Chairman's statement

Luc Vandevelde Chairman and Chief Executive

One of the most revealing things about my first full year at Marks & Spencer was that almost every action or announcement has received front page and prime time television news coverage. This is a powerful reminder to me of how important Marks & Spencer is to British people, how close to the nation's heart we really are.

When I joined I had to face up to the fact that, in recent years, Marks & Spencer had allowed itself to be distracted from its fundamental strengths and values. Many of the initiatives were peripheral, aimed at attracting new customers in the short term, rather than serving our loyal supporters. Meanwhile, we embarked upon an intense programme of change, much of it long overdue. It has been very disruptive but we have learnt from it.

I'd like to tell you what we've been doing to build on this first attempt at change. I took over as Chief Executive in September 2000. My priority was to put in place a strong Executive team to take stock of where we were and create a proper platform to return the Company to growth. Four new Directors have joined the Board since May 2000. Kevin Lomax and Tony Ball joined as Non-Executive Directors and David Norgrove and Roger Holmes as Executive Directors. Together with Alison Reed, Finance Director designate, who has worked closely with Robert Colvill, they have already had a strong and positive influence.

I would like to thank the seven Directors who left the Board, particularly Peter Salsbury, who preceded me as Chief Executive. Peter inherited a formidable task and, to his credit, had the courage to make many difficult but necessary decisions. We have also recently announced the retirement, at the forthcoming AGM on 11 July, of three of our Non-Executive Directors; Sir Michael Perry, Sir Ralph Robins and Sir David Sieff. I thank them for their considerable contributions over the years.

With the new team in place, we have been able to conduct a thorough strategic review, resulting in the Group restructure and UK Retail operational plan announced on 29 March 2001. We are streamlining the Company in order to focus on our UK business, while providing a more appropriate capital structure by returning £2 billion to our shareholders. Although some of the decisions we've taken are painful, they are necessary if Marks & Spencer is to return to growth, and they will improve our ability to compete and respond more quickly to operational demands.

Of course it was very hard to come to the decision to propose the closure of our Continental European and Direct catalogue businesses, and to sell our two US businesses. The American companies are trading well, but they do not represent a basis for developing Marks & Spencer in the USA. On the Continent, we could no longer afford to make losses and so jeopardise our main business. Our experience illustrates that to succeed internationally when entering mature

Chairman's statement

markets, you must adapt your store formats to the competitive realities of those markets. The success of our franchise businesses in 26 countries around the world demonstrates the value of local knowledge in adapting to the local market. We will also continue to operate our successful business in the Republic of Ireland.

Our strategic review also reinforced the importance of the founding principles of this Company, and it is to a contemporary version of these that we are returning. We will sell 100% own brand merchandise so we can guarantee the quality for which we are known; we will work hard to develop further our strong, direct relationships with our suppliers; we will aim for market leadership in every category in which we trade; and concentrate on our principle of 'assisted self-selection'. The appeal and availability of what is in our stores should speak for itself, and products should be easy to find and buy within attractive store environments.

Roger Holmes, Managing Director of UK Retail, joined us in January 2001 and he and his team have translated these strategic principles, in a short space of time, into a solid operational plan for our UK Retail business. Roger has appointed new design talent to deliver the clothing our traditional customers demand, as well as to appeal to our younger customers. With strengthened new teams now in place, and a period of stability where they are learning from each new season, I have every confidence we will succeed, although there remains a lot of hard work to be done.

So, what of the future? Stories in the news often claim the Marks & Spencer brand has lost its lustre, is no longer attractive, and that people don't want to shop with us any more. Naturally I disagree with this view. This is still a unique Company, with unique fundamental strengths and the most dedicated staff of any retailer in the UK. We are a large general retailer with growing businesses in food, home furnishings, gifts, beauty and financial services. We are the country's largest clothing retailer, attracting millions of shoppers every week to 300 stores in the best locations. We have a leading share in the fastest-growing food categories in the market, and unrivalled food development capabilities. We have the scale and authority to develop clothing innovations that other retailers just cannot match. What retailer in the world would not want these qualities? Our unique advantages offer a much broader prospect for the future, beyond the scope of the present Company and, once the recovery platform is fully established, I am determined to exploit this potential.

In summary, we have made mistakes and have admitted them. We know that this year our most loyal customers haven't always found the clothes they want in our stores. But, I stated when I joined that Marks & Spencer used to be the standard against which other retailers judged themselves, not just in the UK, but internationally. This year we have put a first class management team and operational plan in place to complement the inherent strengths and capabilities of our people and I am personally committed to leading the Company's recovery. I am confident we have now prepared the ground to get on with doing what Marks & Spencer does best, and so restore our reputation to full strength.

Luc Vandevelde

Luc Vandevelde
Chairman and Chief Executive

Financial review

Group structure

The Group reports the results of three operating divisions:

UK Retail
International Retail
Financial Services

A fourth division, Property, manages the internal financial dynamics between the Group's interests as owner of property on the one hand, and as operator on the other hand. This is separately reported for internal purposes only.

The UK Retail division, the largest of the operating divisions, is itself sub-divided into seven business units, each representing a defined area of merchandise:

Womenswear
Menswear
Lingerie
Childrenswear
Beauty
Home
Foods

The first six business units are reported as 'General', and footage is allocated between them depending on demand and seasonal factors. The space allocated to the largest single business unit, Foods, is relatively inflexible.

Rent is charged internally to the UK Retail division based on the estimated rental value of the space occupied. The same occupancy costs are carried in the management accounts for the seven business units within UK Retail. Profit and loss accounts are also prepared for internal purposes at store level based on this market rent.

Group summary

Summary of results	2001 52 weeks £m	2000 53 weeks £m
Turnover (ex VAT)	8,075.7	8,195.5
Operating profit (before exceptional charges)	467.0	543.0
Exceptional operating charges	(26.5)	(72.0)
Operating profit (after exceptional charges)	440.5	471.0
Non-operating exceptional charges	(308.9)	(67.7)
Interest	13.9	14.2
Profit on ordinary activities before tax	145.5	417.5
Basic earnings per share	0.0p	9.0p
Adjusted earnings per share	11.4p	13.2p
Dividend per share	9.0p	9.0p

Group turnover		
UK Retail	6,293.0	6,482.7
International Retail	1,419.6	1,348.2
Financial Services	363.1	364.6
Total	8,075.7	8,195.5

Profit on ordinary activities before tax of £145.5m (last year £417.5m) is shown after charging £335.4m for exceptional items (last year £139.7m).

This year's financial reporting period covers 52 weeks. An estimate of operating profit (before exceptional items) for the 52-week comparative period last year is shown below.

Operating profit	2001 52 weeks £m	2000 52 weeks £m	2000 53 weeks £m
UK Retail	334.8	386.8	420.1
Financial Services[1]	96.3	115.9	115.9
International Retail:			
Europe	(11.4)	(9.4)	(6.1)
North America	32.0	14.0	16.4
Far East	7.4	(4.3)	(3.3)
Total International	28.0	0.3	7.0
Excess interest charged to cost of sales of Financial Services	7.9	–	–
Total operating profit	467.0	503.0	543.0
Interest	13.9	14.2	14.2
Profit before tax and exceptionals	480.9	517.2	557.2
Adjusted earnings per share	11.4p	12.2p	13.2p

[1] Financial Services operating profit is stated after £16.2m of merchant fee income from UK Retail (last year £nil).

Review of performance by operating division – UK Retail

Sales and footage

UK Retail sales for the period were £6,293.0m (last year, 52-week comparative period, £6,351.1m).

A summary of the sales performance (including VAT) for the year is given below. Like-for-like sales, which are estimated by comparing total sales with new and developed stores excluded, are also given:

	Actual sales % on last year 52 weeks	Like-for-like sales % on last year 52 weeks
Clothing, footwear & gifts	–5.5	–
Home	+11.5	–
General	–4.2	–6.3
Foods	+3.7	+2.6
Total	–1.0	–2.6

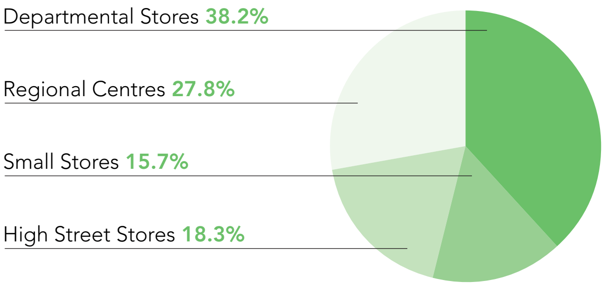
The average selling price of general merchandise was reduced by approximately 2.5%, which, coupled with a decline in the number of units sold of some 1.5%, contributed to the overall fall in general sales.

Overall food inflation was in the region of 1%.

Financial review

At the end of March 2001 we had 303 stores (including three outlet stores which opened during the year) with a selling space of 12.4m sq ft compared with 12.3m sq ft the previous year.

The UK shape of the chain, based on closing footage, is shown below:



Net achieved margin

Within clothing, results of better buying practices were seen in a substantially improved primary margin. The net achieved margin percentage improved over last year's level, despite a significant increase in the cost of markdowns.

