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Press Release

MARKS AND SPENCER GROUP PLC

HALF YEAR RESULTS FOR 26 WEEKS ENDED 28 SEPTEMBER 2019

"FAR REACHING CHANGE – DELIVERED AT PACE"

26 weeks ended	**28 Sep 19**	**29 Sep 18** **Restated**[1]	*Change %*
Group revenue	£4,860.9m	£4,966.9m	*-2.1*
Profit before tax & adjusting items[2]	£176.5m	£213.0m	*-17.1*
Adjusting items[2]	£(23.0)m	£(111.7)m	*79.4*
Profit before tax	£153.5m	£101.3m	*51.5*
Adjusted basic earnings per share[2]	7.1p	9.4p	*-24.5*
Basic earnings per share	6.1p	3.5p	*74.3*
Free cash flow before adjusting items[2,3]	£91.9m	£294.7m	*-68.8*
Net debt[2]	£4.13bn	£4.29bn	*-3.7*
Net debt excluding lease liabilities[2]	£1.59bn	£1.73bn	*-8.1*
Dividend per share	3.9p	6.5p	*-40.0*

1. Prior year comparatives restated for the adoption of IFRS 16 'Leases' and for the effects of the rights issue completed in June.

2. See glossary for definitions and reconciliations to statutory measures. Adjusted results are consistent with how business performance is measured internally. Refer to adjusting items table below for further details.

3. Free cash flow before adjusting items is the cash generated from the Group's adjusted operating activities less capital expenditure, cash lease payments and interest paid.

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Transformation progress

- Food business on track, with positive like-for-like sales and strong volume growth
- Acquisition of 50% of Ocado Retail completed and plans for M&S supply progressing well
- Improved sales performance in October in Clothing & Home, following a difficult first half
- Further action on UK store estate reshaping, with 17 full-line stores closed
- Cost savings of c.£75m delivered in the half
- Balance sheet strengthened, with £250m bond issue, rights issue and dividend cut

Financial performance

- Profit before tax & adjusting items down 17.1%, after weak first half Clothing & Home sales
- Profit before tax up 51.5% at £153.5m, due to lower net adjusting items in the period compared to prior year
- Food like-for-like sales growth 0.9% driven by volume. Gross margin rate slightly down, reflecting investment in trusted value
- Clothing & Home like-for-like sales down 5.5%, reflecting first half shape of buy and supply chain issues
- Free cash flow before adjusting items of £91.9m affected by timing of working capital and tax payments, partly expected to reverse in the second half
- Net debt of £4.13bn, down 3.7% largely due to cash generation over the past year
- Interim dividend of 3.9p, as previously indicated

Steve Rowe, Chief Executive: "Our transformation plan is now running at a pace and scale not seen before at Marks & Spencer. For the first time we are beginning to see the potential from the far reaching changes we are making. The Food business is outperforming the market. Our deal to create a joint venture with Ocado is complete and plans to transition to the M&S range are on track.

In Clothing & Home we are making up for lost time. We are still in the early stages, but we are clear on the issues we need to fix and, after a challenging first half, we are seeing a positive response to this season's contemporary styling and better value product. We have taken decisive action to trade the ranges with improved availability and shorter clearance periods. In some instances dramatic sales uplifts in categories where we have restored value, style and availability illustrate the latent potential and enduring broad appeal of our brand. Our cost reduction and store technology programmes are on track."

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RESTORING THE BASICS

We are in the first stage of our transformation programme to create a profitable, growing family of businesses under the M&S brand, bound together by a common consumer brand and integrated stores, employment values, technology and customer data.

It is a period of profound change in both main businesses and in our organisation and culture. At M&S Food the substantially new leadership team is on track with our original timetable and results are beginning to show. In Clothing & Home we are running behind schedule but decisive action in the last three months, combined with a much stronger team delivering stylish product designed for a family customer, is illustrating the scope and potential for recovery in the business.

In this release we provide an update on our progress against the nine key areas of the restoring the basics agenda.

1. Protecting the magic and modernising the rest in Food

In Food, early stage actions to drive value, broaden appeal and accelerate innovation restored growth with total revenue up 1.2% and like-for-like revenue up 0.9%, with a marked improvement in the second quarter when volumes grew by 3.3% and were ahead of the market.

Good progress has been made in restoring trusted value. Over the past year the price of more than 400 high volume lines has been reduced by over 10% and promotional participation has nearly halved. During the period, investment was focused on core categories such as bakery, milk, meat and produce; for example, vitamin D rich bread reduced from £1.15 to 65 pence and a rolling programme of 'fresh market specials'.

In line with the strategy to grow share of larger baskets and fresh and ambient categories, the innovation pipeline has been refocused on products to broaden appeal including the Plant Kitchen, Street Market and Cook With ranges this year. The fundamental restructuring of marketing to sit within the Food business has resulted in a strong new family focussed programme, including the sponsorship of Britain's Got Talent in April, and the Little Shop campaign in July. These early steps to attract families and broaden customer shopping occasions have produced encouraging results.

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On 5 August 2019, we completed the acquisition of 50% of Ocado Retail bringing together the strength of the M&S brand and its leading food quality and product development, with Ocado's proprietary technology and award-winning service. The M&S share of Ocado Retail Limited losses for the period from acquisition to 1 September 2019 is £0.5m. Results are in line with expectations and reflect a seasonal low point in the trading calendar. Melanie Smith, former strategy director of M&S has been appointed CEO of Ocado Retail, supported by Lawrence Hene, as deputy CEO for a transitional period before he moves back into a senior role within the Ocado group.

2. Restoring Style, Fit and Value in Clothing & Home

In a declining market, the business underperformed. Clothing & Home revenue was down 7.8%, with like-for-like revenue down 5.5%. There were availability challenges across both sales channels, as a result of supply chain issues and a shape of buy that remained too broad.

The Clothing & Home business has historically been too slow to market. It has had too many slow-moving lines with size ratios and fit profiles misaligned with a family customer profile, resulting in poor availability on the most popular sizes and too much stock and markdown. We aim to reverse this cycle of decline by realigning the shape of buy to the family customer. With fewer SKUs, phases of stock and less markdown we can focus more clearly on contemporary styling, on hero lines and build value for money through a 'first price, right price' approach.

Decisive actions taken in recent months have improved availability and accelerated progress. Autumn's ranges include a double-digit reduction in options across Clothing & Home, a substantial increase in depth of buy on the top 100 lines and the introduction of more contemporary fit and styling and product targeted at the family customer.

After 24 months 'cleaning up' the confusing mix of own brands, we have relaunched Per Una, a brand which has significantly declined since its peak. Following soft trials in the Spring, the range has been comprehensively revamped under its own dedicated team and initial customer reaction to the new range, launched in October, has been encouraging.

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To build on the improvement in product, under the direct leadership of Steve Rowe, decisive tactical actions to drive trade are already being implemented, including adjusting prices in season and shortening clearance periods. More frequent and better planned deliveries are supporting availability, which has already improved significantly compared to last year. As a result in a stronger market, October full price and planned promotional sales increased by 2.7%.

3. Becoming a digital first retailer across M&S

The digital first strategy aims to build a leading customer database combined with a relaunched loyalty offer, to achieve one third of UK sales online.

Online revenue at M&S.com increased 0.2%, which was less than planned. This was due to issues with availability and product mix in a slower online market. Traffic to the website grew by 8%, reflecting strong growth in mobile traffic and paid search, however conversion was lower. M&S.com is trialling 11pm cut-off for free next day to store delivery, enhanced search and personalisation tools are being implemented and an instalment payment facility has been launched.

In addition, our new Digital group is building capabilities in areas such as data science, while also connecting disparate data sources and making them available in the cloud. We are planning to relaunch Sparks in 2020, creating a base for greater personalisation and engagement.

4. Rebuilding profitable growth in International

The International business has made solid progress building the foundations to deliver profitable growth. However, in the period one-off factors and shipment adjustments acted as a brake on revenue.

Revenue at constant currency decreased by 1.7%, reflecting a weak performance in the Republic of Ireland and lower franchise shipments. These were driven by investment in price and partner driven stock efficiencies. The investment in price is translating into improvement in volume which bodes well for the future.

The joint venture in India continues to strengthen, with 15% of product now designed for the market, six new stores opened in the period and plans for the launch of a local website in the second half.

Online, the launch of three country specific websites and improved customer returns facilities supported growth of over 20%.

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5. Modernising the supply chain

Both main businesses have been held back by limitations in supply chain capability. We have embarked on programmes for change which can deliver significant improvement in availability, markdown, waste and reductions in store cost.

In Food we still trade with high levels of waste and low levels of availability. During the period a new operating model was tested successfully at Vangarde, York store and is now being rolled out to a further 85 trial locations. Changes have been made to all parts of the supply chain process including forecasting and allocation, the flow of goods, depot and transport optimisation and store processes. Initial results have demonstrated a significant improvement in availability and waste levels and results will be assessed of the larger group following peak trading, before a wider roll out in 2020. In addition, work is being undertaken with logistics partner GIST to unlock the opportunity to modernise and better integrate the network.

The Clothing business has an opportunity to radically reduce markdown and trade with a first price, right price approach. However, this requires a fundamental rethink of the planning, flow, visibility and complexity of deliveries, which result in poor availability and excess stock and markdown. For instance, many store deliveries are picked in singles, adding cost and complexity to all parts of the supply chain. The supply chain programme in Clothing is working with the team to improve understanding and use of demand and fulfilment replenishment systems and better track stock from source to shelf.

6. Creating a high-quality store estate fit for the future

Further progress has been made reshaping the store estate and a further 17 full-line stores, 2 outlets and 1 Food store were closed during the period, with sales transfer rates to nearby stores remaining above 20%. We expect fewer stores will close in the second half, although the overall size of the programme remains unchanged.

Two Food renewal stores in Hempstead Valley and Clapham have opened. The purpose of these trials is to test the opportunity for market share growth through bigger, fresher, more profitable stores, which include expanded produce, ambient and frozen ranges and display a fuller M&S range. A further 3 trial stores will open over the rest of the year including a Clothing & Home renewal format.

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7. Cost savings of at least £350m by 2020/21

The productivity programme supporting the business is now over halfway to achieving its goal of at least £350m of repeatable savings. During the first half cost savings of c.£75m were delivered, in addition to the operating costs of stores which have closed. These savings enabled the business to offset inflation, and channel shift with the result that UK operating costs declined 3.3%. A similar level of savings is expected in the second half of the year. Cost guidance has been updated and we anticipate a 1-2% decline in UK operating costs in 2019/20.

Productivity benefits in-store are being generated from changing the operating model. For instance, in 2018/19 the simplification of retail regional and store management structures. This has been built on with multiple in-store initiatives to tailor staffing to activity, including through investment in new technologies with our partner Microsoft. Further savings in property have been generated through an upgraded maintenance contract, investment in energy efficiency and the closure of office space in London and Manchester. In distribution, we have closed three Clothing & Home warehouses and have created efficiencies in our carrier network for e-commerce. Our central costs have benefited from further headcount reduction and the shift to cloud-based technologies. There is further to go.

8. Creating a family of accountable businesses

The new operating model means that Clothing & Home, Food and International have end-to-end functional accountability, enabling quicker, easier and more commercial decision making. Corporate functions have been slimmed down and accountability for functions such as Insight, Learning and Development and HR have moved to the business units, resulting in a c.6% decrease in headcount in central corporate functions in the last six months. Support centres have been simplified, with the closure of a further building in Manchester.

9.Transforming leadership and culture

We are creating a world class leadership team, building on recent appointments with a strong flow of talent coming into the business. The Clothing & Home team has been strengthened by new design and technical talent and the commercial focus of Food has been upweighted with new category and sourcing roles. Data and digital capabilities are being developed with the appointment of a new Head of Data Science and Head of Loyalty. In October, Harriet Hounsell joined us from McDonalds as HR Director.

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Cultural change is critical to the first phase of transformation. Our ambition is to harness the original cultural tenets of the business in a modern and relevant way. Through investment in technology, store colleagues are now equipped with the necessary insight to manage the business and are playing a greater part in commercial decision making. A set of clear, relatable behaviours has been developed to help colleagues understand the role they need to play to deliver the transformation, supported with training.

Brexit

The United Kingdom is now scheduled to leave the European Union on 31 January 2020. We continue to plan for a potential no-deal Brexit scenario as well as assessing the possible impact of the European Union (Withdrawal Agreement) Bill. While an orderly exit would allow us to more effectively address the consequences of change against a defined time frame, a no deal outcome would have a more immediate and negative impact. Our workstreams aim to mitigate the risk to our business with respect to tariff and administrative costs, the flow and certification of goods, discretionary consumer demand, and the costs of implementing change. We have a clear understanding of the risk areas and have mobilised resource from across the business.

Full year guidance 2019/20

While some improvement in trading is planned in the second half, market conditions remain challenging.

- In Clothing & Home net store closures will reduce sales by c.2% (previously c.3%), due to the timing of closures. Gross margin is expected to reduce by 25-75 basis points (previously +/- 25 bps)
- In Food we expect the sales contribution from space to be broadly level (previously a reduction of c.1%)
- UK operating costs will reduce by between 1-2% (previously 0 to -1%)
- Expectations for capital expenditure are reduced to £300-350m, (previously £350m-400m)

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Full year guidance is outlined in the table below

	Full year guidance
UK Food	
- Space contribution to revenue (%)	Level
- Gross margin change (bps)	-25bps to +25bps
UK Clothing & Home	
- Space contribution to revenue (%)	c. -2
- Gross margin change (bps)	-75bps to -25bps
UK operating costs (%)	c.-1 to -2
Tax rate (%)	c.23
Capital expenditure (£m)	300 to 350

First half group revenue: constant currency

Group revenue decreased 2.2% at constant currency, largely reflecting lower like-for-like sales in Clothing & Home. International revenue declined 1.7% at constant currency, driven by the timing of shipments and efficiency initiatives by franchise partners in quarter two.

