online channel.</p> <table border="1"> <thead> <tr> <th></th> <th>HY 22/23 £m</th> <th>HY 21/22 £m</th> <th>%</th> </tr> </thead> <tbody> <tr> <td>International Revenue</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Stores</td> <td>413.4</td> <td>350.7</td> <td>17.9</td> </tr> <tr> <td>Online</td> <td>83.0</td> <td>84.6</td> <td>(1.9)</td> </tr> <tr> <td>At reported currency</td> <td>496.4</td> <td>435.3</td> <td>14.0</td> </tr> </tbody> </table>		HY 22/23 £m	HY 21/22 £m	%	International Revenue				Stores	413.4	350.7	17.9	Online	83.0	84.6	(1.9)	At reported currency	496.4	435.3	14.0								
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Revenue growth at constant currency	None	Not applicable	<p>The period-on-period change in revenue retranslating the previous year revenue at the average actual periodic exchange rates used in the current financial year. This measure is presented as a means of eliminating the effects of exchange rate fluctuations on the period-on-period reported results.</p> <table border="1"> <thead> <tr> <th></th> <th>HY 22/23 £m</th> <th>HY 21/22 £m</th> <th>%</th> </tr> </thead> <tbody> <tr> <td>International Revenue</td> <td></td> <td></td> <td></td> </tr> <tr> <td>At constant currency</td> <td>496.4</td> <td>436.5</td> <td>13.7</td> </tr> <tr> <td>Impact of FX retranslation</td> <td>-</td> <td>(1.2)</td> <td></td> </tr> <tr> <td>At reported currency</td> <td>496.4</td> <td>435.3</td> <td>14.0</td> </tr> </tbody> </table>		HY 22/23 £m	HY 21/22 £m	%	International Revenue				At constant currency	496.4	436.5	13.7	Impact of FX retranslation	-	(1.2)		At reported currency	496.4	435.3	14.0								
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Adjusting items	None	Not applicable	<p>Those items which the Group excludes from its adjusted profit metrics in order to present a further measure of the Group's performance. Each of these items, costs or incomes, is considered to be significant in nature and/or quantum or are consistent with items treated as adjusting in prior periods. Excluding these items from profit metrics provides readers with helpful additional information on the performance of the business across periods because it is consistent with how the business performance is planned by, and reported to, the Board and the Executive Committee.</p>																												

Alternative performance measure	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Operating profit before adjusting items	Operating profit	Adjusting items (See note 3)	Operating profit before the impact of adjusting items. The Group considers this to be an important measure of Group performance and is consistent with how the business performance is reported and assessed by the Board and the Executive Committee.
Finance income before adjusting items	Finance income	Adjusting items (See note 3)	Finance income before the impact of adjusting items. The Group considers this to be an important measure of Group performance and is consistent with how the business performance is reported and assessed by the Board and the Executive Committee.
Finance costs before adjusting items	Finance costs	Adjusting items (See note 3)	Finance costs before the impact of adjusting items. The Group considers this to be an important measure of Group performance and is consistent with how the business performance is reported and assessed by the Board and the Executive Committee.
Net interest payable on lease liabilities	Finance income/costs	Finance income/costs (See note 4)	The net of interest income on subleases and interest payable on lease liabilities. The measure allows the Board and Executive Committee to assess the impact of IFRS 16 Leases.
Net financial interest	Finance income/costs	Finance income/costs (See note 4)	Calculated as net finance costs, excluding interest on leases and adjusting items. The Group considers this to be an important measure of Group performance and is consistent with how the business performance is reported and assessed by the Board and the Executive Committee.
EBIT before adjusting items	EBIT ¹	Adjusting items (See note 3)	Calculated as profit before the impact of adjusting items, net finance costs and tax as disclosed on the face of the consolidated income statement. This measure is used in calculating the return on capital employed for the Group.
Ocado Retail Limited EBITDA	EBIT ¹	Not applicable	Calculated as Ocado Retail Limited earnings before interest, tax, depreciation, amortisation, impairment and exceptional items.
Profit before tax and adjusting items	Profit/(loss) before tax	Adjusting items (See note 3)	Profit before the impact of adjusting items and tax. The Group considers this to be an important measure of Group performance and is consistent with how the business performance is reported and assessed by the Board and the Executive Committee. This is a measure used within the Group's incentive plans. Refer to the Remuneration Report in the FY21/22 annual report for explanation of why this measure is used within incentive plans.
Adjusted basic earnings per share	Earnings per share	Adjusting items (See note 3)	Profit/(loss) after tax attributable to owners of the parent and before the impact of adjusting items, divided by the weighted average number of ordinary shares in issue during the financial year. This is a measure used within the Group's incentive plans. Refer to the Remuneration Report in the FY21/22 annual report for explanation of why this measure is used.
Adjusted diluted earnings per share	Diluted earnings per share	Adjusting items (See note 3)	Profit/(loss) after tax attributable to owners of the parent and before the impact of adjusting items, divided by the weighted average number of ordinary shares in issue during the financial year adjusted for the effects of any potentially dilutive options.
Effective tax rate before adjusting items	Effective tax rate	Adjusting items and their tax impact (See note 3)	Total income tax charge for the Group excluding the tax impact of adjusting items divided by the profit/(loss) before tax and adjusting items. This measure is an indicator of the ongoing tax rate for the Group.