Operating costs

The increase in UK Retail operating costs was contained to 3.2% (on a 52-week comparative basis). The main components of the increase were:

(i) higher property-related costs as a result of the concept store rollout (£13.0m);

(ii) merchant service fees payable on third party credit card transactions (£9.0m) and inter-company fees payable to the Financial Services division for the acceptance of the Marks & Spencer Chargecard (£16.2m), this latter charge being treated as income in the results of the division. The charges date from the acceptance of third party credit cards in April 2000.

International Retail

The International Retail business consists of three broad geographic areas: Europe (including the Republic of Ireland), North America and the Far East.

The results from our Franchise businesses which, at 31 March 2001, operated 125 franchise stores in 26 countries, are also incorporated in the reported performance of International Retail.

Financial information given in paragraphs (a) to (c) below for financial year 2000 covers a 52-week trading period and has been calculated using constant exchange rates.

(a) Europe (excluding UK)

An analysis of sales and operating profit before exceptional charges is shown below.

	Turnover		Operating profit/(loss)	
	2001 £m	2000 £m	**2001 £m**	2000 £m
Continental Europe	**285.0**	278.6	**(34.0)**	(26.0)
Republic of Ireland and franchises	**263.3**	251.3	**22.6**	17.2
Total Europe	**548.3**	529.9	**(11.4)**	(8.8)

At 31 March 2001, the Group traded in 45 stores excluding franchises (last year 40 stores), covering 1,563k sq ft (last year 1,517k sq ft).

(b) North America

The Group operates two businesses in North America: Brooks Brothers and Kings Super Markets. An analysis of sales and operating profit is shown below.

	Turnover		Operating profit	
	2001 £m	2000 £m	**2001 £m**	2000 £m
Brooks Brothers	**448.1**	427.3	**20.2**	6.4
Kings Super Markets	**313.1**	294.6	**11.9**	11.8
Corporate costs	**–**	–	**(0.1)**	(2.8)
Total North America	**761.2**	721.9	**32.0**	15.4

At 31 March 2001, Brooks Brothers traded in 221 stores (last year 222 stores) and 1,011k sq ft (last year 991k sq ft); Kings Super Markets operated 27 stores (last year 25 stores) with 453k sq ft (last year 430k sq ft).

(c) Far East

Sales increased by approximately 4% to £110.1m (last year £105.9m), and operating profit to £7.4m (last year loss of £4.8m).

At 31 March 2001 we traded in 10 stores in Hong Kong with aggregate footage of 202k sq ft (last year 223k sq ft).

(d) International restructure

On 29 March 2001, the Group announced the intention to:

- close all European subsidiary operations, with the exception of the Republic of Ireland and the franchises. The closures would represent 41 stores and 1,264k sq ft;
- convert our wholly owned subsidiary operation in Hong Kong to a franchise; and
- sell Brooks Brothers and Kings Super Markets.

Financial Services

This operating division includes six profit centres:

Store Cards
Personal Lending
Unit Trusts
Life Assurance
Personal Insurance
MS Insurance

The overall results are given in the segmental analysis (see note 2, page 24).

The first five of the six profit centres are managed as a single operation (the results for the Life Assurance company being aggregated on an Embedded Value basis). MS Insurance derives the majority of its underwriting business from the other Financial Services activities.

The scale of current business levels is indicated below:

	Account Cards	Personal Lending	Unit Trusts	Life Assurance
Number of accounts/ policy holders (000s)				
2001	**5,009**	**548**	**174**	**80**
2000	5,101	567	186	58
Customer outstandings/funds under management (£m)				
2001	**634**	**1,625**	**1,042**	**n/a**
2000	646	1,495	1,166	n/a

The credit activities are carried out within Marks and Spencer Financial Services Limited, an institution authorised under the Banking Act 1987. The Unit Trust, Life Assurance and Corporate PEP/ISA businesses are carried out by companies regulated by IMRO, PIA and the FSA.

Exceptional charges

Total exceptional charges of £335.4m have been provided for. Details are noted below.

(a) Continental Europe

The Group has announced its intention to close loss-making businesses in Continental Europe, subject to the full consultation which the Board recognised would need to take place. The decision to carry out any such plan would only be taken after this consultation had been completed with the competent employee representative bodies and if no other solution has been found during the consultation.

Net closure costs of £224.0m have been provided, covering future trading losses, losses on disposal of assets and redundancy costs.

(b) Direct

A provision of £35.5m has been made, consisting of £16.5m closure costs charged against operating profit and a £19.0m loss on asset disposals.

(c) Properties

The closure of six satellite stores and footage reduction in a further two stores (totalling 170k sq ft) gave rise to a charge of £40.2m.

In addition, further charges have been made to provide for the disposal of approximately half of the Manchester store, and the closure of stores in Salford, West Ealing and Torquay.

The total provision for UK store closures and footage reductions, including the satellites, is £64.2m.

(d) Other

Exceptional charges have been made for the elimination of roles at the Group's head office (£10.0m) and the loss incurred on the sale of the Group's 65% interest in Splendour.com Ltd (£1.7m).

Interest

Net interest income decreased to £13.9m from £14.2m last year. Average sterling borrowings were at 6.5% (last year 6%) and although average sterling cash balances (including interest-bearing investments) were £544m (last year £422m), a greater proportion was used for internal Group funding.

Interest payments on intra-group and external borrowings for the Financial Services business are charged to that business as cost of sales. The operating profit for Financial Services is shown in the segmental analysis (see note 2, page 24). The total interest cost incurred by Financial Services was £115.3m (last year £105.5m). In the consolidated accounts, the excess of intra-group interest over third-party interest payable, has been added back in the segmental analysis to arrive at total operating profit.

Taxation

The pre-exceptional tax charge for the year was £151.2m, giving an effective rate of 31.4% (last year 31.8%).

After exceptional charges, the tax charge for the year was £142.7m, a rate of 98.1%. This is due to the value of exceptional items which will not attract tax relief.

Earnings per share

An adjusted earnings per share figure of 11.4p (last year 52 weeks 12.2p; 53 weeks 13.2p) has been calculated excluding the effect of the exceptional items noted above. Details of the calculation are given in note 9, page 27.

Dividend

A final dividend of 5.3p (last year 5.3p) is proposed, making the total dividend for the year 9.0p (last year 9.0p).

Cash flow

The analysis of the increase in net debt, which follows, shows the operating cash flows within Retailing and Financial Services activities. The cash inflow from Financial Services operating activities is stated after a £117.8m increase in loans and advances to customers.

Total net debt of £1,277.8m, is after higher borrowings (£1,647.2m) relating to Financial Services. Net cash in the other operating divisions totals £369.4m. (See balance sheet commentary that follows):

Cash flow analysis	£m
Net debt at 31 March 2000	(1,251.4)
Cash inflow from Retail operating activities	654.2
Cash inflow from Financial Services operating activities	22.2
Capital expenditure (net of disposals)	(258.2)
Dividends	(258.6)
Tax	(164.6)
Other	(21.4)
Increase in net debt	(26.4)
Net debt at 31 March 2001	**(1,277.8)**

Capital expenditure

Capital expenditure (gross) during the year totalled £255.7m (last year £450.6m). Capital expenditure is expected to be broadly level in the financial year 2001/2002.

Financing

The £2.0bn Medium Term Note ('MTN') programme continues to be used as a flexible and cost effective source of funds. Nine MTNs were issued during the year in various currencies with a sterling equivalent of £391.6m. Maturities ranged from six months to 12 months and proceeds were swapped into operating currencies. The Group's total outstandings within this programme at the end of the financial year were equivalent to £1,085.1m.

During the year the Group established a global commercial paper programme with a maximum amount of £1bn which absorbed the existing US dollar commercial paper programme. This provides a flexible and cost effective source of short-term funds, to complement the MTN programme. The commercial paper programme will be used in conjunction with existing uncommitted bank facilities of £590.0m.

To support the commercial paper programme, committed banking facilities have also been arranged totalling £425.0m with a small group of relationship banks.

Details of the maturity profile of borrowings are given in note 21B, page 36.

Financial review

During the year, both the leading credit agencies reduced the Group's long-term credit ratings: Standard & Poor's to AA- and Moody's to A2.

In April of this year, Standard & Poor's further reduced the Group's long-term rating to A and the short-term rating to A1. The short-term rating with Moody's remains at P1.

Share buy-back

Shareholder approval was given at the July 2000 AGM to buy back up to 10% of issued shares. During the financial year, 10,619,272 shares (representing 0.4% of issued share capital) were purchased in the market for a total consideration of £20.3m, at an average price of 190.8p. This was undertaken in order to generate shareholder value.

Balance sheet

The Group balance sheet consolidates Retailing and Financial Services businesses which have very different characteristics. The salient figures are disaggregated below:

Retail & Financial Services balance sheets 1 April 2001

	Retailing 2001 £m	Financial Services 2001 £m	Total Group 2001 £m
Fixed assets	4,162.4	14.8	4,177.2
Stocks	472.5	–	472.5
Loans & advances to customers	–	2,259.2	2,259.2
Other debtors	295.1	75.0	370.1
Trade & other creditors	(1,138.5)	(201.7)	(1,340.2)
Net cash/(debt)	369.4	(1,647.2)	(1,277.8)
Net assets	4,160.9	500.1	4,661.0

Loans and advances to customers have increased to £2.3bn (last year £2.1bn). Within this, £1.7bn relates to personal lending with the balance representing Chargecard debt.

Treasury policy and financial risk management

The Board approves treasury policies and senior management directly controls day-to-day operations.