% change	**H1**	**Q1**	**Q2**
Food	**1.2**	0.8	1.5
- Like-for-like[1]	**0.9**	0.4	1.4
Clothing & Home	**-7.8**	-7.6	-8.0
- Like-for-like	**-5.5**	-5.2	-5.7
Total UK sales	**-2.2**	-2.3	-2.2
- Like-for-like	**-1.5**	-1.7	-1.3
International	**-1.7**	2.1	-5.1
Total Group	**-2.2**	**-1.9**	**-2.5**
M&S.com (Memo only)	*0.2*	*0.8*	*-0.4*
UK Clothing & Home online (Memo only)[2]	*0.2*	*0.4*	*0.1*

See glossary for definitions.

[1]Food like-for-like revenue in Q1 benefited from the timing of Easter by c. 1.8%

[2]M&S.com sales excluding Food, marketplaces and localised international websites

We will report a third quarter trading update on 9 January 2020.

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Investor & Analyst webcast:

An investor and analyst presentation will be held at 9.00am on 6 November 2019. This presentation can be viewed live on the Marks and Spencer Group plc website.

Fixed Income Investor conference call:

This will be hosted by Humphrey Singer, Chief Finance Officer, at 12.30pm on 6 November 2019:

Dial in number: +44 (0)330 027 1446 Access code: 1693656

A recording of this call will be available until 5.00pm on 13 November 2019:

Dial in number: +44 (0) 207 660 0134 Access code: 1693656

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HALF YEAR FINANCIAL REVIEW

26 weeks ended	28 Sep 19	29 Sep 18	Change	30 Mar 19
		Restated[1]	%	Restated[1]
	£m	£m		£m
Group revenue	**4,860.9**	**4,966.9**	***-2.1***	**10,377.3**
Food	2,845.8	2,813.2	*1.2*	5,903.4
Clothing & Home	1,569.5	1,702.5	*-7.8*	3,537.3
UK	4,415.3	4,515.7	*-2.2*	9,440.7
International	445.6	451.2	*-1.2*	936.6
Group operating profit before adjusting items[2]	**271.6**	**321.2**	***-15.4***	**728.9**
UK	211.7	252.2	*-16.1*	588.7
International	59.9	69.0	*-13.2*	140.2
Net finance costs	(95.1)	(108.2)	*12.1*	(217.5)
Profit before tax & adjusting items[2]	**176.5**	**213.0**	***-17.1***	**511.4**
Adjusting items	(23.0)	(111.7)	*79.4*	(427.5)
Profit before tax	**153.5**	**101.3**	***51.5***	**83.9**
Adjusted basic earnings per share[2,3]	7.1p	9.4p	*-24.5*	23.7p
Basic earnings per share[3]	6.1p	3.5p	*74.3*	2.4p
Dividend per share[3]	3.9p	6.5p	*-40.0*	13.3p
Net debt	**£4.13bn**	**£4.29bn**	***-3.7***	**£4.07bn**

Notes

1. Prior year comparatives have been restated for the adoption of IFRS 16 'Leases'. Refer to note 1 of the half year condensed financial statements for detailed restatement tables and associated commentary.

2. Adjusted results are consistent with how business performance is measured internally. Refer to adjusting items table below for further details. See glossary for definitions and reconciliations to statutory measures.

3. Earnings per share and Dividend per share have been restated to reflect the bonus factor adjustment resulting from the rights issue (refer to notes 6 and 7 of the half- year condensed financial statements for further information)

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UK: Food

UK Food revenue increased 1.2% with like-for-like revenue up 0.9%. Performance improved in quarter two, with like-for-like sales up 1.4% and total volumes up 3.3% as investment continued in trusted value, with over 400 price reductions in excess of 10% over the past year. As expected, the contribution from new space was largely offset by full line store closures.

Gross margin decreased 20bps to 31%. Investment in price and cost inflation was largely offset by lower promotions and cost reductions.

UK: Clothing & Home

UK Clothing & Home revenue declined 7.8%, partly driven by the store closure programme. Like-for-like revenue was down 5.5%, with availability challenges across both channels. UK Clothing & Home online revenue was level in a flat market.

Gross margin decreased 105bps to 57.1%. Buying margin was down c.50bps, largely driven by sourcing costs. Discounting increased c.50bps. While stock into clearance sale reduced, shortened sale periods resulted in an increased depth of cut.

UK operating costs

26 weeks ended	**28 Sep 19** **£m**	**29 Sep 18** **Restated** **£m**	***Change*** ***%***	**30 Mar 19** **Restated** **£m**
Store staffing	511.4	522.1	*-2.0*	*1,044.7*
Other store costs	405.0	431.7	*-6.2*	*855.8*
Distribution & warehousing	256.1	260.5	*-1.7*	*553.4*
Marketing	88.9	70.1	*26.8*	*155.1*
Central costs	317.1	348.2	*-8.9*	*685.9*
Total	**1,578.5**	**1,632.6**	***-3.3***	***3,294.9***

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UK operating costs decreased 3.3%. Store closures, lower depreciation and cost savings across the business more than offset the costs of channel shift and inflation related increases.

Store staffing costs reduced as savings from store management restructuring, closures and other efficiencies more than offset wage inflation.

Other store costs were driven by lower depreciation, due to the closure programme and as previous investments reached the end of their useful economic life. Efficiencies within maintenance, utilities and rates more than offset inflationary pressures.

Within distribution and warehousing, efficiencies at Castle Donington and savings from the rationalisation of the warehouse network more than offset inflation and the cost of channel shift.

The increase in marketing costs has been largely weighted to the first half of the year. Investment is in campaigns relevant for the family customer and focused on digital channels.

The reduction in central costs is largely technology related with previous investments reaching the end of their useful economic lives, a systems write off in the prior year and the benefits of the technology transformation programme.

M&S Bank

M&S Bank income before adjusting items was down £4.6m to £14.1m. This was predominantly the result of an increase in bad debt provisioning due to the impact of revised forward estimates of economic indicators, including the impact of Brexit, and a modest increase in underlying bad debt due to the risk of customer default. Underlying credit income was slightly up, as a result of more competitive pricing. M&S Bank income after adjusting items related to PPI was level at £3.4m.

Ocado Retail

On 5 August 2019, the acquisition of 50% of Ocado Retail was completed. Ocado Retail Limited is an associate of the M&S Group as certain rights are conferred on Ocado Group Plc for an initial period of at least five years from acquisition. The investment in associate is recognised at a cost of £749.2m.

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This incorporates initial consideration of £572.4m paid in cash on acquisition, an estimate of contingent consideration of £171.6m and transaction costs of £5.2m. The M&S share of Ocado Retail Limited losses for the period from acquisition to 1 September 2019 is £0.5m. There were no significant events or transactions in the period to 28 September 2019. For further detail on Ocado Retail Limited please see notes 1 and 15 to the financial statements.

International

26 weeks ended	**28 Sep 19**	**29 Sep 18**	***Change***	***Change***
	£m	**£m**	***%***	***CC %***
Revenue				
Franchise	191.6	203.5	*-5.8*	*-5.7*
Owned	254.0	247.7	*2.5*	*1.6*
Total	**445.6**	**451.2**	***-1.2***	***-1.7***
				52 weeks ended
Operating profit before adjusting items				***30 Mar 2019***
		Restated		***Restated***
				£m
Franchise	32.3	39.4	*-18.0*	72.2
Owned	27.6	29.6	*-6.8*	68.0
Total	**59.9**	**69.0**	***-13.2***	**140.2**

International revenue decreased 1.7% at constant currency. In owned markets revenue growth was largely driven by India with 6 new stores and robust like-for-like sales. Trading in the Republic of Ireland remained difficult, in a promotional and discount driven market. Franchise shipments declined. This was a result of investment in price and partner driven stock efficiencies.

International operating profit before adjusting items decreased by 13.2% to £59.9m. This was driven by the decline in franchise shipments. In the owned business cost savings helped to partly mitigate the decline in sales in the Republic of Ireland, while growth in India was offset by the cost of new store openings.

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Net finance costs

	26 weeks ended			52 weeks ended
	28 Sep 19 £m	29 Sep 18 Restated £m	Change £m	30 Mar 19 Restated £m
Interest payable	(42.6)	(40.3)	(2.3)	(80.3)
Interest income	6.0	3.0	3.0	8.0
Net interest payable	**(36.6)**	**(37.3)**	**0.7**	**(72.3)**
Pension net finance income	11.3	12.8	(1.5)	25.8
Unwind of discount on Scottish Limited Partnership liability	(3.4)	(4.4)	1.0	(8.8)
Unwind of discount on provisions	(2.5)	(2.1)	(0.4)	(7.9)
Ineffectiveness on financial instruments	5.9	(0.8)	6.7	(3.5)
Net interest payable on lease liabilities	(69.8)	(76.4)	6.6	(150.8)
Net finance costs	**(95.1)**	**(108.2)**	**13.1**	**(217.5)**

Net finance costs decreased by £13.1m to £95.1m. This was primarily due to the reversal of ineffectiveness on a currency swap and a reduction in net lease financing costs.

In July 2019 we issued a £250m bond, which increased interest payable on medium-term notes. This was offset by increased interest income on higher average cash balances resulting from the rights issue.

Group profit before tax & adjusting items

Group profit before tax & adjusting items was £176.5m, down 17.1% on last year due to lower gross profit in Clothing & Home, partially offset by lower UK operating costs.

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Adjustments to profit before tax

The Group makes certain adjustments to statutory profit measures in order to derive alternative performance measures that provide stakeholders with additional helpful information on the performance of the business. For further detail on adjusting items please see note 3 to the half-year condensed financial statements.

	26 weeks ended			52 weeks ended
	28 Sep 19 **£m**	**29 Sep 18** **Restated** **£m**	**Change** **£m**	**30 Mar 19** **Restated** **£m**
Strategic programmes				
– UK store estate	(15.4)	(62.5)	47.1	(216.5)
– Organisation	(11.3)	(11.1)	(0.2)	(4.9)
– Operational transformation	(6.5)	-	(6.5)	(16.4)
– IT restructure	(0.7)	(8.3)	7.6	(15.6)
– UK logistics	(0.5)	(9.0)	8.5	(14.3)
– Changes to pay and pensions	(1.5)	(3.2)	1.7	(6.2)
– International store closures and impairments	0.1	(2.3)	2.4	(5.3)
UK store impairments and other property charges	-	-	-	(103.5)
M&S Bank charges incurred in relation to the insurance mis-selling provision	(10.7)	(15.3)	4.6	(20.9)
GMP and other pension equalisation	-	-	-	(20.5)
Establishing the Ocado JV	-	-	-	(3.4)
Other	23.5	-	23.5	-
Adjusting items	**(23.0)**	**(111.7)**	**88.7**	**(427.5)**

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A number of charges have been recognised in the period relating to the implementation of previously announced strategic programmes including:

- A charge of £15.4m in relation to stores identified as part of its transformation plans reflecting an updated view of latest store closure costs;
- A charge of £11.3m in relation to the redundancy costs associated with the review of the support centre organisational structure and an updated view of ongoing costs associated with centralising the Group's London support centres;
- A charge of £6.5m in relation to the transformation and simplification of supply chain and operations across Clothing & Home and Food. This includes initiatives to re-engineer the end to end supply chain, remove costs, complexity and working capital.

Charges were incurred in relation to M&S Bank insurance mis-selling provision in the period of £10.7m. Further costs relating to the estimated liability are expected in the second half despite the August deadline for claims having passed as information requests in respect of possible mis-selling are converted to claims.

A credit of £23.5m has been recognised in the period relating to the release of a provision for employee related matters recognised in FY 17/18 following settlement in the period for £0.6m.

Taxation

The effective tax rate on profit before tax and adjusting items was 23.1% (last half year 23.8%). This is higher than the UK statutory rate due to the recapture of previous tax relief under the Marks and Spencer Scottish Limited Partnership ("SLP") structure. The effective tax rate on statutory profit before tax was 23.7% (last half year 40.0% due to the impact of disallowable adjusting items).

Earnings per share

Basic earnings per share increased 74.3% to 6.1p, due to the increase in profit year-on-year partly offset by the increase in weighted average shares outstanding. The weighted average number of shares in issue during the period was 1,840.2m (last year restated for the bonus factor related to the rights issue 1,698.0m), reflecting the issuance of 325m shares following the completion of the rights issue.

Adjusted basic earnings per share decreased by 24.5% to 7.1p largely due to lower adjusted profit year-on-year and the increase in weighted average shares outstanding.

Capital expenditure

26 weeks ended	**28 Sep 19**	**29 Sep 18**	**Change**
	£m	**£m**	**£m**
UK store remodelling	22.8	6.8	16.0
New UK stores	15.6	19.6	(4.0)
International	3.3	3.9	(0.6)
Supply chain	18.6	15.3	3.3
IT & M&S.com	33.2	34.9	(1.7)
Property maintenance	28.2	28.5	(0.3)
Capital expenditure before disposals	**121.7**	**109.0**	**12.7**
Proceeds from property disposals	(1.5)	(2.0)	0.5
Capital expenditure	**120.2**	**107.0**	**13.2**

Group capital expenditure before disposals increased by £12.7m to £121.7m.