Alternative performance measure	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Balance Sheet Measures			
Net debt	None	Reconciliation of net debt (see note 14)	<p>Net debt comprises total borrowings (bank and bonds net of accrued interest and lease liabilities), net derivative financial instruments that hedge the debt and the Scottish Limited Partnership liability to the Marks and Spencer UK Pension Scheme less cash, cash equivalents and unlisted and short-term investments. Net debt does not include contingent consideration as it is conditional upon future events which are not yet certain at the balance sheet date.</p> <p>This measure is a good indication of the strength of the Group's balance sheet position and is widely used by credit rating agencies.</p>
Net debt excluding lease liabilities	None	Reconciliation of net debt (see note 14)	<p>Calculated as net debt less lease liabilities. This measure is a good indication of the strength of the Group's balance sheet position and is widely used by credit rating agencies.</p>
Cash Flow Measures			
Free cash flow after shareholder returns	Net cash inflow from operating activities	See Financial Review	<p>The cash generated from the Group's operating activities less capital expenditure, cash lease payments and interest paid.</p> <p>This measure shows the cash retained by the Group in the year.</p>
Free cash flow	Net cash inflow from operating activities	See Financial Review	<p>Calculated as the cash generated from the Group's operating activities less capital expenditure and interest paid, excluding returns to shareholders (dividends and share buyback).</p> <p>This measure shows the cash generated by the Group during the year that is available for returning to shareholders and is used within the Group's incentive plans.</p>
Other Measures			
Capital expenditure	None	Not applicable	<p>Calculated as the purchase of property, plant and equipment, investment property and intangible assets during the year less proceeds of asset disposals excluding any assets acquired as part of a business combination or through an investment in an associate.</p>

¹ EBIT is not defined within IFRS but is a widely accepted profit measure being earnings before interest and tax.

INDEPENDENT REVIEW REPORT TO MARKS AND SPENCER GROUP PLC

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the 26-week period ended 1 October 2022 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in equity, the condensed consolidated statement of cash flows and related notes 1 to 19.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the 26-week period ended 1 October 2022 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Basis for Conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom (ISRE (UK) 2410). A review of interim financial information consists of making inquiries, 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 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.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with United Kingdom adopted international accounting standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with United Kingdom adopted International Accounting Standard 34, "Interim Financial Reporting".

Conclusion Relating to Going Concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for Conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed.

This Conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410; however future events or conditions may cause the entity to cease to continue as a going concern.

Responsibilities of the directors

The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

In preparing the half-yearly financial report, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the review of the financial information

In reviewing the half-yearly financial report, we are responsible for expressing to the company a conclusion on the condensed set of financial statements in the half-yearly financial report. Our Conclusion, including our Conclusion Relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Use of our report

This report is made solely to the company in accordance with ISRE (UK) 2410. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP
Statutory Auditor
London, United Kingdom
8 November 2022