The Group's financial instruments, other than derivatives, comprise borrowings, cash and liquid resources and various items, such as trade debtors and trade creditors, that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations.

The Group's Treasury also enters into derivatives transactions, principally interest rate and currency swaps, forward foreign currency contracts and forward rate agreements. The purpose of such transactions is to manage the interest rate and currency risks arising from the Group's operations and financing.

It has been and remains the Group's policy that no trading in financial instruments shall be undertaken.

The main financial risks faced by the Group relate to interest rates, foreign exchange rates, liquidity, counterparty and the financial risks associated with the Financial Services operation. The policies and strategies for managing these risks are summarised as follows:

(a) Interest rate risk

As the majority of debt currently finances the operation of Financial Services (see point (e) below), current Group policy is to maintain the majority of its debt as floating rate (currently 95%) and this is achieved with the help of interest rate swaps and forward rate agreements.

(b) Foreign currency risk

Currency exposure arising from exports from the UK to overseas subsidiaries has been managed by using forward currency contracts to hedge between 80% and 100% of sales for periods averaging 10 to 15 months forward. Following the announced possible sale or closure of the majority of the overseas subsidiaries during the next financial year, sales forecasts have been adjusted and an appropriate level of hedging put in place. Imports are primarily contracted in sterling and only economic exposures arise. In future, the Group will be increasing the proportion of imports contracted in local currencies and a policy is in place for the hedging of these exposures, principally using forward currency contracts.

The Group does not use derivatives to hedge balance sheet and profit and loss account translation exposures. Where appropriate, borrowings are arranged in local currencies to provide a natural hedge against overseas assets.

(c) Liquidity risk

The objective is to ensure a mix of funding methods offering flexibility and cost effectiveness to match the needs of the Group. Operating subsidiaries are financed by a combination of retained profits, bank borrowings, commercial paper and medium term notes. Commercial paper issuance is backed by committed bank facilities totalling £425.0m.

(d) Counterparty risk

The objective is to reduce the risk of loss arising from default by counterparties. The risk is managed by using a number of banks and allocating each a credit limit according to credit rating criteria. These limits are reviewed regularly by senior management. Dealing mandates and derivative agreements are agreed with the banks prior to deals being arranged.

(e) Financial Services division

Interest rate exposures for the Financial Services division are managed, as far as practical, by matching the periods of borrowings and their interest basis with that of the customer debt. Interest rate swaps are used to convert fixed income from personal loan customers to short-term variable income to match short-term variable rate borrowings.

The details of derivatives and other financial instruments required by FRS 13 'Derivatives and Other Financial Instruments: Disclosures', are shown in notes 18, 21 and 23 to the accounts.

Euro

The announcement of the intention to close all Marks & Spencer subsidiary stores in Continental Europe has led to a reassessment of our Euro Programme, but the Group's presence in the Republic of Ireland (four stores) and stated intention to accept the Euro as a foreign currency in the UK, means changes to systems and training of staff will still be required.

A cost of approximately £2m is expected in financial year 2001/2002 to complete the necessary work, giving an overall cost for the introduction of the Euro of approximately £8m.

Accounting developments

In November and December 2000, the Accounting Standards Board issued FRS 17 'Retirement Benefits', FRS 18 'Accounting Policies' and FRS 19 'Deferred Tax'.

FRS 18 will be implemented for the year ended 31 March 2002 and is not expected to have a material impact on the Group.

FRS 19 will be effective for the year ended 31 March 2002 and will require deferred tax to be recognised on a full provision basis. Implementing the standard will require a change in accounting policy since the Group currently provides deferred tax on timing differences where it is considered probable that a liability will crystallise. The current level of unprovided deferred tax is given in note 22 on page 37.

FRS 17 will be fully effective for the year ended 31 March 2004 when a change in accounting policy will be required to recognise an asset or liability on the Group balance sheet in respect of the surplus or deficit on the defined benefit pension schemes. It will also be necessary to recognise immediately actuarial gains and losses in the statement of total recognised gains and losses.

Going concern statement

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they have adopted the going concern basis in preparing the financial statements.

Corporate governance

The Group is committed to high standards of corporate governance and has applied the Combined Code principles as follows:

Directors

As at 31 March 2001 the Board comprises 12 directors, seven of whom are non-executive. Since September 2000 when Peter Salsbury resigned from the Board as Chief Executive, Luc Vandevelde has headed the Board as Chairman and Chief Executive. The Board recognises that this is to address current business needs and has balanced the power by:

- appointing Roger Holmes to the Board (1 January 2001) as Managing Director of UK Retail;
- appointing two new non-executive directors (1 September 2000), Tony Ball and Kevin Lomax;
- having a majority of non-executive directors on the Board, with a wide range of experience and expertise, who bring an independent judgement on issues of strategy, performance and resources;
- retaining 100% non-executive membership of the principal Corporate Governance Committees (Audit, Remuneration and Nomination).

A full list of the directors, along with their biographies and the Board Committees on which they sit, is given on page 20 of the Annual Review. Following the retirement of Sir Martin Jacomb (17 July 2000) the non-executive directors nominated Brian Baldock as the Senior Independent Director. Sir David Sieff is not considered independent for the purposes of the Combined Code because of his previously held executive position in the Group.

All directors have access to the advice and services of the Company Secretary, Graham Oakley, who ensures that the Board, which meets at least eight times per year, receives appropriate and timely information for its decision making, that Board procedures are followed and that statutory and regulatory requirements are met. He also assists the Chairman in ensuring that all directors are properly briefed on issues arising at Board meetings. Directors receive appropriate induction training when they join the Group and coaching to develop individual skills as required.

There is an established procedure whereby any director, wishing to do so in the furtherance of his or her duties, may take independent professional advice at the Group's expense.

Under the Company's Articles of Association, the nearest number to but not exceeding one third of the Board shall retire each year by rotation. The Board has resolved that all directors are required to offer themselves for re-election at least every three years and the Articles will be amended to reflect this practice when they are next revised.

Principal Board committees

The Board has a formal schedule of matters reserved to itself. The Board has delegated certain responsibilities to Board Committees, which operate within clearly defined terms of reference, reporting regularly to the Board and include:

Audit Committee: assists the Board in fulfilling its overview responsibilities, primarily reviewing the reporting of financial and non-financial information to shareholders, the systems of internal control and risk management, and the audit process. It comprises all the non-executive directors, is chaired by Kevin Lomax and meets at least three times annually. The external auditors and the Chief Internal Auditor attend all meetings, which executive directors also have a right to attend.

In November 2000, the Financial Services division established its own Audit Committee which meets three times a year, reports regularly to the Financial Services Board and annually to the Group Audit Committee.

The Audit Committee also keeps under review the independence and objectivity of the external auditors. The Committee reviews the nature and amount of non-audit work undertaken by PricewaterhouseCoopers ('PwC') each year to satisfy itself that there is no effect on their independence. PwC are also subject to professional standards which safeguard the integrity of the auditing role they perform on behalf of our shareholders. Details of this year's fees are given in note 3 on page 25.

Remuneration Committee: ensures the executive directors and senior management are appropriately rewarded, giving due regard to the financial and commercial health of the Group. It comprises all the non-executive directors except for Sir David Sieff, is chaired by Dame Stella Rimington, and meets at least five times annually. The Committee does not retain remuneration consultants but seeks professional advice as required.

Nomination Committee: keeps under review the Board structure, size and composition; selects and proposes to the Board suitable candidates for appointment as directors of the Group, and considers Board successional plans. It comprises all the non-executive directors, is chaired by Brian Baldock, and meets as required.

Corporate Social Responsibility Committee: provides the Board with an overview of the social and ethical impact of the Group's activities including community involvement, environmental management and ethical trading. It comprises two executive directors, one non-executive director and three divisional directors, is chaired by Robert Colvill and meets at least four times annually.

Directors' remuneration

The Remuneration Report appears on pages 10 to 15 and contains a statement of remuneration policy and details of the remuneration of each director. The remuneration of non-executive directors is determined by the Chairman together with the other executive directors. The Board considers each year whether shareholders should be invited to consider separately the Remuneration Report at the AGM, and does not consider it necessary at the 2001 AGM.

Relations with shareholders

The Group is committed to ongoing communication across its entire shareholder base, whether institutional investors, private or employee shareholders. This is achieved principally through regular annual and interim reports, quarterly trading statements and the AGM. The Group's website at www.marksandspencer.com contains corporate and customer information updated on a regular basis.

Regular dialogue and presentations take place throughout the year with institutional investors. The AGM held in July in London is well attended by shareholders who receive a business presentation and have the opportunity to ask questions of the full Board including the chairs of the Audit, Remuneration and Nomination Committees. The results of the proxy voting are declared at the meeting and are published on the Group's website together with a resumé of the Meeting.

Accountability and audit

Responsibility for risk and internal control

The Group's overriding corporate objective is to maximise long-term shareholder value whilst exceeding the needs of our customers, employees and partners. In doing so, the directors recognise that creating value is the reward for taking and accepting risk.

The Board has overall responsibility for the Group's approach to assessing risk and the systems of internal control, and for monitoring their effectiveness in providing shareholders with a return that is consistent with a responsible assessment and mitigation of risks. This includes reviewing financial, operational and compliance controls and risk management procedures. The role of executive management is to implement the Board's policies on risk and control and present assurance on compliance with these policies. Further independent assurance is provided by an internal audit function, which operates across the Group, and the external auditors. All employees are accountable for operating within these policies.