UK store remodelling spend increased by £16.0m partly reflecting the investment in three trial renewal stores. Spend on UK store space was down as five fewer owned Food stores opened compared with the prior year.

Supply chain expenditure increased, reflecting investment in the expansion of the Bradford distribution centre and improvements to capabilities at Castle Donington. IT and M&S.com spend decreased largely due to the completion of the technology transformation programme and as the shift to cloud based services continues.

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Cash flow & net debt	26 weeks ended			52 weeks ended
	28 Sep 19	29 Sep 18 Restated	Change	30 Mar 19 Restated
	£m	£m	£m	£m
Adjusted operating profit	**271.6**	**321.2**	**(49.6)**	**728.9**
Depreciation and amortisation before adjusting items	314.2	355.2	(41.0)	699.3
Cash lease payments	(159.2)	(151.5)	(7.7)	(306.5)
Working capital	(67.2)	13.5	(80.7)	54.8
Defined benefit scheme pension funding	(36.5)	(36.8)	0.3	(37.9)
Capex and disposals	(149.1)	(155.1)	6.0	(264.8)
Financial interest and taxation	(86.4)	(53.9)	(32.5)	(184.7)
Investment in associate Ocado	(577.6)	-	(577.6)	-
Investment in Joint Venture	(2.9)	(2.5)	(0.4)	(2.5)
Employee related share transactions	1.8	4.6	(2.8)	14.3
Proceeds from rights issue	583.2	-	583.2	-
Free cash flow before adjusting items	**91.9**	**294.7**	**(202.8)**	**700.9**
Adjusting items outflow	(68.6)	(54.3)	(14.3)	(120.1)
Dividends paid	(115.1)	(193.1)	78.0	(303.5)
Free cash flow after shareholder returns	**(91.8)**	**47.3**	**(139.1)**	**277.3**
Decrease in lease obligations	90.2	78.5	11.7	161.9
New lease commitments	(55.8)	(57.2)	1.4	(149.4)
Opening net debt	**(4,069.7)**	**(4,360.7)**	**291.0**	**(4,360.7)**
Exchange and other non cash movements	(5.6)	(2.1)	(3.5)	1.2
Closing net debt	**(4,132.7)**	**(4,294.2)**	**161.5**	**(4,069.7)**

The business generated free cash flow before adjusting items of £91.9m, down on last year, driven by lower adjusted operating profit, lower depreciation, working capital increase and higher taxation payments. The working capital outflow relative to last year was largely a result of a higher build up of seasonal stock year-on-year and the timing of payments. Higher taxation payments reflect the regulatory change in the timing of tax instalment payments.

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Defined benefit scheme pension funding of £36.5m reflects the second limited partnership interest distribution to the pension scheme.

Adjusting items in cash flow during the period include £21.5m in relation to organisational change, £13.5m in relation to the store closure programme, £11.5m in relation to operational transformation, £10.7m for M&S Bank, £3.1m relating to distribution and warehousing and £2.9m in relation to the technology transformation programme.

During the period a rights issue was completed, raising net proceeds of £583.2m, for the purpose of funding the acquisition of 50% of Ocado Retail which completed on 5 August 2019.

After the payment of the final dividend from 2018/19 and the reduction in outstanding discounted lease commitments due to capital repayments, net debt was up £63.0m from the start of the financial year.

Dividend

We have announced an interim dividend of 3.9p per ordinary share. This will be paid on 10 January 2020 to shareholders on the register of members as at close of business on 15 November 2019.

Pension

As at 28 September 2019, the IAS 19 net retirement benefit surplus was £991.2m (£914.3m at 30 March 2019). The increase in the surplus is mainly due to growth in hedging assets following a fall in long-term interest rates.

In April 2019, the Scheme purchased additional pensioner buy-in policies with two insurers for approximately £1.4bn. Together with the two policies purchased in March 2018, the Scheme has now, in total, hedged its longevity exposure for around two thirds of the 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 Company's exposure to changes in longevity, interest rates, inflation and other factors.

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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 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 2019 Annual Report (pages 27-33).

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 -

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Principal risks and uncertainties

The principal risks and uncertainties which could impact the Group's long-term performance remain those detailed on pages 29-33 of the Group's 2019 Annual Report and Financial Statements, along with mitigating activities relevant to each risk. Information on financial risk management is also set out on pages 122-126 of the Annual Report, a copy of which is available on the Group's website www.marksandspencer.com. The directors do not consider that the principal risks and uncertainties have changed since the publication of the Annual Report for the year ended 30 March 2019. These principal risks cover:

- Brexit
- Improving trading performance
- Business transformation
- Food online joint venture
- Food safety and integrity
- Corporate compliance and responsibility
- Technology capability
- Information security
- Business continuity and resilience
- Third-party management
- Treasury and funding
- Talent, culture and capability
- Brand, loyalty and customer experience

Statement of directors' responsibilities

The directors confirm that, to the best of their knowledge, this condensed consolidated interim financial information has been prepared in accordance with IAS 34 as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.4R, 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 2019 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

Steve Rowe
Chief Executive

Condensed consolidated income statement (Unaudited)

		26 weeks ended					
		28 Sep 2019			29 Sep 2018 (Restated)		
	Notes	Before adjusting items £m	Adjusting items £m	Total £m	Before adjusting items £m	Adjusting items £m	Total £m
Revenue	2	**4,860.9**	**-**	**4,860.9**	**4,966.9**	**-**	**4,966.9**
Operating profit	2, 3	**271.6**	**(23.0)**	**248.6**	**321.2**	**(111.7)**	**209.5**
Finance income	4	20.5	-	20.5	15.8	-	15.8
Finance costs	4	(115.6)	-	(115.6)	(124.0)	-	(124.0)
Profit before tax		**176.5**	**(23.0)**	**153.5**	**213.0**	**(111.7)**	**101.3**
Income tax (expense)/credit	5	(40.8)	4.4	(36.4)	(50.7)	10.2	(40.5)
Profit for the period		**135.7**	**(18.6)**	**117.1**	**162.3**	**(101.5)**	**60.8**
Attributable to:							
Owners of the parent		131.4	(18.6)	112.8	160.4	(101.5)	58.9
Non-controlling interests		4.3	-	4.3	1.9	-	1.9
		135.7	**(18.6)**	**117.1**	**162.3**	**(101.5)**	**60.8**
Basic earnings per share (pence)	6	7.1p	(1.0p)	6.1p	9.4p	(5.9p)	3.5p
Diluted earnings per share (pence)	6	7.1p	(1.0p)	6.1p	9.4p	(5.9p)	3.5p

Comparative figures in the above table have been restated for the impact of IFRS 16 (see note 1).

Condensed consolidated statement of comprehensive income

		26 weeks ended		52 weeks ended
	Notes	28 Sep 2019 (Unaudited) £m	29 Sep 2018 (Unaudited) (Restated) £m	30 March 2019 (Audited) (Restated) £m
Profit for the period		**117.1**	**60.8**	**45.0**
Other comprehensive income/(expense):				
Items that will not be reclassified to profit or loss				
Remeasurements of retirement benefit schemes	8	29.2	(26.6)	(79.9)
Tax (charge)/credit on retirement benefit schemes		(5.8)	4.9	14.0
		23.4	(21.7)	(65.9)
Items that may be reclassified subsequently to profit or loss				
Foreign currency translation differences				
- movement recognised in other comprehensive income		11.9	(13.2)	(14.6)
Cash flow hedges and net investment hedges				
- fair value movements in other comprehensive income		75.4	129.5	132.0
- reclassified and reported in net profit or loss		(15.3)	(15.8)	(16.0)
Tax charge on cash flow hedges and net investment hedges		(13.7)	(21.5)	(19.0)
		58.3	79.0	82.4
Other comprehensive income for the period, net of tax		81.7	57.3	16.5
Total comprehensive income for the period		**198.8**	**118.1**	**61.5**
Attributable to:				
Owners of the parent		194.5	116.2	57.9
Non-controlling interests		4.3	1.9	3.6
		198.8	**118.1**	**61.5**

Comparative figures in the above table have been restated for the impact of IFRS 16 (see note 1).

Condensed consolidated statement of financial position

	Notes	As at 28 Sep 2019 (Unaudited) £m	As at 29 Sep 2018 (Unaudited) (Restated) £m	As at 30 March 2019 (Audited) (Restated) £m
Assets				
Non-current assets				
Intangible assets		445.6	549.4	499.9
Property, plant and equipment		5,555.6	5,982.3	5,654.3
Investment property		15.5	15.5	15.5
Investment in joint ventures and associates		754.8	9.4	4.0
Other financial assets	10	9.9	9.9	9.9
Retirement benefit asset	8	1,026.2	987.0	931.5
Trade and other receivables		264.1	207.2	273.0
Derivative financial instruments	10	61.4	24.7	19.8
		8,133.1	**7,785.4**	**7,407.9**
Current assets				
Inventories		820.9	837.2	700.4
Other financial assets	10	144.0	14.5	141.8
Trade and other receivables		266.3	251.5	269.4
Derivative financial instruments	10	80.8	37.9	40.3
Cash and cash equivalents		351.4	180.7	285.4
		1,663.4	**1,321.8**	**1,437.3**
Total assets		**9,796.5**	**9,107.2**	**8,845.2**
Liabilities				
Current liabilities				
Trade and other payables		1,461.8	1,446.3	1,424.4
Partnership liability to the Marks and Spencer UK Pension Scheme	9	71.9	71.9	71.9
Borrowings and other financial liabilities		672.3	274.3	694.4
Derivative financial instruments	10	4.0	5.3	7.3
Provisions		36.2	83.1	101.8
Current tax liabilities		6.8	72.1	26.2
		2,253.0	**1,953.0**	**2,326.0**
Non-current liabilities				
Retirement benefit deficit	8	35.0	16.1	17.2
Trade and other payables		185.8	14.7	15.6
Partnership liability to the Marks and Spencer UK Pension Scheme	9	132.1	196.1	200.5
Borrowings and other financial liabilities		3,852.4	4,051.1	3,623.2
Derivative financial instruments	10	0.3	5.9	2.8
Provisions		82.3	66.9	75.0
Deferred tax liabilities		138.3	169.6	119.6
		4,426.2	**4,520.4**	**4,053.9**
Total liabilities		**6,679.2**	**6,473.4**	**6,379.9**
Net assets		**3,117.3**	**2,633.8**	**2,465.3**
Equity				
Issued share capital		487.6	406.2	406.3
Share premium account		910.7	416.7	416.9
Capital redemption reserve		2,210.5	2,210.5	2,210.5
Hedging reserve		25.6	(11.4)	(14.6)
Cost of hedging reserve		10.1	12.5	11.7
Other reserve[1]		(6,542.2)	(6,542.2)	(6,542.2)
Foreign exchange reserve		(32.7)	(42.5)	(43.9)
Retained earnings		6,043.7	6,184.6	6,020.9
Total shareholders' equity		**3,113.3**	**2,634.4**	**2,465.6**
Non-controlling interests in equity		4.0	(0.6)	(0.3)
Total equity		**3,117.3**	**2,633.8**	**2,465.3**

Comparative figures in the above table have been restated for the impact of IFRS 16 (see note 1).

The notes on pages 28 to 49 form an integral part of the condensed consolidated interim financial information.

[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.

Condensed consolidated statement of changes in equity

26 weeks ended 28 Sep 2019 (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 £m	Total £m	Non-controlling interest £m	Total equity £m
As at 31 March 2019 (Restated)	**406.3**	**416.9**	**2,210.5**	**(14.6)**	**11.7**	**(6,542.2)**	**(43.9)**	**6,020.9**	**2,465.6**	**(0.3)**	**2,465.3**
Profit for the period	-	-	-	-	-	-	-	112.8	112.8	4.3	117.1
Other comprehensive income/(expense):											
Foreign currency translation											
- movement recognised in other comprehensive income	-	-	-	0.7	-	-	11.2	-	11.9	-	11.9
Remeasurements of retirement benefit schemes	-	-	-	-	-	-	-	29.2	29.2	-	29.2
Tax credit on retirement benefit schemes	-	-	-	-	-	-	-	(5.8)	(5.8)	-	(5.8)
Cash flow and net investment hedges											
- fair value movements in other comprehensive income	-	-	-	77.9	(2.5)	-	-	-	75.4	-	75.4
- reclassified and reported in net profit	-	-	-	(15.3)	-	-	-	-	(15.3)	-	(15.3)
Tax on cash flow hedges and net investment hedges	-	-	-	(14.6)	0.9	-	-	-	(13.7)	-	(13.7)
Other comprehensive income/(expense)	**-**	**-**	**-**	**48.7**	**(1.6)**	**-**	**11.2**	**23.4**	**81.7**	**-**	**81.7**
Total comprehensive income/(expense)	**-**	**-**	**-**	**48.7**	**(1.6)**	**-**	**11.2**	**136.2**	**194.5**	**4.3**	**198.8**
Cash flow hedges recognised in inventories	-	-	-	(10.5)	-	-	-	-	(10.5)	-	(10.5)
Tax on cash flow hedges recognised in inventories	-	-	-	2.0	-	-	-	-	2.0	-	2.0
Transactions with owners:											
Dividends	-	-	-	-	-	-	-	(115.1)	(115.1)	-	(115.1)
Shares issued on exercise of employee share options	-	0.1	-	-	-	-	-	-	0.1	-	0.1
Shares issued on rights issue	81.3	493.7	-	-	-	-	-	-	575.0	-	575.0
Purchase of own shares held by employee trusts	-	-	-	-	-	-	-	(8.4)	(8.4)	-	(8.4)
Credit for share-based payments	-	-	-	-	-	-	-	10.1	10.1	-	10.1
Deferred tax on share schemes	-	-	-	-	-	-	-	-	-	-	-
As at 28 Sep 2019	**487.6**	**910.7**	**2,210.5**	**25.6**	**10.1**	**(6,542.2)**	**(32.7)**	**6,043.7**	**3,113.3**	**4.0**	**3,117.3**

26 weeks ended 29 Sep 2018 (Unaudited) (Restated)	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 £m	Total £m	Non-controlling interest £m	Total equity £m
As at 1 April 2018	**406.2**	**416.4**	**2,210.5**	**(65.3)**	**-**	**(6,542.2)**	**(29.3)**	**6,560.4**	**2,956.7**	**(2.5)**	**2,954.2**
Adjustment on initial application of IFRS 9	-	-	-	(11.9)	11.9	-	-	(0.5)	(0.5)	-	(0.5)
Adjustment on initial application of IFRS 16	-	-	-	-	-	-	-	(224.1)	(224.1)	-	(224.1)
Adjusted opening shareholders' equity (restated)	**406.2**	**416.4**	**2,210.5**	**(77.2)**	**11.9**	**(6,542.2)**	**(29.3)**	**6,335.8**	**2,732.1**	**(2.5)**	**2,729.6**
Profit for the period	-	-	-	-	-	-	-	58.9	58.9	1.9	60.8
Other comprehensive income/(expense):											
Foreign currency translation	-	-	-	-	-	-	(13.2)	-	(13.2)	-	(13.2)
Remeasurements of retirement benefit schemes	-	-	-	-	-	-	-	(26.6)	(26.6)	-	(26.6)
Tax credit on retirement benefit schemes	-	-	-	-	-	-	-	4.9	4.9	-	4.9
Cash flow and net investment hedges											
- fair value movements in other comprehensive income	-	-	-	128.7	0.8	-	-	-	129.5	-	129.5
- reclassified and reported in net profit	-	-	-	(15.8)	-	-	-	-	(15.8)	-	(15.8)
Tax on cash flow hedges and net investment hedges	-	-	-	(21.3)	(0.2)	-	-	-	(21.5)	-	(21.5)
Other comprehensive income/(expense)	**-**	**-**	**-**	**91.6**	**0.6**	**-**	**(13.2)**	**(21.7)**	**57.3**	**-**	**57.3**
Total comprehensive income/(expense)	**-**	**-**	**-**	**91.6**	**0.6**	**-**	**(13.2)**	**37.2**	**116.2**	**1.9**	**118.1**
Cash flow hedges recognised in inventories	-	-	-	(31.9)	-	-	-	-	(31.9)	-	(31.9)
Tax on cash flow hedges recognised in inventories	-	-	-	6.1	-	-	-	-	6.1	-	6.1
Transactions with owners:											
Dividends	-	-	-	-	-	-	-	(193.1)	(193.1)	-	(193.1)
Shares issued on exercise of employee share options	-	0.3	-	-	-	-	-	-	0.3	-	0.3
Purchase of own shares held by employee trusts	-	-	-	-	-	-	-	(5.5)	(5.5)	-	(5.5)
Credit for share-based payments	-	-	-	-	-	-	-	9.8	9.8	-	9.8
Deferred tax on share schemes	-	-	-	-	-	-	-	0.4	0.4	-	0.4
As at 29 Sep 2018 (Restated)	**406.2**	**416.7**	**2,210.5**	**(11.4)**	**12.5**	**(6,542.2)**	**(42.5)**	**6,184.6**	**2,634.4**	**(0.6)**	**2,633.8**

52 weeks ended 30 March 2019 (Audited) (Restated)	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 £m	Total £m	Non-controlling interest £m	Total equity £m
As at 1 April 2018	**406.2**	**416.4**	**2,210.5**	**(65.3)**	**-**	**(6,542.2)**	**(29.3)**	**6,560.4**	**2,956.7**	**(2.5)**	**2,954.2**
Adjustment on initial application of IFRS 9	-	-	-	(10.7)	10.7	-	-	(0.5)	(0.5)	-	(0.5)
Adjustment on initial application of IFRS 16	-	-	-	-	-	-	-	(224.1)	(224.1)	-	(224.1)
Adjusted opening shareholders' equity (restated)	**406.2**	**416.4**	**2,210.5**	**(76.0)**	**10.7**	**(6,542.2)**	**(29.3)**	**6,335.8**	**2,732.1**	**(2.5)**	**2,729.6**
Profit for the year	-	-	-	-	-	-	-	41.4	41.4	3.6	45.0
Other comprehensive (expense)/income:											
Foreign currency translation											
- movement recognised in other comprehensive income	-	-	-	-	-	-	(14.6)	-	(14.6)	-	(14.6)
Remeasurements of retirement benefit schemes	-	-	-	-	-	-	-	(79.9)	(79.9)	-	(79.9)
Tax credit on items that will not be reclassified	-	-	-	-	-	-	-	14.0	14.0	-	14.0
Cash flow and net investment hedges											
- fair value movements in other comprehensive income	-	-	-	130.5	1.5	-	-	-	132.0	-	132.0
- reclassified and reported in net profit	-	-	-	(16.0)	-	-	-	-	(16.0)	-	(16.0)
Tax on cash flow hedges and net investment hedges	-	-	-	(18.5)	(0.5)	-	-	-	(19.0)	-	(19.0)
Other comprehensive (expense)/income	**-**	**-**	**-**	**96.0**	**1.0**	**-**	**(14.6)**	**(65.9)**	**16.5**	**-**	**16.5**
Total comprehensive (expense)/income	**-**	**-**	**-**	**96.0**	**1.0**	**-**	**(14.6)**	**(24.5)**	**57.9**	**3.6**	**61.5**
									-		-
Cash flow hedges recognised in inventories	-	-	-	(42.7)	-	-	-	-	(42.7)	-	(42.7)
Tax on cash flow hedges recognised in inventories	-	-	-	8.1	-	-	-	-	8.1	-	8.1
Transactions with owners:											
Dividends	-	-	-	-	-	-	-	(303.5)	(303.5)	-	(303.5)
Transactions with non-controlling shareholders	-	-	-	-	-	-		-	-	(1.4)	(1.4)
Shares issued on exercise of employee share options	0.1	0.5	-	-	-	-		-	0.6	-	0.6
Purchase of shares held by employee trusts	-	-	-	-	-	-	-	(5.5)	(5.5)	-	(5.5)
Credit for share-based payments	-	-	-	-	-	-	-	19.2	19.2	-	19.2
Deferred tax on share schemes	-	-	-	-	-	-		(0.6)	(0.6)	-	(0.6)
As at 30 March 2019 (Restated)	**406.3**	**416.9**	**2,210.5**	**(14.6)**	**11.7**	**(6,542.2)**	**(43.9)**	**6,020.9**	**2,465.6**	**(0.3)**	**2,465.3**

[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.

Comparative figures in the above table have been restated for the impact of IFRS 16 (see note 1).

Condensed consolidated statement of cash flows

	Notes	26 weeks ended 28 Sep 2019 (Unaudited) £m	26 weeks ended 29 Sep 2018 (Unaudited) (Restated) £m	52 weeks ended 30 March 2019 (Audited) (Restated) £m
Cash flows from operating activities				
Cash generated from operations	12	423.6	608.6	1,344.2
Income tax paid		(54.4)	(24.0)	(105.7)
Net cash inflow from operating activities		**369.2**	**584.6**	**1,238.5**
Cash flows from investing activities				
Proceeds on property disposals		1.5	2.0	48.1
Purchase of property, plant and equipment		(118.3)	(120.6)	(217.8)
Purchase of intangible assets		(32.3)	(36.5)	(95.1)
Purchase of current financial assets		(2.2)	(0.8)	(128.1)
Purchase of investments in associates and joint ventures		(580.5)	(2.5)	(2.5)
Interest received		4.4	2.8	7.4
Net cash used in investing activities		**(727.4)**	**(155.6)**	**(388.0)**
Cash flows from financing activities				
Interest paid[1]		(105.4)	(105.7)	(231.0)
Cash outflow from borrowings		-	(45.5)	(46.7)
Drawdown of syndicated loan notes		-	1.6	-
Issuance of medium term notes net of hedging instruments		250.0	-	1.4
Decrease in obligations under leases		(90.2)	(78.5)	(161.9)
Payment of liability to the Marks and Spencer UK Pension Scheme		(63.5)	(61.6)	(61.6)
Equity dividends paid	7	(115.1)	(193.1)	(303.5)
Shares issued on exercise of employee share options		0.1	0.3	0.6
Proceeds from rights issue		583.2	-	-
Purchase of own shares by employee trust		(8.4)	(5.5)	(5.5)
Net cash generated/(used) in financing activities		**450.7**	**(488.0)**	**(808.2)**
Net cash inflow/(outflow) from activities		**92.5**	**(59.0)**	**42.3**
Effects of exchange rate changes		2.0	(0.6)	(0.2)
Opening net cash		213.1	171.0	171.0
Closing net cash		**307.6**	**111.4**	**213.1**

[1] Includes interest on the partnership liability to the Marks and Spencer UK Pension Scheme and interest paid on leases of £69.0m (restated last half year £73.0m, restated last full year £144.6m).

Comparative figures in the above table have been restated for the impact of IFRS 16 (see note 1).

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 30 March 2019 is an extract from the published Annual Report and Financial Statements which were approved by the board of Directors on 21 May 2019, have been reported on by the Group's auditors and delivered to the Registrar of Companies. The audit report on the Annual Report and Financial Statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under s498 (2) or (3) of the Companies Act 2006.

Basis of preparation

The financial information has been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) interpretations, as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The condensed financial statements for the 26 weeks ended 28 September 2019 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34 'Interim Financial Reporting' as adopted by the European Union.

Except for the restatements made under IFRS 16 (see 'Amended accounting policies' below), the comparative figures for the financial year ended 30 March 2019 and the half year ended 29 September 2018 are consistent with the Group's annual financial statements and half year financial statements respectively.

Going concern basis

Based on the Group's cash flow forecasts and projections, the Board is satisfied that the Group will be able to operate within the level of its bank facilities for the foreseeable future. For this reason the Group continues to adopt the going concern basis in preparing its 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 2019 Annual Report and Financial Statements, except as described below. Accounting policies which have been amended during the half year ended 28 September 2019 can be seen in the sub-section "Amended accounting policies" below.

New standards and interpretations effective as of 1 January 2019 are listed below:

- Annual improvements to IFRS Standards 2015-2017 Cycle;
- Amendments to IFRS 9 *Financial instruments*, on prepayment features with negative compensation;
- Amendments to IAS 28 *Investments in associates*, on long term interests in associates and joint ventures;
- Amendments to IAS 19 *Employee benefits* on plan amendment, curtailment or settlement;
- IFRIC 23 *Uncertainty over Income Tax Treatments*; and
- IFRS 16 *Leases*.

Except for the adoption of IFRS 16, the above standards and interpretations have not lead to any changes to the Group's accounting policies or have any other material impact on the financial position or performance of the Group.

Amended accounting policies

IFRS 16

The Group adopted IFRS 16 with effect from 31 March 2019. The Group applied the standard using the fully retrospective method and has restated its results for comparative periods as if the Group had always applied the new standard.

Leases accounting policy under IFRS 16

In accordance with IFRS 16, the Group recognises an expense in respect of leases of low-value items on a straight-line basis over the life of the lease. For all other leases, (with the exception of short-term leases less than 12 months which fall outside the scope of IFRS 16), the Group recognises a right-of-use asset and corresponding liability at the date at which the leased asset is made available for use by the group.

Lease liabilities are measured at the present value of the future lease payments, excluding any payments relating to non-lease components. Future lease payments include fixed payments, in-substance fixed payments, and variable lease payments that are based on an index or a rate, less any lease incentives receivable. Lease liabilities also take into account amounts payable under residual value guarantees and payments to exercise options to the extent that it is reasonably certain that such payments will be made. The payments are discounted at the rate implicit in the lease or, where that cannot be measured, at an incremental borrowing rate.

1 General information and basis of preparation (continued)

Right-of-use assets are measured initially at cost based on the value of the associated lease liability, adjusted for any payments made before inception, initial direct costs and an estimate of the dismantling, removal and restoration costs required in the terms of the lease.

Subsequent to initial recognition, the Group records an interest charge in respect of the lease liability. The related right-of-use asset is depreciated over the term of the lease or, if shorter, the Useful Economic Life (UEL) of the leased asset. The lease term shall include the period of an extension option where it is reasonably certain that the option will be exercised. Where the lease contains a purchase option the asset is written-off over the useful life of the asset when it is reasonably certain that the purchase option will be exercised.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Group did not make any such adjustments during the periods presented.

Financial impact of IFRS 16

The impact of adopting IFRS 16 on the Group's condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of financial position, condensed consolidated statement of cash flows and reconciliation of net cash flow to movement in net debt is presented in the following tables.