Because of the limitations that are inherent in any system of internal control, this system is designed to manage, rather than eliminate, the risk of failure to achieve corporate objectives. Accordingly, it can only provide reasonable but not absolute assurance against material misstatement or loss.

Risk assessment

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. As an integral part of planning and review, management from each business area and major project identify their risks, the probability of those risks occurring, the impact if they do occur and the actions being taken to manage those risks to the desired level. This information is communicated upwards on a filter basis, culminating in a comparison with the Group's risks and discussion of the Group Risk Profile by the Board.

This process has operated during the year under review and up to the date of approval of the annual report and accounts. It has been reviewed by the Board and accords with the Internal Control Guidance for Directors on the Combined Code produced by the Turnbull Working Party.

Internal control

Whilst the Board maintains full control and direction over appropriate strategic, financial, organisational and compliance issues, it has delegated to executive management the implementation of the systems of internal control within an established framework.

The Board has put in place an organisational structure with formally defined lines of responsibility and delegation of authority. There are also established procedures for planning, capital expenditure, information and reporting systems, and for monitoring the Group's businesses and their performances. These include:

- appointment of employees of the necessary calibre to fulfil their allotted responsibilities;
- review by operating divisions of their annual and three year operating and capital plans with the relevant executive directors prior to submission to the Board for approval. This includes the identification and assessment of risks;
- regular consideration by the Board of year end forecasts;
- monthly comparison of operating divisions' actual financial performance with budget;
- clearly defined capital investment control guidelines;
- operating policies and procedures;
- regular reporting of accounting and legal developments to the Board.

At the Group level, treasury policies are regularly reviewed by the Treasury Committee and any changes are approved by the Board. The Corporate Social Responsibility ('CSR') Committee co-ordinates the Group's CSR strategy including community involvement, environmental management, ethical trading, health and safety and employment policy.

Assurance

On behalf of the Board, the Audit Committee examines the effectiveness of the Group's:

- assessment of risk by reviewing evidence of risk assessment activity and a report from internal audit on the risk assessment process;
- systems of internal control primarily through agreeing the scope of the internal audit programme and reviewing its findings, reviews of the annual and interim financial statements and a review of the nature and scope of the external audit.

Any significant findings or identified risks are closely examined so that appropriate action can be taken.

The work of the internal audit department is focused on areas of priority as identified by risk analysis and in accordance with an annual audit plan approved each year by the Audit Committee and by the Board. The Board receives a full report from the Chief Internal Auditor each year on the department's work and findings and regular interim updates on specific issues.

The external auditors are engaged to express an opinion on the financial statements. They review and test the systems of internal financial control and the data contained in the financial statements to the extent necessary to express their audit opinion. They discuss with management the reporting of operational results and the financial condition of the Group and present their findings to the Audit Committee.

The directors through the Audit Committee have reviewed the effectiveness of the Group's systems of internal control.

Continuous improvement

It is recognised that during a continuing period of significant change further steps can and will be taken to embed risk assessment and internal control further into the Group's operations and to deal with areas for improvement which come to management's and the Board's attention.

Compliance with the Combined Code

The directors confirm that for the year ended 31 March 2001 the Group complied with all the Code provisions.

Remuneration report

Strategy

Marks & Spencer operates in a competitive trading environment and it is an essential part of our strategy to attract, motivate and retain the highest achievers who are able to deliver the business objectives. The level of remuneration and benefits we offer is key to supporting this objective and maintaining our market position as an employer of choice.

The Company sets out to provide competitive salaries and benefits for all its employees, consistent with business strategy and performance.

The Board has adopted the principles of good governance relating to directors' remuneration as set out in the Combined Code. The Remuneration Report follows the provisions in Schedule B to the Code.

Remuneration Committee

The Remuneration Committee comprises Dame Stella Rimington (Chairman), Brian Baldock, Tony Ball (appointed 1 September 2000), Kevin Lomax (appointed 1 September 2000), Sir Michael Perry and Sir Ralph Robins. Sir Martin Jacomb retired as a non-executive director on 19 July 2000.

It recommends to the Board the reward framework to allow the Company to attract and retain its executive directors and senior management, giving due regard to the financial and commercial health of the Company.

The Committee's approach reflects the Company's overall philosophy that all employees should be appropriately rewarded. The Committee keeps itself fully informed of all relevant developments and best practice in the field of remuneration.

Remuneration policy

The Company aims to align the interests of all employees as closely as possible with the interests of shareholders in promoting the Company's recovery.

Total remuneration comprises fixed pay, variable pay and benefits. The performance-related element forms a significant proportion of the total package and, consistent with the focus on delivering results, is set against agreed targets to deliver improved business performance. There are two components to variable pay: annual bonus and long-term incentives in the form of share schemes.

Profit sharing and SAYE schemes, encouraging employees at all levels to acquire and hold shares in the Company, are key elements of the policy. Employees have maintained their strong commitment to share ownership in recent years, and currently over 43,000 employees hold approximately 33 million shares in their own right and 32,000 employees hold options on 80 million shares under the SAYE scheme.

Salary and benefits

Salary and benefits are competitive and are reviewed annually. In making recommendations on the framework for retaining and rewarding senior management, the Remuneration Committee reviews the total reward package, making use of internally and externally published surveys of retailers and other comparable companies. Where necessary, specific work is commissioned to supplement published information.

The salaries of the Chairman and other senior management are set by the Remuneration Committee annually after consideration of the Company performance, market conditions, the level of increase awarded to employees throughout the business and the need to reward individual performance. With the exception of his personal remuneration, the Chairman assists the Committee in this review.

In order to deliver the reward strategy, the Company underwent a major benchmarking exercise for all management, including a specific review of executive directors. Alan McWalter was the only current executive director to be awarded an increase in the year under review.

Annual Bonus Scheme

The Annual Bonus Scheme for executive directors and divisional directors, introduced in 1988, was extended in 1995 to executives. Last year, bonus schemes were introduced for all levels of management. These are designed to reinforce the relationship between individual and corporate performance and reward.

Bonus payments are based on measurable achievement of challenging financial and business targets, set in the annual operating plan approved by the Board.

For executive directors and divisional directors, potential awards can be made up to a maximum of 60% of a participant's salary and for executives, up to a maximum of 40%. Upper levels of bonus awards can only be made where targets have been significantly exceeded. Bonus payments for other management levels operate on a variable scale, based on the level of influence and accountability the employee has on the Company's performance. Potential awards range up to a maximum of 20% when targets are exceeded. Bonus payments do not form part of pensionable salary and are not eligible for profit sharing.

No bonus was earned by management under the schemes in the year under review due to Company performance being below set targets.

The Company does not have a long-term bonus scheme.

Chairman's bonus

Under the terms of Luc Vandevelde's service contract, on recruitment, the Company set strategic and qualitative targets for the award of his first annual bonus. However, in advance of the Remuneration Committee meeting to determine any bonus award, he informed the Committee that he wished to:

- waive any entitlement to a bonus for the year under review. This included 100% of 13 months' salary totalling £704,000 and an opportunity to enhance this, over time, by a further £112,000;
- reduce his notice period entitlement from 12 months to nine months.

The Committee has since confirmed that the 2000/2001 bonus targets were achieved.

The Remuneration Committee has now met and agreed the following in relation to Luc Vandevelde's bonus for the year ending March 2002:

- add to his bonus potential a sum equal to half of this year's waived bonus (£352,000), set against the same financial performance targets as those for other senior management;
- issue shares to him in May 2002, equal to the value of the other half of the waived bonus (£352,000).

Executive Share Option Scheme

Executive Share Option Schemes, open to all senior management, have operated for over 20 years. In order to provide more flexibility and a closer link with Company performance, the '2000 Scheme' was approved by shareholders at the AGM in July 2000. Details of the Scheme are given in section 6 of this report.

Senior management restructure

As part of the process of restructure, directors Clara Freeman, Guy McCracken, Peter Salsbury, Roger Aldridge and Joe Rowe left the business and Barry Morris stepped down from the Board. With the introduction of service contracts and the withdrawal of the Early Retirement Plan from April 2000, individuals leaving the Company did so under the terms of their 12 months' service contract.

New directors

During the year, Roger Holmes was recruited to the Company as Managing Director, UK Retail. Further details of the terms of his appointment are given in section 2 of this report. David Norgrove, an existing member of senior management, was appointed to the Board as an executive director.

Service contracts

All members of senior management have service contracts. These contracts can be terminated with 12 months' notice from the Company. Exceptions may exist where new recruits have been granted longer notice periods for the initial period of their employment. Luc Vandevelde, Roger Holmes and Alan McWalter were initially appointed with service contracts entitling them to two years' notice, reducing proportionately to one year during the first 12 months of their appointment. Luc Vandevelde's contract now entitles him to nine months' notice.

Non-executive directors do not have service contracts.

Non-executive directors

The Chairman, together with the executive directors, determines the remuneration of non-executive directors. Non-executive directors do not participate in the Company's profit sharing, SAYE, Executive Share Option or annual bonus schemes.

No increase in fees was made in the year under review. Non-executive directors' fees were reinstated to Brian Baldock when responsibilities following his tenure as Chairman were fully relinquished (see section 1, footnote 4).