1 General information and basis of preparation (continued)

Condensed consolidated income statement

26 weeks ended 29 Sep 2018 (Unaudited)

	Before adjusting items			Adjusting items			Total		
	As reported	Impact of IFRS 16	Restated	As reported	Impact of IFRS 16	Restated	As reported	Impact of IFRS 16	Restated
	£m	£m	£m				£m	£m	£m
Revenue	**4,966.9**	**-**	**4,966.9**	**-**	**-**	**-**	**4,966.9**	**-**	**4,966.9**
Operating profit	**262.5**	**58.7**	**321.2**	**(96.8)**	**(14.9)**	**(111.7)**	**165.7**	**43.8**	**209.5**
Finance income	15.8	-	15.8	-	-	-	15.8	-	15.8
Finance costs	(54.8)	(69.2)	(124.0)	-	-	-	(54.8)	(69.2)	(124.0)
Profit before tax	**223.5**	**(10.5)**	**213.0**	**(96.8)**	**(14.9)**	**(111.7)**	**126.7**	**(25.4)**	**101.3**
Income tax (expense)/credit	(49.2)	(1.5)	(50.7)	12.3	(2.1)	10.2	(36.9)	(3.6)	(40.5)
Profit for the period	**174.3**	**(12.0)**	**162.3**	**(84.5)**	**(17.0)**	**(101.5)**	**89.8**	**(29.0)**	**60.8**
Attributable to:									
Owners of the parent	172.4	(12.0)	160.4	(84.5)	(17.0)	(101.5)	87.9	(29.0)	58.9
Non-controlling interests	1.9	-	1.9	-	-	-	1.9	-	1.9
	174.3	**(12.0)**	**162.3**	**(84.5)**	**(17.0)**	**(101.5)**	**89.8**	**(29.0)**	**60.8**
Basic earnings per share (pence)	**10.6p**	**(1.2p)**	**9.4p**	**(5.2p)**	**(0.7p)**	**(5.9p)**	**5.4p**	**(1.9p)**	**3.5p**
Diluted earnings per share (pence)	**10.6p**	**(1.2p)**	**9.4p**	**(5.2p)**	**(0.7p)**	**(5.9p)**	**5.4p**	**(1.9p)**	**3.5p**

52 weeks ended 30 March 2019 (Audited)

	Before adjusting items			Adjusting items			Total		
	As reported	Impact of IFRS 16	Restated	As reported	Impact of IFRS 16	Restated	As reported	Impact of IFRS 16	Restated
	£m	£m	£m				£m	£m	£m
Revenue	**10,377.3**	**-**	**10,377.3**	**-**	**-**	**-**	**10,377.3**	**-**	**10,377.3**
Operating profit	**601.0**	**127.9**	**728.9**	**(438.6)**	**11.1**	**(427.5)**	**162.4**	**139.0**	**301.4**
Finance income	33.8	1.0	34.8	-	-	-	33.8	1.0	34.8
Finance costs	(111.6)	(140.7)	(252.3)	-	-	-	(111.6)	(140.7)	(252.3)
Profit before tax	**523.2**	**(11.8)**	**511.4**	**(438.6)**	**11.1**	**(427.5)**	**84.6**	**(0.7)**	**83.9**
Income tax (expense)/credit	(106.0)	-	(106.0)	58.7	8.4	67.1	(47.3)	8.4	(38.9)
Profit for the period	**417.2**	**(11.8)**	**405.4**	**(379.9)**	**19.5**	**(360.4)**	**37.3**	**7.7**	**45.0**
Attributable to:									
Owners of the parent	413.4	(11.6)	401.8	(379.9)	19.5	(360.4)	33.5	7.9	41.4
Non-controlling interests	3.8	(0.2)	3.6	-	-	-	3.8	(0.2)	3.6
	417.2	**(11.8)**	**405.4**	**(379.9)**	**19.5**	**(360.4)**	**37.3**	**7.7**	**45.0**
Basic earnings per share (pence)	**25.4p**	**(1.7p)**	**23.7p**	**(23.3p)**	**2.4p**	**(20.9p)**	**2.1p**	**0.3p**	**2.4p**
Diluted earnings per share (pence)	**25.4p**	**(1.8p)**	**23.6p**	**(23.3p)**	**2.5p**	**(20.8p)**	**2.1p**	**0.3p**	**2.4p**

1 General information and basis of preparation (continued)

Condensed consolidated statement of comprehensive income

	26 weeks ended 29 Sep 2018 (Unaudited)			52 weeks ended 30 March 2019 (Audited)		
	As reported[1]	Impact of IFRS 16	Restated	As reported	Impact of IFRS 16	Restated
	£m	£m	£m	£m	£m	£m
Profit for the period	**89.8**	**(29.0)**	**60.8**	**37.3**	**7.7**	**45.0**
Other comprehensive income/(expense):						
Items that will not be reclassified to profit or loss						
Remeasurements of retirement benefit schemes	(26.6)	-	(26.6)	(79.9)	-	(79.9)
Tax credit on retirement benefit schemes	4.9	-	4.9	14.0	-	14.0
	(21.7)	-	(21.7)	(65.9)	-	(65.9)
Items that may be reclassified subsequently to profit or loss						
Foreign currency translation differences						
- movement recognised in other comprehensive income	(13.0)	(0.2)	(13.2)	(15.4)	0.8	(14.6)
Cash flow hedges and net investment hedges						
- fair value movements in other comprehensive income	129.5	-	129.5	132.0	-	132.0
- reclassified and reported in net profit or loss	(15.8)	-	(15.8)	(16.0)	-	(16.0)
Tax charge on cash flow hedges and net investment hedges	(21.5)	-	(21.5)	(19.0)	-	(19.0)
	79.2	(0.2)	79.0	81.6	0.8	82.4
Other comprehensive income/(expense) for the period, net of tax	57.5	(0.2)	57.3	15.7	0.8	16.5
Total comprehensive income/(expense) for the period	**147.3**	**(29.2)**	**118.1**	**53.0**	**8.5**	**61.5**
Attributable to:						
Owners of the parent	145.4	(29.2)	116.2	49.2	8.7	57.9
Non-controlling interests	1.9	-	1.9	3.8	(0.2)	3.6
	147.3	**(29.2)**	**118.1**	**53.0**	**8.5**	**61.5**

[1]**Prior Period Restatement**

The column 'as reported' includes the following restatement: In the 26 weeks ended 29 September 2018, other comprehensive income incorrectly included £31.9m related to the cash flow hedge reserve being reclassified to inventory and an offsetting related tax impact of £6.1m. The impact of the restatement is to increase total comprehensive income by £25.8m, all of which is attributable to the owners of the parent. The condensed consolidated statement of changes in equity on page 26 has also been restated in line with this adjustment.

1 General information and basis of preparation (continued)

Condensed consolidated statement of financial position

	As at 29 Sep 2018 (Unaudited)			As at 30 March 2019 (Audited)		
	As previously reported	Impact of IFRS 16	Restated	As previously reported	Impact of IFRS 16	Restated
	£m	£m	£m	£m	£m	£m
Assets						
Non-current assets						
Property, plant and equipment	4,242.4	1,739.9	5,982.3	4,028.5	1,625.8	5,654.3
Trade and other receivables	206.8	0.4	207.2	200.7	72.3	273.0
Other non-current assets	1,595.9	-	1,595.9	1,480.6	-	1,480.6
	6,045.1	**1,740.3**	**7,785.4**	**5,709.8**	**1,698.1**	**7,407.9**
Current assets						
Trade and other receivables	301.8	(50.3)	251.5	322.5	(53.1)	269.4
Other current assets	1,070.3	-	1,070.3	1,167.9	-	1,167.9
	1,372.1	**(50.3)**	**1,321.8**	**1,490.4**	**(53.1)**	**1,437.3**
Total assets	**7,417.2**	**1,690.0**	**9,107.2**	**7,200.2**	**1,645.0**	**8,845.2**
Liabilities						
Current liabilities						
Trade and other payables	1,475.0	(28.7)	1,446.3	1,461.3	(36.9)	1,424.4
Borrowings and other financial liabilities	129.5	144.8	274.3	513.1	181.3	694.4
Provisions	129.0	(45.9)	83.1	148.6	(46.8)	101.8
Current tax liabilities	72.1	-	72.1	26.2	-	26.2
Other current liabilities	77.2	-	77.2	79.2	-	79.2
	1,882.8	**70.2**	**1,953.0**	**2,228.4**	**97.6**	**2,326.0**
Non-current liabilities						
Trade and other payables	326.7	(312.0)	14.7	322.4	(306.8)	15.6
Borrowings and other financial liabilities	1,682.8	2,368.3	4,051.1	1,279.5	2,343.7	3,623.2
Provisions	163.1	(96.2)	66.9	250.1	(175.1)	75.0
Deferred tax liabilities	256.6	(87.0)	169.6	218.4	(98.8)	119.6
Other non-current liabilities	218.1	-	218.1	220.5	-	220.5
	2,647.3	**1,873.1**	**4,520.4**	**2,290.9**	**1,763.0**	**4,053.9**
Total liabilities	**4,530.1**	**1,943.3**	**6,473.4**	**4,519.3**	**1,860.6**	**6,379.9**
Net assets	**2,887.1**	**(253.3)**	**2,633.8**	**2,680.9**	**(215.6)**	**2,465.3**
Equity						
Issued share capital	406.2	-	406.2	406.3	-	406.3
Share premium account	416.7	-	416.7	416.9	-	416.9
Capital redemption reserve	2,210.5	-	2,210.5	2,210.5	-	2,210.5
Hedging reserve	(11.4)	-	(11.4)	(14.6)	-	(14.6)
Cost of hedging reserve	12.5	-	12.5	11.7	-	11.7
Other reserve	(6,542.2)	-	(6,542.2)	(6,542.2)	-	(6,542.2)
Foreign exchange reserve	(42.3)	(0.2)	(42.5)	(44.7)	0.8	(43.9)
Retained earnings	6,437.7	(253.1)	6,184.6	6,237.1	(216.2)	6,020.9
Total shareholders' equity	**2,887.7**	**(253.3)**	**2,634.4**	**2,681.0**	**(215.4)**	**2,465.6**
Non-controlling interests in equity	(0.6)	-	(0.6)	(0.1)	(0.2)	(0.3)
Total equity	**2,887.1**	**(253.3)**	**2,633.8**	**2,680.9**	**(215.6)**	**2,465.3**

1 General information and basis of preparation (continued)

Condensed consolidated statement of cash flows

	26 weeks ended 29 Sep 2018 (Unaudited)			52 weeks ended 30 March 2019 (Audited)		
	As previously reported	Impact of IFRS 16	Restated	As previously reported	Impact of IFRS 16	Restated
	£m	£m	£m	£m	£m	£m
Cash flows from operating activities						
Cash generated from operations	457.9	150.7	608.6	1,041.0	303.2	1,344.2
Income tax paid	(24.0)	-	(24.0)	(105.7)	-	(105.7)
Net cash inflow from operating activities	**433.9**	**150.7**	**584.6**	**935.3**	**303.2**	**1,238.5**
Net cash used in investing activities	**(155.6)**	**-**	**(155.6)**	**(388.0)**	**-**	**(388.0)**
Cash flows from financing activities						
Interest paid	(32.7)	(73.0)	(105.7)	(86.4)	(144.6)	(231.0)
Decrease in obligations under leases	(0.8)	(77.7)	(78.5)	(3.3)	(158.6)	(161.9)
Other financing activities	(303.8)	-	(303.8)	(415.3)	-	(415.3)
Net cash used in financing activities	**(337.3)**	**(150.7)**	**(488.0)**	**(505.0)**	**(303.2)**	**(808.2)**
Net cash (outflow)/inflow from activities	**(59.0)**	**-**	**(59.0)**	**42.3**	**-**	**42.3**
Effects of exchange rate changes	(0.6)	-	(0.6)	(0.2)	-	(0.2)
Opening net cash	171.0	-	171.0	171.0	-	171.0
Closing net cash	**111.4**	**-**	**111.4**	**213.1**	**-**	**213.1**

Reconciliation of net cash flow to movement in net debt

	26 weeks ended 29 Sep 2018 (Unaudited)			52 weeks ended 30 March 2019 (Audited)		
	As previously reported	Impact of IFRS 16	Restated	As previously reported	Impact of IFRS 16	Restated
	£m	£m	£m	£m	£m	£m
Opening net debt	**(1,827.5)**	**(2,533.2)**	**(4,360.7)**	**(1,827.5)**	**(2,533.2)**	**(4,360.7)**
Net cash (outflow)/inflow from activities	(59.0)	-	(59.0)	42.3	-	42.3
Decrease in current financial assets	0.8	-	0.8	128.1	-	128.1
Decrease in debt financing	106.3	77.7	184.0	110.2	159 .0	269.2
Exchange and other non-cash movements	(1.7)	(57.6)	(59.3)	1.8	(150.4)	(148.6)
Movement in net debt	**46.4**	**20.1**	**66.5**	**282.4**	**8.6**	**291.0**
Closing net debt	**(1,781.1)**	**(2,513.1)**	**(4,294.2)**	**(1,545.1)**	**(2,524.6)**	**(4,069.7)**

1 General information and basis of preparation (continued)

Financial impact of IFRS 16

(i) Income Statement

Under the previous accounting standard for leases, IAS 17, lease costs were recognised on straight line basis over the term of the lease. The Group recognised these costs within operating costs. On adoption of IFRS 16 these costs have been removed and replaced with costs calculated on an IFRS 16 basis. Under IFRS 16 the right-of-use asset is depreciated over the lease term. The Group has recognised the depreciation costs on the right-of-use asset within operating costs.

The costs under IAS 17 were higher than the depreciation costs recognised under IFRS 16 which has resulted in a net credit under IFRS 16 to operating costs. The net impact of this adjustment in the Income Statement for the 26 weeks ended 29 September 2018 was £43.8m and the 52 weeks ended 30 March 2019 was £139.0m.

The impact on adjusting items as a result of IFRS 16 is due to additional accelerated depreciation and impairments following the recognition of the right-of-use assets and the removal of rental elements of onerous lease and onerous contract provisions. The net impact of this adjustment in the Income Statement for the 26 weeks ended 29 September 2018 was an additional charge of £14.9m and the 52 weeks ended 30 March 2019 was a reduction in the charge of £11.1m.

Under IFRS 16 finance costs are charged on the lease liability recognised. These costs are recognised within finance costs. The impact of this adjustment on the Income Statement for the 26 weeks ended 29 September 2018 was £69.2m and the 52 weeks ended 30 March 2019 was £140.7m.

Also, under IFRS 16, interest income is recognised on subleases. This is recognised within finance income. The impact of this adjustment in the Income Statement for the 26 weeks ended 29 September 2018 was £nil and the 52 weeks ended 30 March 2019 was £1.0m.

The net impact of the above adjustments to profit before tax for the 26 weeks ended 29 September 2018 was a decrease of £29.0m and the 52 weeks ended 30 March 2019 was an increase of £7.7m.

(ii) Right-of-use Asset

IFRS 16 has resulted in the recognition of a right-of-use asset. This asset represents the Group's contractual right to access an identified asset under the terms of the lease contract.

(iii) Lease liability

IFRS 16 has resulted in the recognition of a lease liability. This liability represents the Group's contractual obligation to minimum lease payments during the lease term.

The element of the liability payable in next 12 months is recognised as a current liability with the balance recognised in non-current liabilities.

(iv) Working capital

Under IAS 17 certain lease incentives, rent prepayments, accruals and similar amounts were held on the balance as part of working capital. Such balances are no longer recognised as all payments, lease incentives and related costs are reflected in either the right-of-use asset or the lease liability.

(v) Taxation

A deferred tax asset has been recognised on the transition to IFRS 16 representing the temporary difference on the amounts taken to reserves.

Associates

As a result of the Ocado transaction, the accounting policy for Associates has been revised:

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, an investment in an associate is recognised initially in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

1 General information and basis of preparation (continued)

Associated undertakings acquired during the year are recorded using the equity method of accounting and their results are included from the date of acquisition. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 36 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount.

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 Operating Committee. Some of these measures are also used for the purpose of setting remuneration targets.

The key APMs that the Group uses include: like-for-like sales; gross margin; profit before tax and adjusting items; adjusted earnings per share; net debt and free cash flow. Each of these APMs, and others used by the Group are set out in the glossary on pages 50 to 51, including explanation of how they are calculated, why they are used 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 sales 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 to be significant in both nature and/or quantum or are consistent with items that were treated as adjusting in 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 28 September 2019:

- 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 strategy changes that are not considered by the Group to be part of the normal operating costs of the business.
- Significant pension charges arising as a result of the historical changes to the UK defined benefit scheme practices.
- 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.
- Other adjusting items include credits recognised in relation to potential liabilities for employee related matters previously recognised within adjusting items.

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

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.

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 2019 Annual Report and Financial Statements, except for the addition of the two new items presented below relating to the acquisition of a 50% interest in Ocado Retail Limited.

Critical accounting judgements

Assessment of control The directors have assessed that the Group has significant influence over Ocado Retail Limited and has therefore accounted for the investment as an associate. This assessment is based on the current rights held by the respective shareholders and requires judgement in assessing these rights. Any future change to these rights requires a reassessment of control and could result in a change in the status of the investment from associate to joint venture, subsidiary or investment.

1 General information and basis of preparation (continued)

Key sources of estimation uncertainty

Fair value of consideration and contingent consideration The Group's cost of investment in Ocado Retail Limited of £749.2m is a provisional estimate based on a pre-Completion Statement and latest available forecasts provided by the company. The Completion Statement will be delivered in the third quarter and the estimate may be updated on the review of this Completion Statement. In addition, the fair value of consideration includes contingent consideration of £171.6m. This contingent consideration has a number of elements which only become payable on the achievement of specified order earnings targets and capacity levels, some of which also have target delivery dates. The calculation of the contingent consideration and the related financial liability is based on the latest available forecasts for Ocado Retail Limited. The calculation is sensitive to a number of factors including customer order levels and capital expenditure scheduling.

2 Segmental Information

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

The chief operating decision maker has been identified as the Operating Committee. The Operating Committee reviews the Group's internal reporting in order to assess performance and allocate resources across each operating segment. The operating segments are UK and International which are reported in a manner consistent with the internal reporting to the Operating Committee.

The UK segment consists of the UK retail business, UK franchise operations, M&S Bank and M&S Energy. The International segment consists of Marks & Spencer owned businesses in Europe and Asia and the international franchise operations.

The Operating Committee assesses the performance of the operating segments based on a measure of operating profit referred to as management group operating profit. This measurement basis excludes the effects of adjusting items from the operating segments. The Operating Committee also monitors revenue within the segments and gross profit within the UK segment. To increase transparency, the Group has decided to include an additional voluntary disclosure analysing revenue within the reportable segments by sub-category and gross profit within the UK segment by sub-category.

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

	(Unaudited) 26 weeks ended 28 Sep 2019			
	Management	Logistics adjustment[1]	Adjusting items[2]	Statutory
	£m	£m	£m	£m
Food revenue	2,845.8	-	-	2,845.8
Clothing & Home revenue	1,569.5	-	-	1,569.5
UK revenue	4,415.3	-	-	4,415.3
Franchise revenue	191.6	-	-	191.6
Owned revenue	254.0	-	-	254.0
International revenue	445.6	-	-	445.6
Group revenue[3]	**4,860.9**	**-**	**-**	**4,860.9**
Food gross profit	881.3			
Clothing & Home gross profit	895.6			
UK gross profit	1,776.9	(186.2)	-	1,590.7
UK operating costs	(1,578.5)	186.2	(12.4)	(1,404.7)
M&S Bank	14.1	-	(10.7)	3.4
M&S Energy	(0.2)	-	-	(0.2)
Share of result in associates and joint ventures	(0.6)	-	-	(0.6)
UK operating profit	211.7	-	(23.1)	188.6
International operating profit	59.9	-	0.1	60.0
Group operating profit[3]	**271.6**	**-**	**(23.0)**	**248.6**
Finance income	20.5	-	-	20.5
Finance costs	(115.6)	-	-	(115.6)
Profit before tax	**176.5**	**-**	**(23.0)**	**153.5**

[1]Management gross profit for the UK segment excludes certain expenses resulting in an adjustment between cost of sales and selling and administrative expenses of £186.2m (last half year £186.3m, last full year £384.9m).
[2]Management profit excludes the adjustments (income or charge) made to the reported profit before tax that are significant in value and/or nature (see note 3). Please refer to the Glossary on pages 50 to 51 for the definition of these adjustments.
[3]In common with many retailers, revenue and adjusted operating profit are subject to seasonal fluctuations and are weighted towards the second half of the year which includes the key Christmas period for the business.

2 Segmental information (continued)

	(Unaudited) Restated 26 weeks ended 29 Sep 2018			
	Management	Logistics adjustment[1]	Adjusting items[2]	Statutory
	£m	£m	£m	£m
Food revenue	2,813.2	-	-	2,813.2
Clothing & Home revenue	1,702.5	-	-	1,702.5
UK revenue	4,515.7	-	-	4,515.7
Franchise revenue	203.5	-	-	203.5
Owned revenue	247.7	-	-	247.7
International revenue	451.2	-	-	451.2
Group revenue[3]	**4,966.9**	**-**	**-**	**4,966.9**
Food gross profit	877.1			
Clothing & Home gross profit	989.0			
UK gross profit	1,866.1	(186.3)	-	1,679.8
UK operating costs	(1,632.6)	186.3	(93.5)	(1,539.8)
M&S Bank	18.7	-	(15.3)	3.4
M&S Energy	-	-	-	-
UK operating profit	252.2	-	(108.8)	143.4
International operating profit	69.0	-	(2.9)	66.1
Group operating profit[3]	**321.2**	**-**	**(111.7)**	**209.5**
Finance income	15.8	-	-	15.8
Finance costs	(124.0)	-	-	(124.0)
Profit before tax	**213.0**	**-**	**(111.7)**	**101.3**

2 Segmental Information (continued)

	(Audited) Restated 52 weeks ended 30 March 2019			
	Management	Logistics adjustment[1]	Adjusting items[2]	Statutory
	£m	£m	£m	£m
Food revenue	5,903.4	-	-	5,903.4
Clothing & Home revenue	3,537.3	-	-	3,537.3
UK revenue	9,440.7	-	-	9,440.7
Franchise revenue	409.1	-	-	409.1
Owned revenue	527.5	-	-	527.5
International revenue	936.6	-	-	936.6
Group revenue[3]	**10,377.3**	**-**	**-**	**10,377.3**
Food gross profit	1,834.7			
Clothing & Home gross profit	2,021.2			
UK gross profit	3,855.9	(384.9)	-	3,471.0
UK operating costs	(3,294.9)	384.9	(389.2)	(3,299.2)
M&S Bank	27.6	-	(20.9)	6.7
M&S Energy	0.1		-	0.1
UK operating profit	588.7	-	(410.1)	178.6
International operating profit	140.2	-	(17.4)	122.8
Group operating profit[3]	**728.9**	**-**	**(427.5)**	**301.4**
Finance income	34.8	-	-	34.8
Finance costs	(252.3)	-	-	(252.3)
Profit before tax	**511.4**	**-**	**(427.5)**	**83.9**

Other segmental information

	As at 28 Sep 2019 (Unaudited)	As at 29 Sep 2018 (Unaudited)	As at 30 March 2019 (Audited)
	£m	£m	£m
UK assets[1]	9,322.1	8,650.8	8,386.6
International assets	474.4	456.4	458.6
Total assets	**9,796.5**	**9,107.2**	**8,845.2**

[1] UK assets include centrally held assets largely relating to IT systems that support the International business of £18.5m (last half year £23.4m, last full year £20.9m).

Other information	As at 28 Sep 2019 (Unaudited)	As at 29 Sep 2018 (Unaudited)	As at 30 March 2019 (Audited)
	£m	£m	£m
Write-down of inventories to net realisable value	95.7	95.5	214.1

3 Adjusting items

The total adjusting items reported for the 26 week period ended 28 September 2019 is a net charge of £23.0m. The adjustments made to reported profit before tax to arrive at adjusted profit are:

	26 weeks ended		Year ended
	28 Sep 2019 (Unaudited)	29 Sep 2018 (Unaudited) (Restated)	30 March 2019 (Audited) (Restated)
	£m	£m	£m
Strategic programmes - UK store estate	(15.4)	(62.5)	(216.5)
Strategic programmes - Organisation	(11.3)	(11.1)	(4.9)
Strategic programmes - Operational transformation	(6.5)	-	(16.4)
Strategic programmes - IT restructure	(0.7)	(8.3)	(15.6)
Strategic programmes - UK logistics	(0.5)	(9.0)	(14.3)
Strategic programmes - Changes to pay and pensions	(1.5)	(3.2)	(6.2)
Strategic programmes - International store closures and impairments	0.1	(2.3)	(5.3)
UK store impairments and other property charges	-	-	(103.5)
M&S Bank charges incurred in relation to the insurance mis-selling provision	(10.7)	(15.3)	(20.9)
GMP and other pension equalisation	-	-	(20.5)
Establishing the investment in Ocado Retail	-	-	(3.4)
Other	23.5	-	-
Adjustment to profit before tax	**(23.0)**	**(111.7)**	**(427.5)**

Strategic programmes - UK store estate (£15.4m)
In November 2016, the Group announced a five-year strategic programme to transform the UK store estate. During 2017/18 the Group announced its intention to accelerate this programme in line with the strategic aim of significantly growing the online share of sales, as well as better than expected levels of sales transfer achieved from recent store closures. This acceleration of the UK store estate programme resulted in an acceleration of the timing of recognition of the associated costs, primarily driven by a shortening of the useful economic life, for impairment testing purposes, of those stores identified as part of the transformation plans.

The Group has recognised a charge of £15.4m in the period in relation to those stores identified as part of its transformation plans. The charge primarily reflects an updated view of latest store exit routes and assumptions underlying estimated store closure costs.

Further material charges relating to the closure and reconfiguration of the UK store estate are anticipated as the programme progresses, the quantum of which is subject to change throughout the programme period as decisions are taken in relation to the size of the store estate and the specific stores affected. At year end 2018/19, further charges of c.£100m were expected over 2019/20 and 2020/21 before restatement to reflect the impact of the adoption of IFRS 16, bringing anticipated total programme costs to be c.£680m. Following restatement for IFRS 16 and the updated view of store closure costs, future charges of up to £160m are estimated within the next two financial years, giving post IFRS 16 total programme charges of up to £680m.

Strategic programmes – Organisation (£11.3m)
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. As part of the wide ranging strategic review, a further announcement was made in 2017/18 to reduce Group operating costs by £350m by the end of 2021.

As part of our commitment to the transformation strategy and delivering the cost reduction programme, further reviews of our organisational structure have been performed in order to streamline structures and improve operational efficiency. This has resulted in a reduction of roles and a charge of £8.3m recognised in the period for redundancy costs associated with these changes.

In addition a further £3m of costs have been recognised in the period reflecting an updated view of costs associated with centralising the Group’s London Head Office functions.