1 Directors' emoluments

	Salary £000	Profit share[8] £000	Benefits[9] £000	Total 2001 £000	Total 2000 £000
Chairman and Chief Executive					
Luc Vandevelde[1,10]	650	n/a	184	**834**	2,070
Executive directors (appointed from)					
Robert Colvill	385	7	23	**415**	402
Roger Holmes[2,9] (1 January 2001)	124	n/a	672	**796**	n/a
Alan McWalter[9] (1 January 2000)	289	n/a	41	**330**	154
David Norgrove[3] (18 September 2000)	129	2	12	**143**	n/a
Non-executive directors (appointed from)					
Brian Baldock[4]	81	n/a	–	**81**	178
Tony Ball[5] (1 September 2000)	20	n/a	–	**20**	n/a
Kevin Lomax[5] (1 September 2000)	20	n/a	–	**20**	n/a
Sir Michael Perry	34	n/a	–	**34**	34
Dame Stella Rimington	50	n/a	–	**50**	46
Sir Ralph Robins	34	n/a	–	**34**	34
Sir David Sieff	34	n/a	5	**39**	45
Retired directors (with effect from)					
Clara Freeman[6] (18 September 2000)	155	n/a	10	**165**	270
Guy McCracken[6] (18 September 2000)	254	n/a	11	**265**	419
Peter Salsbury[6] (18 September 2000)	372	n/a	12	**384**	593
Roger Aldridge[6] (19 July 2000)	133	n/a	10	**143**	313
Sir Martin Jacomb (19 July 2000)	11	n/a	–	**11**	34
Barry Morris[7] (19 July 2000)	79	1	6	**86**	242
Joe Rowe[6] (19 July 2000)	142	n/a	6	**148**	318
Former directors					
Total former directors	n/a	n/a	n/a	**n/a**	1,382
Total	**2,996**	**10**	**992**	**3,998**	**6,534**

[1] Luc Vandevelde was the highest paid director both this year and last. His emoluments this year are £834,000. He was appointed to the Board on 28 February 2000 and his emoluments last year of £2,070,000 included compensation for loss of future benefits from his previous employer in the form of 'restricted shares' at a cost of £1,997,000.

[2] Roger Holmes was appointed to the Board on 1 January 2001. Included within his benefits is compensation for loss of future benefits and bonus from his previous employer in the form of 'restricted shares' at a cost of £554,000 and a payment of £100,000 (see section 2 – Recruitment of directors).

[3] David Norgrove was appointed to the Board on 18 September 2000 on a salary of £240,000 p.a.

[4] Brian Baldock relinquished the role of Non-Executive Chairman on 28 February 2000 but continued to assist the Chairman in the transition period to the AGM in July 2000 after which his fee was reduced to £34,000 p.a.

[5] Tony Ball and Kevin Lomax were appointed as non-executive directors on a fee of £34,000 p.a.

[6] As a consequence of leaving the Company, Clara Freeman, Guy McCracken, Peter Salsbury, Roger Aldridge and Joe Rowe received payments in accordance with the terms of their service contracts, which are shown separately in section 3 of this report. Included in their salaries in the above table are contractual non-pensionable payments in lieu of holiday entitlement.

[7] Barry Morris relinquished responsibility as Executive Director, Womenswear on 19 July 2000 and his emoluments to that date are shown in the table. On stepping down from the Board, he remained as Business Unit Director, Womenswear on a salary of £250,000 p.a. His salary and benefits are in accordance with the remuneration policy for senior management. His retirement from the Company has subsequently been announced with effect from 30 June 2001.

[8] In line with all other employees, executive directors are allocated a profit share based on a percentage of their earnings following the qualifying period. Further information on profit share is given in note 10c of the financial statements.

[9] Benefits for UK directors relate mainly to the provision of cars, fuel and travel. In addition, a payment is made to both Alan McWalter and Roger Holmes in respect of pension in the form of a supplement of 10% of the difference between the pension earnings cap and their base salary (see section 4 – Pensions).

[10] Included in the benefits for Luc Vandevelde is a supplement of 16% of base salary to compensate for the fact that he is not a member of the Company Pension Scheme. In addition, under the terms of his service contact, the Company has agreed to provide accommodation on which he is assessed for tax.

Remuneration report

2 Recruitment of directors

During the year, Roger Holmes was recruited and appointed to the Board as Managing Director, UK Retail. In order to secure early release from his previous employer, he was recruited as an employee from 15 December to 31 December 2000, with salary and benefits totalling £22,000 for this period (included within section 1). He was appointed as a director on 1 January 2001 on the following terms:

- salary of £425,000 p.a.;
- payment of £100,000 as compensation for loss of bonus from his previous employer (included within benefits in section 1);
- compensation for loss of future benefits from his previous employer in the form of 282,326 'restricted shares' purchased on his behalf at a cost of £554,000. He is the beneficial owner of the shares but they will not be transferred to him until the 3rd anniversary of employment (included within benefits in section 1);
- interest free loan of £501,000 for a period of 17 days to facilitate the exercise of share options from his previous employer and avoid further compensation payments under the terms of his engagement. This was repaid in full prior to taking up his appointment to the Board on 1 January 2001 (see note 11 – Transactions with directors);
- supplement of 10% of the difference between the pension earnings cap and his base salary (see section 4 – Pensions) (included within benefits in section 1);
- award of shares under 2000 Executive Share Option Scheme with a market value at the date of employment of four times base salary (see section 6 – Long-term benefits).

3 Termination payments

Compensation for termination under directors' service contracts includes 12 months' salary and benefits and loss of pensionable service as shown below.

Should a senior management bonus be payable for the financial year ending 31 March 2002, a pro-rata payment will be made and shown in next year's Annual Report.

	Salary £000	Benefits £000	Cost of pension entitlement[4] £000	Total 2001 £000
Retired directors (with effect from)				
Clara Freeman[1] (18 September 2000)	260	30	47	337
Guy McCracken[3] (18 September 2000)	390	30	287	707
Peter Salsbury[2] (18 September 2000)	560	49	n/a	609
Roger Aldridge (19 July 2000)	290	30	230	550
Barry Morris (19 July 2000)	n/a	3	n/a	3
Joe Rowe[3] (19 July 2000)	290	27	219	536
Total	1,790	169	783	2,742

[1]Clara Freeman is not of pensionable age and does not currently draw a pension. As a result of legislative restrictions, the value of her pension contribution does not reflect a full additional year.
[2]Peter Salsbury received no additional pension contribution as maximum pension entitlement had been reached.
[3]Guy McCracken chose not to receive his termination payment in cash, but requested the Company to pay an identical sum into the Pension Scheme, in order to enhance his pension. Similarly, Joe Rowe chose to have £200,000 paid into the Pension Scheme and received the balance in cash. These enhancements have not been included within the pension table in section 4 of this report as they have been funded by the individuals.
[4]The pension entitlement was paid directly into the Pension Scheme and is reflected in the pension table (see section 4, footnote 5).

4 Directors' pension information

The executive directors, management and employees (except for staff employed by Marks & Spencer Outlet Ltd) all participate in the Company's defined benefit Pension Scheme. The Scheme is non-contributory, fully funded and the subject of an Independent Trust. The normal retirement age under the Pension Scheme for senior management is 60 to harmonise with the Company contractual retirement age. For all other employees the normal retirement age is 65 (previously 60) but for those employees who joined the Scheme prior to 1 January 1996 their accrued rights were not affected by this change.

The Pension Scheme enables members to achieve the maximum pension of two-thirds of their salary in the twelve months ending at normal retirement date after 30 years' service. For employees (including senior management) who joined the Scheme prior to 1 January 1996 no actuarial reduction is applied to pensions payable from the age of 58. Employees who joined the Scheme on or after 1 January 1996 are subject to an actuarial reduction in their pension if payment starts prior to their normal retirement date.

In the case of earnings over £100,000 pa, the pensionable salary is usually based on an average of the earnings over the last three years to retirement.

Pension commutation to enable participants to receive a lump sum on retirement is permitted within Inland Revenue limits.

For death before retirement, a capital sum equal to four times salary is payable, together with a spouse's pension of two-thirds of the member's prospective pension at the age of 65 (60 for senior management). For death in retirement, a spouse's pension is paid equal to two-thirds of the member's current pension. In the event of death after leaving service but prior to commencement of pension, a spouse's pension of two-thirds of the accrued preserved pension is payable. In all circumstances, children's allowances are also payable, usually up to the age of 16. Substantial protection is also offered in the event of serious ill health.

4 Directors' pension information (continued)

Post-retirement increases for pension earned from 6 April 1997 are awarded on a statutory basis. For pension earned prior to 6 April 1997 it was the Company's practice to award discretionary increases, usually in line with inflation. With effect from 26 July 2000, it was agreed that, in future, all pension earned for service prior to 6 April 1997 would be guaranteed to increase by the rise in inflation, up to a maximum of 3% per annum. Increases beyond this figure will continue to be reviewed on a discretionary basis.