As the Group executes the three phases of the transformation strategy further material organisation costs are likely to occur in order to meet the transformation objective. These costs are considered to be adjusting items as the costs are part of the strategic programme, significant in value, and are consistent with the disclosure of other similar charges in prior years.

Strategic programmes – Operational transformation (£6.5m)
In 2018/19 the Group commenced a number of key transformation initiatives with the aim of re-engineering end-to-end supply chain, removing costs, complexity and working capital. Part of this transformation has included a fundamental review of the Group’s Clothing & Home and Food end-to-end processes. A charge of £6.5m has been recognised in the period primarily for consultancy costs for the transformation and simplification of our supply chain and operations across Clothing & Home and Food.

These costs are considered to be adjusting items as they related to a strategic programme and the total costs are significant in quantum, and as a result are not considered to be normal operating costs of the business. Further operational transformation initiatives are expected in the second half of the financial year with the related charges to be recognised within adjusting items.

3 Adjusting items (continued)

Strategic programmes – IT restructure (£0.7m)
In 2017/18 as part of the five-year transformation strategy, the Group announced a technology transformation programme to create a more agile, faster and commercial technology function. A charge of £0.7m has been recognised in the period relating primarily to transition costs associated with the implementation of a new technology operating model. 2019/20 is expected to be the final year of the IT restructure programme with final charges expected in the second half of this financial year.

These costs are considered to be an adjusting item as they relate to a significant strategic initiative of the Group which over the prior two years has been significant in value and nature to the results of the Group (2018/19: £15.6m and 2017/18: £15.5m).

Strategic programmes – UK logistics (£0.5m)
In 2017/18 as part of the previously announced long-term strategic programme to transition to a single-tier UK distribution network, the Group announced the opening of a new Clothing & Home distribution centre in Welham Green in 2019. As a direct result, the Group announced the closure of two existing distribution centres. The new Welham Green distribution centre opened in the period, with a net charge of £0.5m recognised in the period, reflecting an updated view of estimated closure costs and transition project costs relating to Welham Green.

The Group considers these costs to be adjusting items as they have been significant in value over prior years and relate to a significant strategic initiative of the Group. Further costs will be incurred in respect of this reorganisation in the second half of this financial year. Treatment of the costs as being adjusting items is consistent with the treatment of charges in previous periods in relation to the creation of a single-tier logistics network.

Strategic programmes – Changes to pay and pensions (£1.5m)
In May 2016, the Group announced proposals for a fairer, simpler and more consistent approach to pay and premia as well as proposals to close the UK defined benefit (DB) pension scheme to future accrual effective from 1 April 2017. As part of these proposals the Group committed to making transition payments to impacted employees in relation to the closure of the UK DB scheme, expected to be c.£25m in total over the three years commencing 2017/18. 2019/20 represents the final year of these payments, with a charge in the period in relation to these transition payments to employees of £1.5m, with further charges of £1.5m expected in the second half of this financial year.

As previously disclosed, the Group considers the costs directly associated with the closure of the UK DB scheme to be an adjusting item on the basis that they relate to a significant cost, impacting the Group results. Treatment of the transition payments made in the period within adjusting items is consistent with disclosure of the same costs in 2017/18 and the original disclosure of the UK DB scheme closure costs in 2016/17.

Strategic programmes – International store closures and impairments (£0.1m Credit)
In 2016/17 the Group announced its intention to close its owned stores in ten international markets. A net credit of £0.1m has been recognised in the period reflecting an updated view of the estimated final closure costs for certain markets and those costs which can only be recognised as incurred.

The net charge is considered to be an adjusting item as it is part of a strategic programme which over the prior three years of charges has been significant in both value and nature to the results of the Group.

M&S Bank charges incurred in relation to the insurance mis-selling provision (£10.7m)
The Group has an economic interest in M&S Bank, a wholly owned subsidiary of HSBC, by way of a Relationship Agreement that entitles the Group to a 50% share of the profits of M&S Bank after appropriate deductions. The Group does not share in any losses of M&S Bank and is not obliged to refund any 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 fee income from M&S Bank has been reduced by the deduction of the estimated liability in both the current and prior years. The deduction in the period is £10.7m. The Group considers this cost to be an adjusting item, despite its recurring nature, as the charges are significant in nature and value in each period to the results of the Group. Whilst the August 2019 deadline consumers to raise potential mis-selling claims has now passed, costs relating to the estimated liability for dress are expected to continue in the second half of the financial year and 2020/21 as information requests in respect of possible mis-selling are converted in to claims.

Other (£23.5m Credit)
In 2017/18, a provision was recorded to cover the potential costs of probable liabilities for certain employee related matters. During the period, the Group paid £0.6m in settlement of the liability for these employee related matters, resulting in a £23.5m release of the provision.

4 Finance income/(costs)

	26 weeks ended		52 weeks ended
	28 Sep 2019 (Unaudited)	29 Sep 2018 (Unaudited) (Restated)	30 March 2019 (Audited) (Restated)
	£m	£m	£m
Bank and other interest receivable	6.0	2.8	7.6
Pension net finance income	11.3	12.8	25.8
Other finance income	-	0.2	0.4
Interest income of subleases	3.2	-	1.0
Finance income	**20.5**	**15.8**	**34.8**
Interest on bank borrowings	(0.3)	(0.3)	(0.6)
Interest payable on syndicated bank facility	(1.2)	(1.2)	(2.3)
Interest payable on medium-term notes	(41.1)	(38.8)	(77.4)
Interest payable on lease liabilities	(73.0)	(76.4)	(151.8)
Unwinding of discount on partnership liability to the Marks and Spencer UK Pension Scheme (see note 9)	(3.4)	(4.4)	(8.8)
Unwind of discount on provisions	(2.5)	(2.1)	(7.9)
Ineffectiveness on financial instruments	5.9	(0.8)	(3.5)
Finance costs	**(115.6)**	**(124.0)**	**(252.3)**
Net finance costs	**(95.1)**	**(108.2)**	**(217.5)**

5 Taxation

The taxation charge in the income statement for the half year is based on a forecast full year tax rate on profit before adjusting items of 23.1% (restated last half year 23.8% and restated last full year 20.7%) and tax on adjusting items arising in the period to 28 September 2019 to give an effective tax rate on profit before taxation of 23.7% (restated last half year 40.0% and restated last full year 46.4%).

The effective tax rate on profit before taxation is higher than the statutory UK tax rate of 19% primarily due to the Marks and Spencer Scottish Limited Partnership structure (where historical tax relief is partly recaptured) and disallowable property charges included in adjusting items.

6 Earnings per share

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

The adjusted earnings per share figures have also been calculated based on earnings before adjusting items that are significant in nature and/or value (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.

Basic and diluted earnings per share figures for the comparative periods have been restated and adjusted for the bonus factor of 1.04 to reflect the bonus element of the June 2019 rights issue, in accordance with IAS 33, Earnings per Share. Amounts as originally stated at 29 September 2018 were, 5.4p basic and diluted earnings per share and 10.6p basic and diluted underlying earnings per share. Amounts as originally stated at 30 March 2019 were, 2.1p basic and diluted earnings per share and 25.4p basic and diluted underlying earnings per share.

6 Earnings per share (continued)

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

	26 weeks ended		52 weeks ended
	28 Sep 2019 (Unaudited)	29 Sep 2018 (Unaudited) (Restated)	30 March 2019 (Audited) (Restated)
	£m	£m	£m
Profit attributable to equity shareholders of the Company	**112.8**	**58.9**	**41.4**
Add/(less) (net of tax):			
Strategic programmes - UK store estate	12.9	61.7	184.5
Strategic programmes - Organisation	9.1	9.1	(0.6)
Strategic programmes - Operational transformation	5.3	-	13.2
Strategic programmes - IT restructure	0.5	6.7	12.7
Strategic programmes - UK logistics	0.4	7.3	11.8
Strategic programmes - Changes to pay and pensions	1.2	2.6	5.1
Strategic programmes - International store closures and impairments	(0.1)	1.7	5.1
UK store impairments and other property charges	-	-	91.7
M&S Bank charges incurred in relation to the insurance mis-selling provision	8.8	12.4	16.9
GMP and other equalisation	-	-	16.6
Establishing the investment in Ocado Retail	-	-	3.4
Other	(19.5)	-	-
Profit before adjusting items attributable to equity shareholders of the Company	**131.4**	**160.4**	**401.8**
	Million	Million	Million
Weighted average number of ordinary shares in issue	1,840.2	1,698.0	1,698.1
Potentially dilutive share options under Group's share option schemes	2.0	2.5	3.8
Weighted average number of diluted ordinary shares	**1,842.2**	**1,700.5**	**1,701.9**
	Pence	Pence	Pence
Basic earnings per share	6.1	3.5	2.4
Diluted earnings per share	6.1	3.5	2.4
Adjusted basic earnings per share	7.1	9.4	23.7
Adjusted diluted earnings per share	7.1	9.4	23.6

7 Dividends

	26 weeks ended		52 weeks ended
	28 Sep 2019 (Unaudited) £m	29 Sep 2018 (Unaudited) £m	30 March 2019 (Audited) £m
Final dividend of 6.8p per share (last year 11.4p per share) (restated)	115.1	193.1	193.1
Prior period interim dividend of 6.5p per share (restated)	-	-	110.4
	115.1	**193.1**	**303.5**

Dividend per share figures above have been restated to reflect the bonus element of the June 2019 rights issue.

The directors have approved an interim dividend of 3.9p per share (last half year 6.5p per share (restated)) which, in line with the requirements of IAS 10 - Events after the Reporting Period, has not been recognised within these results. This interim dividend of £76.1m (last half year £110.4m) will be paid on 10 January 2020 to shareholders whose names are on the Register of Members at the close of business on 15 November 2019. The ordinary shares will be quoted ex dividend on 16 November 2019.

A dividend reinvestment plan (DRIP) is available to shareholders who would prefer to invest their dividends in the shares of the Company. For those shareholders electing to receive the DRIP, the last date for receipt of a new election is 17 December 2019.

8 Retirement benefits

	26 weeks ended		52 weeks ended
	28 Sep 2019 (Unaudited) £m	29 Sep 2018 (Unaudited) £m	30 March 2019 (Audited) £m
Opening net retirement benefit surplus	**914.3**	**948.2**	**948.2**
Current service cost	(0.1)	(0.1)	(0.2)
Administration costs	(2.0)	(2.0)	(3.9)
Past service cost	-	-	(18.0)
Net interest income	11.3	12.8	25.8
Employer contributions	39.2	38.8	42.0
Remeasurements	29.2	(26.6)	(79.9)
Exchange movement	(0.7)	(0.2)	0.3
Closing net retirement benefit surplus	**991.2**	**970.9**	**914.3**
Total market value of assets	11,364.6	9,628.3	10,224.7
Present value of scheme liabilities	(10,364.1)	(8,645.9)	(9,301.3)
Net funded pension plan asset	1,000.5	982.4	923.4
Unfunded retirement benefits	(3.7)	(3.6)	(3.5)
Post-retirement healthcare	(5.6)	(7.9)	(5.6)
Net retirement benefit surplus	**991.2**	**970.9**	**914.3**
Analysed in the Statement of Financial Position as:			
Retirement benefit asset	1,026.2	987.0	931.5
Retirement benefit deficit	(35.0)	(16.1)	(17.2)
Net retirement benefit surplus	**991.2**	**970.9**	**914.3**

In addition to the amounts disclosed above the Group made payments of £32.9m (last half year £35.1m and last full year £68.7m) relating to the Your M&S Pension Saving Plan (a defined contribution arrangement).

Financial assumptions

The main financial assumptions for the UK scheme and the most recent actuarial valuations of the other post-retirement schemes have been updated by independent qualified actuaries to take account of the requirements of IAS 19 – Employee Benefits in order to assess the liabilities of the schemes.

The most significant of these are the discount rate and the inflation rate which are 1.85% (last half year 2.90% and last full year 2.45%) and 3.10% (last half year 3.25% and last full year 3.25%) respectively. The inflation rate of 3.10% 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 2.30% (last half year 2.25% and last full year 2.25%) has been used.

8 Retirement benefits (continued)

The amount of the surplus varies if the main financial assumptions change, particularly the discount rate. If the discount rate decreased by 0.25% the surplus would decrease by £50m (last half year decrease by £70m and last full year decrease by £70m). If the inflation rate decreased by 0.25%, the surplus would decrease by £50m (last half year decrease by £25m and last full year decrease of £25m). A one year decrease in life expectancy would increase the schemes surplus by £300m (last half year increase by £290m and last full year increase by £315m).

In the prior year, we have reached agreement with the Marks and Spencer plc (the Company) UK Defined Benefit Pension Scheme Trustee with regards to the triennial actuarial valuation of the scheme. The valuation as at 31 March 2018 resulted in a statutory surplus of £652m. This is an improvement on the previous position at 31 March 2015 (statutory surplus of £204m), primarily due to lower assumed life expectancy. The Company and Trustee 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 9).

In April 2019, the Scheme purchased additional pensioner buy-in policies with two insurers for approximately £1.4bn. Together with the two policies purchased in March 2018, the Scheme has now, in total, hedged its longevity exposure for around two thirds 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 Company's exposure to changes in longevity, interest rates, inflation and other factors.

On 26 October 2018, the High Court issued a judgement in a claim involving Lloyds Banking Group's DB pension schemes. This judgement concluded the schemes should be amended in order to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgement have resulted in an increase in the liabilities of the Marks & Spencer UK DB Pension Scheme of £18.0m. This increase was reflected in the prior year results as a past service cost.