	Age at 31 March 2001	Years of service at 31 March 2001 or date of retirement	Increase in transfer value in excess of inflation[1] during the year ended 31 March 2001 £000	Increase in pension earned in excess of inflation[1] during the year ended 31 March 2001 £000	Accrued entitlement at 31 March 2001[2] £000	Accrued entitlement at 31 March 2000 £000
Luc Vandevelde[3]	50	–	–	–	–	–
Robert Colvill	60	16	480	25	140	109
Roger Holmes[4]	41	n/a	8	1	1	n/a
Alan McWalter[4]	47	1	23	2	3	1
David Norgrove[7]	53	13	360	25	71	n/a
Retired directors						
Clara Freeman	48	25	(3)	–	122	120
Guy McCracken[5]	52	25	2,047	3	213	207
Peter Salsbury[5,6]	51	30	2,519	(27)	270	292
Roger Aldridge[5,6]	54	27	1,129	(2)	162	162
Barry Morris[8]	53	30	36	2	85	82
Joe Rowe[5]	53	25	1,398	10	160	148

[1]Inflation has been assumed to be equivalent to the actual rate of price inflation which was 3.3% for the year to 30 September 2000. This measurement date accords with the Listing Rules.
[2]The pension entitlement shown above is that which would be paid on retirement based on service to 31 March 2001 or date of retirement if earlier.
[3]Luc Vandevelde does not participate in the Company Pension Scheme (see section 1, footnote 10).
[4]Roger Holmes and Alan McWalter joined the scheme on 1 January 2001 and 1 January 2000 respectively. They are both, therefore, subject to the pension earnings 'cap' (£91,800 at 31 March 2001) which is reviewed annually by the Government. Their pensions are based on a uniform accrual of two-thirds of that 'cap' less the pension which they have accrued from membership of previous employers' pension schemes (see section 1, footnote 9).
[5]The greater part of the actuarial increase in transfer value in respect of these directors relates to the effect, on the year, of their full pension being paid immediately (following retirement) and/or the contractual requirement for their pension to be calculated as though their service had ceased one year later than their actual retirement date.
[6]The accrued entitlement for Roger Aldridge has not increased and for Peter Salsbury has fallen during the year. This reflects the fact that the reduction factor due to their early retirement offsets any increase in pension for service completed during the year.
[7]Pension figures are from 18 September 2000 when David Norgrove was appointed director.
[8]Pension figures are to 19 July 2000 when Barry Morris ceased to be a director.
[9]The pension entitlement shown excludes any additional pension purchased by the member's Additional Voluntary Contributions and also the enhancements made by Guy McCracken and Joe Rowe detailed in section 3, footnote 3 of this report.

5 Payments to former directors

Details of payments made under the Early Retirement Plan and other payments made to former directors during the year are:

	Date of retirement	Payable until	Paid in year £000	Paid in 2000 £000
Early retirement pensions[1]				
James Benfield	31 December 1999	22 April 2009	68	17
Lord Stone of Blackheath	31 December 1999	7 September 2002	91	23
Derek Hayes	31 May 1999	19 November 2008	63	52
Chris Littmoden	31 May 1999	28 September 2003	85	70
Paul Smith	31 March 1999	20 December 2000	49	65
Keith Oates[2]	31 January 1999	3 July 2002	170	197
Unfunded pensions[3]				
Lord Sieff of Brimpton[4]	30 September 1985	Death	61	65
Clinton Silver	31 July 1994	Death	86	84

[1]Under the Early Retirement Plan the Remuneration Committee could, at its discretion, offer an unfunded Early Retirement Pension, separate from the Company pension, which was payable from the date of retirement to age 60. With effect from 31 March 2000, the Early Retirement Plan was withdrawn but payments continue for awards made before this date.
[2]The payment to Keith Oates for the year 2000 covered 14 months from the date of his retirement to 31 March 2000.
[3]The pension scheme entitlement for Lord Sieff and Clinton Silver is supplemented by an additional, unfunded pension paid by the Company.
[4]Payments to Lord Sieff ceased following his death on 23 February 2001.

Remuneration report

6 Long-term benefits

The Company operates two types of share option schemes:

(i) a Save As You Earn (SAYE) Share Option Scheme approved by shareholders in 1981 and renewed by shareholders in 1987 and 1997. The Scheme is open to all UK employees, including executive directors, who have completed one year's service and who open an approved savings contract. Inland Revenue rules limit the maximum amount which can be saved to £250 per month. When the savings contract is started, options are granted to acquire the number of shares that the total savings will buy when the savings contract matures; options cannot normally be exercised until a minimum of three years has elapsed.

(ii) an Executive Share Option Scheme, approved by shareholders in 2000, which is open to all senior management. The Company has operated this type of scheme for over 20 years, following shareholder approval for the first scheme in 1977 and subsequent schemes in 1984, 1987 and 1997.

The 2000 Scheme is an annual grant scheme, with a maximum annual award of 150% of base salary, except for grants made in 2000 when, to launch the scheme, the limit was 200% of base salary. The Remuneration Committee has imposed performance criteria for the exercise of all options granted since 1996. The performance targets for the 2000 Scheme are:

- earnings per share growth of at least inflation plus an average of 3% per annum for 50% of each grant, measured from a fixed base of 14.5p; and
- earnings per share growth of inflation plus an average of 4% per annum for the other 50% of each grant, measured from a fixed base of 16.5p.

Participants who hold options under the 1984 and 1987 Schemes will continue to be bound by their Maximum Option Value (MOV) of four times earnings, and may only exercise options up to this value, after which any outstanding options lapse. Following the introduction of the 2000 Scheme, the Remuneration Committee has decided that MOV will no longer increase with earnings.

Since the 1996 Finance Act, grants of Inland Revenue Approved Options have been limited to £30,000. Grants in excess of this limit, under the 2000 Scheme, will be unapproved options, which confer no tax advantage on the participants.

At the discretion of the Remuneration Committee, retiring directors can take their options for all schemes into retirement. Options held under the 1984 and 1987 Schemes continue to be bound by their MOV and can be exercised subject to the option period. For options held under the 1997 and 2000 Schemes, options lapse if not exercised within 12 months of retirement.

Directors' long-term benefits

The options detailed in the table below may not be exercisable for any one of the following reasons:

(i) their value is in excess of the MOV

(ii) the options have not been held for three years and therefore cannot be exercised under scheme rules

(iii)the options have not met the appropriate performance criteria.

No director exercised Executive Share Options or SAYE contracts in the year under review.

The market price of the shares at the end of the financial year was 266.0p; the highest and lowest share prices during the financial year were 280.5p and 170.0p respectively.

	At 1 April 2000 or date of appointment	Granted during the year	Exercised/ lapsed during the year	At 31 March 2001 or date of retirement	Option price (pence)	Exercise price (pence)	Option period
Luc Vandevelde							
Not exercisable	3,984,674	–	–	**3,984,674**	261.0		Mar 2003 – Mar 2010
Robert Colvill							
Exercisable	213,751	–	–	**211,158**	325.0[1]		May 1994 – May 2005
Not exercisable	128,333	–	–	**114,504**	457.0[1]		May 1998 – May 2005
Lapsed	–	–	16,422				
SAYE	2,087	–	–	**–**			
SAYE lapsed	–	–	2,087				
Roger Holmes							
Not exercisable	–	871,794	–	**871,794**	195.0		Dec 2003 – Dec 2010
Alan McWalter							
Not exercisable	721,310	–	–	**721,310**	305.0		Jan 2003 – Jan 2010
David Norgrove							
Exercisable	80,480	–	–	**80,480**	420.0[1]		May 1994 – June 2005
Not exercisable	179,565	–	–	**402,819**	337.0[1]		May 1999 – Sept 2010
Granted	–	223,254	–	**–**	215.0		Sept 2003 – Sept 2010
SAYE	8,602	–	–	**11,085**	263.0[1]		Jan 2002 – June 2004
SAYE granted	–	2,483	–	**–**	156.0		

6 Long-term benefits (continued)

	At 1 April 2000 or date of appointment	Granted during the year	Exercised/ lapsed during the year	At 31 March 2001 or date of retirement	Option price (pence)	Exercise price (pence)	Option period
Retired directors							
Clara Freeman[2]							
Exercisable	107,292	–	–	**106,051**	377.0[1]		May 1995 – May 2005
Not exercisable	232,000	–	–	**226,203**	491.0[1]		May 1998 – May 2005
Lapsed	–	–	7,038				
SAYE	4,728	–	–	**4,728**	374.0[1]		Sept 2000 – Mar 2001
Guy McCracken[2]							
Exercisable	46,386	–	–	**44,603**	353.0[1]		May 1995 – May 2004
Not exercisable	518,959	–	–	**507,839**	476.0[1]		May 1997 – May 2005
Lapsed	–	–	12,903				
SAYE	6,815	–	–	**6,815**	336.0[1]		Sept 2000 – Mar 2001
Peter Salsbury[2]							
Exercisable	351,895	–	–	**349,620**	360.0[1]		May 1994 – May 2005
Not exercisable	727,539	–	–	**716,911**	420.0[1]		May 1998 – May 2005
Lapsed	–	–	12,903				
SAYE	5,550	–	–	**5,550**	351.0[1]		Sept 2000 – Mar 2001
Roger Aldridge[2]							
Exercisable	168,478	–	–	**165,369**	304.0[1]		May 1994 – May 2004
Not exercisable	366,099	–	–	**349,267**	486.0[1]		May 1997 – May 2005
Lapsed	–	–	19,941				
SAYE	6,915	–	–	**5,262**	371.0[1]		July 2000 – Jan 2001
SAYE lapsed	–	–	1,653				
Barry Morris[3]							
Exercisable	49,736	–	–	**77,976**	367.0[1]		May 1995 – May 2004
Not exercisable	303,885	–	–	**261,569**	427.0[1]		May 1997 – June 2009
Lapsed	–	–	14,076				
SAYE	4,601	–	–	**4,601**	375.0[1]		Jan 2001 – June 2003
Joe Rowe[2]							
Exercisable	111,524	–	–	**107,637**	349.0[1]		May 1995 – May 2004
Not exercisable	363,826	–	–	**334,869**	473.0[1]		May 1997 – May 2005
Lapsed	–	–	32,844				
SAYE	4,776	–	–	**3,705**	372.0[1]		July 2000 – Jan 2001
SAYE lapsed	–	–	1,071				

[1]Weighted average price.
[2]Options are carried into retirement under the terms of the various schemes (see page 14). All SAYE options lapsed six months after date of retirement.
[3]Options are to 19 July 2000 when Barry Morris ceased to be a director.

Directors' interests

Directors' interests in shares

The beneficial interests of the directors and their families in the shares of the Company, together with their interests as trustees of both charitable and other trusts, are shown below in sections (i) and (ii). These include shares held under the Delayed Profit Sharing Scheme. Options granted under the Save As You Earn (SAYE) Share Option and Executive Share Option Schemes are shown on page 30. Further information regarding employee share option schemes is given in note 10D.

There has been no change in the directors' interests in shares or options granted by the Company and its subsidiaries between the end of the financial year and one month prior to the notice of the Annual General Meeting. The Register of Directors' Interests (which is open to shareholders' inspection) contains full details of directors' shareholdings and options to subscribe for shares. No director had any interest in any subsidiary at the beginning or end of the year.

(i) Ordinary shares in the Company – beneficial and family interests

	At 31 March 2001	At 1 April 2000 or date of appointment
Luc Vandevelde	808,080	808,080
Robert Colvill	59,010	53,228
Roger Holmes	285,456	285,456
Alan McWalter	12,000	12,000
David Norgrove	18,098	18,098
Brian Baldock	70,000	70,000
Tony Ball	2,000	–
Kevin Lomax	20,000	–
Sir Michael Perry	8,357	8,357
Dame Stella Rimington	3,344	3,209
Sir Ralph Robins	2,724	2,613
Sir David Sieff	304,444	306,381

(ii) Ordinary shares in the Company – trustee interests

	At 31 March 2001		At 1 April 2000	
	Charitable trusts' shares	Other trusts' shares	Charitable trusts' shares	Other trusts' shares
Sir David Sieff	22,000	48,214	22,000	45,951

Directors' responsibilities

Directors' responsibilities for preparing the financial statements

The directors are obliged under company law to prepare financial statements for each financial year and to present them annually to the Company's members in Annual General Meeting.

The financial statements, of which the form and content is prescribed by the Companies Act 1985 and applicable accounting standards, must give a true and fair view of the state of affairs of the Company and the Group at the end of the financial year, and of the profit for that period.

The directors are also responsible for the adoption of suitable accounting policies and their consistent use in the financial statements, supported where necessary by reasonable and prudent judgements.

The directors confirm that the above requirements have been complied with in the financial statements.

In addition, the directors are responsible for maintaining adequate accounting records and sufficient internal controls to safeguard the assets of the Group and to prevent and detect fraud or any other irregularities, as described more fully on pages 8 and 9.

Auditors' report

Auditors' report to the members of Marks and Spencer p.l.c.

We have audited the financial statements on pages 20 to 42.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 16, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on pages 8 and 9 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not.

We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 March 2001 and of the result and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London
21 May 2001

Directors' report

Principal activities

The principal activities of the Group are Retailing and Financial Services.

Retailing consists of the Group's retail activities under the Marks & Spencer, Brooks Brothers and Kings Super Markets brand names.

Financial Services consists of the operations of the Group's retail Financial Services companies, which provide account cards, personal loans, unit trust management, life assurance, personal insurance and pensions. The Group's captive insurance company is also included in this segment as the major part of its business is generated from the provision of related insurance services.

Review of activities and future performance

A review of the Group's activities and of the future development of the Group is contained within the Annual Review and Summary Financial Statement.

Profit and dividends

The profit for the financial year, after taxation and minority interests, amounts to £1.3m. The directors have declared dividends as follows:

	£m
Ordinary shares	
Interim paid, 3.7p per share (last year 3.7p)	106.3
Proposed final, 5.3p per share (last year 5.3p)	152.0
Total ordinary dividends, 9.0p per share (last year 9.0p)	258.3

The final dividend will be paid on 20 July 2001 to shareholders whose names are on the Register of Members at the close of business on 1 June 2001.

Share capital

(i) Issue of new shares

During the year ended 31 March 2001, 3,415,705 ordinary shares in the Company were issued as follows:

- 8,464 under the terms of the 1984 Executive Share Option Scheme at a price of 206p;
- 141,393 under the terms of the 2000 Executive Share Option Scheme at a price of 215p; and
- 3,265,848 issued into the Qualifying Employee Share Ownership Trust at prices between 188.75p and 208p of which 208,913 were issued under the terms of the United Kingdom Employees' Save As You Earn Share Option Scheme.

(ii) Purchase of own shares

The Company is authorised by the shareholders to purchase, in the market, the Company's own shares, as permitted under the Company's Articles of Association. During the year the Company purchased a total of 10,619,272 of its shares for cancellation at a cost of £20.3m, representing 0.4% of its issued share capital. This authority is renewable annually and approval will be sought from shareholders at the AGM in 2001 to renew the authority for a further year.

Major shareholders

As at 6 May 2001, the Company's share register of substantial shareholdings showed the following interests in 3% or more of the Company's shares:

	Ordinary shares	% share capital
Brandes Investment Partners, L.P.	280,099,575	9.76%
Franklin Resources, Inc.	149,551,189	5.21%

In addition, JP Morgan has notified us that it is holding 146,907,108 ordinary shares (5.12%) as American Depositary Receipts, 138,786,084 of which are included in the above figures for Brandes Investment Partners and Franklin Resources.

Directors and their interests

The current directors are listed on page 20 of the Annual Review and Summary Financial Statement.

David Norgrove and Roger Holmes were appointed executive directors on 18 September 2000 and 1 January 2001 respectively.

Tony Ball and Kevin Lomax were appointed non-executive directors on 1 September 2000.

Roger Aldridge, Sir Martin Jacomb, Barry Morris and Joe Rowe resigned from the Board on 19 July 2000.

Clara Freeman, Guy McCracken and Peter Salsbury resigned from the Board on 18 September 2000.

Alison Reed will be appointed to the Board as Finance Director and Sir Michael Perry, Sir Ralph Robins and Sir David Sieff will be retiring from the Board on 11 July 2001.

The beneficial interests of the directors and their families in the shares of the Company and its subsidiaries, together with their interests as trustees of both charitable and other trusts, are given on page 16.

Employee involvement

We have maintained our commitment to employee involvement throughout the business.

Employees are kept well informed of the performance and objectives of the Group through personal briefings, regular meetings and e-mail. These are supplemented by our employee publication, On Your Marks, and video presentations. 'Focus teams' in stores, distribution centres and head office provide opportunities for employee representatives to contribute to the everyday running of the business.

In addition, we have recently completed a Company-wide survey to gather employee views on improving the forums through which we consult with our staff on business and local issues.

The sixth meeting of the European Council took place last July. This council provides an additional forum for communicating with employee representatives from the countries in which we trade in the European Community.

Directors and senior management regularly visit stores and discuss, with employees, matters of current interest and concern to the business.

We have long-established Employees' Profit Sharing and Save As You Earn Share Option Schemes, membership of which is service-related, details of which are given on page 29.

Equal opportunities

The Group is committed to an active Equal Opportunities Policy from recruitment and selection, through training and development, appraisal and promotion to retirement.

It is our policy to promote an environment free from discrimination, harassment and victimisation, where everyone will receive equal treatment regardless of gender, colour, ethnic or national origin, disability, age, marital status, sexual orientation or religion. All decisions relating to employment practices will be objective, free from bias and based solely upon work criteria and individual merit.

The Group is responsive to the needs of its employees, customers and the community at large and we are an organisation that uses everyone's talents and abilities to the full.

Employees with disabilities

It is our policy that people with disabilities should have full and fair consideration for all vacancies. During the year we continued to use the Government's 'two tick' disability symbol to demonstrate our commitment to interviewing those people with disabilities who fulfil the minimum criteria, and endeavouring to retain employees in the workforce if they become disabled during employment. We will actively retrain and adjust their environment where possible to allow them to maximise their potential.

We continue to work with external organisations to provide work place opportunities on our 'Workstep Programme'.

Creditor payment policy

The Company's policy concerning the payment of its trade creditors is as follows:

- General merchandise is automatically paid for 11 working days from the end of the week of delivery;
- Foods are paid for 13 working days from the end of the week of delivery (based on the timely receipt of an accurate invoice); and
- Distribution suppliers are paid monthly, for costs incurred in that month, based on estimates, and payments are adjusted quarterly to reflect any variations to estimate.

Trade creditor days of the Company for the year ended 31 March 2001 were 14.6 days (10.4 working days), based on the ratio of Company trade creditors at the end of the year to the amounts invoiced during the year by trade creditors.