9 Marks and Spencer Scottish Limited Partnership

Marks and Spencer plc is a general partner and the Marks and Spencer UK Pension Scheme is a limited partner of the Marks and Spencer Scottish Limited Partnership (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 £1.4bn (last full year £1.4bn) 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), entitles the Pension Scheme to receive an annual distribution of £71.9m until June 2022 from the Partnership. The second partnership interest (also held by the Marks and Spencer UK Pension Scheme) entitles the Pension Scheme to receive a further £36.4m annually from June 2017 until June 2031. All profits generated by the Partnership in excess of this are distributable to Marks and Spencer plc.

The partnership liability in relation to the first interest of £204.0m (last full year £272.4m) is valued at the net present value of the future expected distributions from the Partnership and is included as a liability in the Group's financial statements as it is a transferrable financial instrument. During the period to 28 September 2019 an interest charge of £3.4m (last half year £4.4m and last full year £8.8m) 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 £210.5m (last full year £278.5m).

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.

10 Financial Instruments

Fair Value Hierarchy

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

- Level 1: quoted (unadjusted) prices in active markets for identical assets and liabilities. 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) As at 28 Sep 2019				(Audited) As at 30 March 2019
	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								
- trading derivatives	-	1.4	-	1.4	-	0.7	-	0.7
Derivatives used for hedging	-	140.8	-	140.8	-	59.4	-	59.4
Short term investments	-	144.0	-	144.0	-	141.8	-	141.8
Unlisted investments	-	-	9.9	9.9	-	-	9.9	9.9
Liabilities measured at fair value								
Financial liabilities at fair value through profit and loss								
- trading derivatives	-	(0.4)	-	(0.4)	-	(0.4)	-	(0.4)
Derivatives used for hedging	-	(3.9)	-	(3.9)	-	(9.7)	-	(9.7)

There were no transfers between the levels of the fair value hierarchy during the period.

Fair value of financial instruments

With the exception of the Group's fixed rate bond debt and the Partnership liability to the Marks and 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 £1,957.1m (last half year £1,685.5m and last full year £1,673.8m); the fair value of this debt was £2,066.5m ((restated) last half year £1,794.4m and (restated) last full year £1,761.2m) which has been calculated using quoted market prices and includes accrued interest. The carrying value of the Partnership liability to the Marks and Spencer UK Pension scheme is £204.0m (last half year £268.0m and last full year £272.4m) and the fair value of this liability, which represents only the principal value excluding accrued interest is £202.7m (last half year £266.2m and last full year £266.2m).

11 Capital expenditure and contingencies

A Capital expenditure

Additions to the cost of property, plant and equipment, investment property and intangible assets, excluding right-of-use assets are £125.9m (last half year £115.5m) and for the year ended 30 March 2019 were £297.0m. 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 £0.4m) and for the year ended 30 March 2019 were £2.9m.

B Capital commitments

	As at 28 Sep 2019 (Unaudited) £m	As at 29 Sep 2018 (Unaudited) £m	As at 30 March 2019 (Audited) £m
Commitments in respect of properties in the course of construction	109.1	123.5	90.1
Software capital commitments	15.1	10.1	6.8
	124.2	**133.6**	**96.9**

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

	26 weeks ended		52 weeks ended
	28 Sep 2019 (Unaudited) £m	29 Sep 2018 (Unaudited) (Restated) £m	30 March 2019 (Audited) (Restated) £m
Profit on ordinary activities after taxation	**117.1**	**60.8**	**45.0**
Income tax expense	36.4	40.5	38.9
Finance costs	115.6	124.0	252.3
Finance income	(20.5)	(15.8)	(34.8)
Operating profit	**248.6**	**209.5**	**301.4**
(Increase)/decrease in inventories	(119.2)	(65.6)	73.8
Decrease/(increase) in receivables	8.1	8.5	(81.7)
Increase in payables	43.9	70.6	62.7
Adjusting items net cash outflows	(57.9)	(39.0)	(99.2)
Depreciation, amortisation and write-offs before adjusting items	314.2	355.2	699.3
Non-cash share-based payment charges	10.1	9.8	19.2
Defined benefit pension funding	(36.5)	(36.8)	(37.9)
Adjusting items non-cash	(10.7)	(15.3)	(20.9)
Adjusting operating profit items	23.0	111.7	427.5
Cash generated from operations	**423.6**	**608.6**	**1,344.2**

Adjusting items net cash outflows relate to the utilisation of the provisions for international store closures, strategic programme costs associated with the UK store estate, Organisation, Operational transformation, UK logistics, IT restructure and changes to pay and pensions. Adjusting items non-cash relate to the reduction in M&S Bank income recognised in operating profit offset by charges incurred in relation to the mis-selling provision and the release of a provision booked in 2017/18 for certain employee related matters following a settlement for £0.6m.

13 Analysis of net debt

Reconciliation of net cash flow to movement in net debt

		26 weeks ended		52 weeks ended
		28 Sep 2019 (Unaudited)	29 Sep 2018 (Unaudited) (Restated)	30 March 2019 (Audited) (Restated)
	Notes	£m	£m	£m
Opening net debt (Restated)		**(4,069.7)**	**(4,360.7)**	**(4,360.7)**
Net cash inflow/(outflow) from activities		92.5	(59.0)	42.3
Decrease in current financial assets		2.2	0.8	128.1
(Increase)/decrease in debt financing		(96.3)	184.0	269.2
Exchange and other non cash movements		(61.4)	(59.3)	(148.6)
Movement in net debt		**(63.0)**	**66.5**	**291.0**
Closing net debt	13	**(4,132.7)**	**(4,294.2)**	**(4,069.7)**

Reconciliation of net debt to statement of financial position

	As at 28 Sep 2019 (Unaudited)	As at 29 Sep 2018 (Unaudited) (Restated)	As at 30 March 2019 (Audited) (Restated)
	£m	£m	£m
Statement of financial position and related notes			
Cash and cash equivalents	351.4	180.7	285.4
Current financial assets	144.0	14.5	141.8
Bank loans and overdrafts	(43.9)	(75.5)	(72.3)
Medium term notes - net of hedging derivatives	(1,891.2)	(1,640.1)	(1,624.3)
Lease liabilities	(2,523.6)	(2,561.2)	(2,571.1)
Partnership liability to the Marks and Spencer UK Pension Scheme (note 9)	(204.0)	(268.0)	(272.4)
	(4,167.3)	**(4,349.6)**	**(4,112.9)**
Prepaid interest relating to lease liabilities[1]	(22.1)	-	-
Interest payable included within related borrowing and the partnership liability to the Marks and Spencer UK Pension Scheme	56.7	55.4	43.2
Total net debt	**(4,132.7)**	**(4,294.2)**	**(4,069.7)**

[1] Lease liabilities as at 28 Sep 2019 are net of prepaid interest due to the timing of the balance sheet date and the lease payment due date.

14 Related party transactions

The Group's significant related parties are disclosed in the Group's 2019 Annual Report, with the exception of Ocado Retail Limited, which was acquired during the year. See note 15 for further details.

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 2019 Annual Report.

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

15 Acquisition of associate

On 5 August 2019, the Group acquired a 50% interest in Ocado Retail Limited, a company incorporated in the UK which is one of the world's largest dedicated online grocery retailers. The remaining 50% interest is held by Ocado Group Plc. Ocado Retail Limited operates Ocado.com, supported by the Ocado Smart Platform technology and will bring together the strength of M&S's brand and its leading food quality and product development, with Ocado's proprietary technology and award-winning service.

Ocado Retail Limited is considered an associate of the M&S Group as certain rights are conferred on Ocado Group Plc for an initial period of at least five years from acquisition, giving Ocado Group Plc control of the company. Following this initial period, a reassessment of control will be required as M&S will have an option to obtain more power over the company if certain conditions are met. If M&S 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 year end date of 1 December 2019, aligning with its parent company, Ocado Group Plc. Ocado Retail Limited will prepare financial information for M&S Group purposes to the nearest quarter-end date of Ocado Retail Limited's year end. The results of Ocado Retail Limited are incorporated in this interim financial statement from the date of acquisition to 1 September 2019. There were no significant events or transactions in the period from 2 September 2019 to 28 September 2019.

The investment in associate is recognised at a cost of £749.2m. This incorporates initial consideration of £572.4m paid in cash on acquisition, contingent consideration of £171.6m and transaction costs of £5.2m. This cost is a provisional estimate as the completion statement process is on-going and adjustments may be made to the initial consideration on finalisation of this process which is expected before the end of January 2020.

Summarised financial information for Ocado Retail Limited and the calculation of goodwill on acquisition will be shown in the financial statements for the year ending 28 March 2020. This information is not yet available as the completion statement process and purchase price allocation is not yet complete. The M&S share of Ocado Retail Limited losses included in the interim financial statements for the period from acquisition to 1 September 2019 is £0.5m.

Glossary

<table>
<tr><th>Alternative performance measure</th><th>Closest equivalent statutory measure</th><th>Reconciling items to statutory measure</th><th>Definition and purpose</th></tr>
<tr><td colspan="4">Income Statement Measures</td></tr>
<tr><td>Like-for-like revenue growth</td><td>Movement in revenue per the Income Statement</td><td>Sales from non like-for-like stores</td><td>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.
<table>
<tr><th></th><th>HY 19/20
£m</th><th>HY 18/19
£m</th><th>%</th></tr>
<tr><td>Food</td><td></td><td></td><td></td></tr>
<tr><td>Like-for-like</td><td>2,761.9</td><td>2,737.4</td><td>0.9</td></tr>
<tr><td>Net new space</td><td>83.9</td><td>75.8</td><td></td></tr>
<tr><td>Total Food revenue</td><td>2,845.8</td><td>2,813.2</td><td></td></tr>
<tr><td>Clothing & Home</td><td></td><td></td><td></td></tr>
<tr><td>Like-for-like</td><td>1,565.0</td><td>1,655.9</td><td>(5.5)</td></tr>
<tr><td>Net new space</td><td>4.5</td><td>46.6</td><td></td></tr>
<tr><td>Total Clothing & Home revenue</td><td>1,569.5</td><td>1,702.5</td><td></td></tr>
</table></td></tr>
<tr><td>M&S.com revenue / Online revenue</td><td>None</td><td>Not applicable</td><td>Total revenue through the Group’s online platforms. These revenues are reported within the relevant UK 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.</td></tr>
<tr><td>Revenue growth at constant currency</td><td>None</td><td>Not applicable</td><td>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.
<table>
<tr><th></th><th>HY 19/20
£m</th><th>HY 18/19
£m</th><th>%</th></tr>
<tr><td>International Revenue</td><td></td><td></td><td></td></tr>
<tr><td>At constant currency</td><td>445.6</td><td>453.2</td><td>(1.7)</td></tr>
<tr><td>Impact of FX retranslation</td><td>-</td><td>(2.0)</td><td></td></tr>
<tr><td>At reported currency</td><td>445.6</td><td>451.2</td><td>(1.2)</td></tr>
</table></td></tr>
<tr><td>Management gross margin</td><td>Gross profit margin[1]</td><td>Certain downstream logistics costs

(See note 2)</td><td>Where referred to throughout the press release, gross margin is calculated as gross profit before adjusting items on a management basis divided by revenue. The gross profit used in this calculation is based on an internal measure of margin rather than the statutory margin, which excludes certain downstream logistics costs. This is a key internal management metric for assessing category performance.</td></tr>
<tr><td>Adjusting items</td><td>None</td><td>Not applicable</td><td>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. 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 Operating Committee.</td></tr>
<tr><td>Profit before tax and adjusting items</td><td>Profit before tax</td><td>Adjusting items

(See note 3)</td><td>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 Operating Committee.

This is a measure used within the Group’s incentive plans. Refer to the Remuneration Report in the FY18/19 annual report for explanation of why this measure is used within incentive plans.</td></tr>
<tr><td>Adjusted basic earnings per share</td><td>Earnings per share</td><td>Adjusting items

(See note 3)</td><td>Profit 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 FY18/19 annual report for explanation of why this measure is used.</td></tr>
<tr><td>Adjusted diluted earnings per share</td><td>Diluted earnings per share</td><td>Adjusting items

(See note 3)</td><td>Profit 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.</td></tr>
</table>

Alternative performance measure	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
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 before tax and adjusting items. This measure is an indicator of the ongoing tax rate for the Group.
Balance Sheet Measures			
Net debt	None	Reconciliation of net debt (see note 13)	Net debt comprises total borrowings (bank, bonds and lease liabilities net of accrued interest), net derivative financial instruments that hedge the debt and the Scottish Limited Partnership liability to the 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. This measure is a good indication of the strength of the Group's balance sheet position and is widely used by credit rating agencies.
Cash Flow Measures			
Free cash flow	Net cash inflow from operating activities	See Financial Review	The cash generated from the Group's operating activities less capital expenditure, cash lease payments and interest paid. This measure shows the cash retained by the Group in the year.
Free cash flow pre shareholder returns	Net cash inflow from operating activities	See Financial Review	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). 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.
Other Measures			
Capital expenditure	None	Not applicable	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.

[1] Gross profit margin is not defined within IFRS but is a widely accepted profit measure being derived from revenue less cost of sales divided by revenue.

INDEPENDENT REVIEW REPORT TO MARKS AND SPENCER GROUP PLC

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 28 September 2019 which comprises the condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of financial position, condensed consolidated statement of changes in equity, condensed consolidated statement of cash flows and related notes 1 to 15. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. 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.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, 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.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom. 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.

Conclusion

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 weeks ended 28 September 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Statutory Auditor
London, United Kingdom
5 November 2019