For all trade creditors, it is the Company's policy to:

- agree the terms of payment at the start of business with that supplier;
- ensure that suppliers are aware of the terms of payment; and
- pay in accordance with its contractual and other legal obligations.

Charitable and political contributions

During the year, we spent £7.1m in the UK in support of the community. Within this figure, direct donations to charitable organisations amounted to £3.2m. These figures include £1.8m representing our final sponsorship payment to the Millennium Experience for our programme of Millennium events and activities. No contributions were made to any political party.

Annual General Meeting

The Notice of the Annual General Meeting to be held on 11 July 2001 (together with explanatory notes) is given in the booklet which accompanies this report. The Special Business of the Meeting includes resolutions to amend existing employee share schemes.

By order of the Board
Luc Vandevelde, Chairman and Chief Executive
London
21 May 2001

Consolidated profit and loss account

	Notes	52 weeks ended 31 March 2001 Before exceptional items £m	52 weeks ended 31 March 2001 Exceptional items £m	52 weeks ended 31 March 2001 After exceptional items £m	53 weeks ended 1 April 2000 Before exceptional items £m	53 weeks ended 1 April 2000 Exceptional items £m	53 weeks ended 1 April 2000 After exceptional items £m
Turnover	2	8,075.7	–	8,075.7	8,195.5	–	8,195.5
Cost of sales		(5,237.2)	–	(5,237.2)	(5,402.8)	–	(5,402.8)
Gross profit		2,838.5	–	2,838.5	2,792.7	–	2,792.7
Net operating expenses	3,4A	(2,371.5)	(26.5)	(2,398.0)	(2,249.7)	(72.0)	(2,321.7)
Operating profit	2	467.0	(26.5)	440.5	543.0	(72.0)	471.0
Loss on sale of property and other fixed assets	4B	–	(83.2)	(83.2)	–	(22.3)	(22.3)
Loss on sale/termination of operations	4C	–	(1.7)	(1.7)	–	(45.4)	(45.4)
Provision for loss on operations to be discontinued	4D	–	(224.0)	(224.0)	–	–	–
Net interest income	5	13.9	–	13.9	14.2	–	14.2
Profit on ordinary activities before taxation		480.9	(335.4)	145.5	557.2	(139.7)	417.5
Taxation on ordinary activities	6	(151.2)	8.5	(142.7)	(177.2)	19.0	(158.2)
Profit on ordinary activities after taxation		329.7	(326.9)	2.8	380.0	(120.7)	259.3
Minority interests (all equity)		(1.5)	–	(1.5)	(0.6)	–	(0.6)
Profit attributable to shareholders	7	328.2	(326.9)	1.3	379.4	(120.7)	258.7
Dividends	8	(258.3)	–	(258.3)	(258.6)	–	(258.6)
Retained profit/(loss) for the period		69.9	(326.9)	(257.0)	120.8	(120.7)	0.1
Basic earnings per share	9			0.0p			9.0p
Diluted basic earnings per share	9			0.0p			9.0p
Adjusted earnings per share	9			11.4p			13.2p
Diluted adjusted earnings per share	9			11.4p			13.2p
Dividend per share	8			9.0p			9.0p

All results in both the current and preceding financial year are derived from continuing operations.

Note of historical cost profits and losses

	Notes	52 weeks ended 31 March 2001 £m	53 weeks ended 1 April 2000 £m
Profit on ordinary activities before taxation		145.5	417.5
Realisation of property revaluation (deficit)/surplus	25	(1.3)	74.2
Revaluation element of depreciation charge	25	1.9	1.9
Historical cost profit on ordinary activities before taxation		146.1	493.6
Historical cost retained (loss)/profit for the period		(256.4)	76.2

Consolidated statement of total recognised gains and losses

	Notes	52 weeks ended 31 March 2001 £m	53 weeks ended 1 April 2000 £m
Profit attributable to shareholders		1.3	258.7
Exchange differences on foreign currency translation	25	13.3	(16.8)
Unrealised (deficit)/surplus on revaluation of investment properties	25	(1.7)	3.0
Total recognised gains and losses relating to the period		12.9	244.9

Balance sheets

AT 31 MARCH 2001

	Notes	The Group 2001 £m	The Group 2000 £m	The Company 2001 £m	The Company 2000 £m
Fixed assets					
Goodwill	12	–	1.3	–	–
Tangible assets:					
Land and buildings		2,735.2	2,774.1	2,430.4	2,458.5
Fit out, fixtures, fittings and equipment		1,291.9	1,386.7	1,056.2	1,145.3
Assets in the course of construction		91.8	81.3	51.2	44.8
	13	4,118.9	4,242.1	3,537.8	3,648.6
Investments	14	58.3	55.0	445.8	450.4
		4,177.2	4,298.4	3,983.6	4,099.0
Current assets					
Stocks		472.5	474.4	299.7	315.1
Debtors:					
Receivable within one year	15A	917.2	988.3	642.7	795.2
Receivable after more than one year	15B	1,712.1	1,566.9	72.9	80.3
Investments	16	260.0	386.4	–	–
Cash at bank and in hand	17	154.4	301.1	82.0	89.8
		3,516.2	3,717.1	1,097.3	1,280.4
Current liabilities					
Creditors: amounts falling due within one year	19	(1,981.6)	(2,162.8)	(729.1)	(736.0)
Net current assets		1,534.6	1,554.3	368.2	544.4
Total assets less current liabilities		5,711.8	5,852.7	4,351.8	4,643.4
Creditors: amounts falling due after more than one year	20	(735.1)	(804.3)	–	–
Provisions for liabilities and charges	22	(315.7)	(126.6)	(119.2)	(113.0)
Net assets		4,661.0	4,921.8	4,232.6	4,530.4
Capital and reserves					
Called up share capital	24,25	716.9	718.6	716.9	718.6
Share premium account	25	375.6	369.4	375.6	369.4
Revaluation reserve	25	455.6	457.9	454.0	458.9
Capital redemption reserve	25	2.6	–	2.6	–
Profit and loss account	25	3,094.7	3,359.4	2,683.5	2,983.5
Shareholders' funds (all equity)	25	4,645.4	4,905.3	4,232.6	4,530.4
Minority interests (all equity)		15.6	16.5	–	–
Total capital employed		4,661.0	4,921.8	4,232.6	4,530.4

Approved by the Board
21 May 2001
Luc Vandevelde, Chairman and Chief Executive
Robert Colvill, Group Finance Director

Consolidated cash flow information

FOR THE YEAR ENDED 31 MARCH 2001

Cash flow statement	Notes	2001 £m	2001 £m	2000 £m	2000 £m
Operating activities					
Received from customers		7,967.8		7,989.9	
Payments to suppliers		(5,240.7)		(5,357.1)	
Payments to and on behalf of employees		(1,089.8)		(1,138.3)	
Other payments		(930.6)		(803.8)	
Cash inflow from operating activities before exceptional items			706.7		690.7
Exceptional operating cash outflow	28A		(30.3)		(49.2)
Cash inflow from operating activities	27		676.4		641.5
Returns on investments and servicing of finance	28B		12.6		15.2
Taxation	28C		(164.6)		(145.7)
Capital expenditure and financial investment	28D		(258.2)		(167.0)
Acquisitions and disposals	28E		5.9		(21.1)
Equity dividends paid			(258.6)		(413.5)
Cash inflow/(outflow) before management of liquid resources and financing			13.5		(90.6)
Management of liquid resources and financing					
Management of liquid resources	28F	263.7		(162.5)	
Financing	28G	(265.4)		260.3	
			(1.7)		97.8
Increase in cash			11.8		7.2

Reconciliation of net cash flow to movement in net debt (see note 29)	2001 £m	2000 £m
Increase in cash	11.8	7.2
Cash (inflow)/outflow from (decrease)/increase in liquid resources	(263.7)	162.5
Cash outflow/(inflow) from decrease/(increase) in debt financing	245.9	(250.9)
Exchange movements	(20.4)	11.4
Movement in net debt	(26.4)	(69.8)
Net debt at 1 April	(1,251.4)	(1,181.6)
Net debt at 31 March	(1,277.8)	(1,251.4)

Accounting policies

The financial statements are prepared in accordance with applicable accounting standards in the United Kingdom. A summary of the more important Group accounting policies, applied consistently, is given below.

Basis of accounting

The financial statements are drawn up on the historical cost basis of accounting, modified to include the valuation of certain United Kingdom properties at 31 March 1988 and the valuation of investment properties. Compliance with SSAP19, 'Accounting for Investment Properties' requires a departure from the requirements of the Companies Act 1985 relating to the depreciation of investment properties as explained below.

Basis of consolidation

The Group financial statements incorporate the financial statements of Marks and Spencer p.l.c. and all its subsidiaries for the year ended 31 March 2001.

Current asset investments

Current asset investments are stated at market value. All profits and losses from such investments are included in net interest income or in Financial Services turnover as appropriate.

Deferred taxation

Deferred taxation is accounted for at expected tax rates on differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. A deferred tax asset or provision is established to the extent that it is likely that an asset or liability will crystallise in the foreseeable future.

Fixed assets

a Capitalised interest

Interest is not capitalised.

b Depreciation

Depreciation is provided to write off the cost or valuation of tangible fixed assets, less residual value, by equal annual instalments as follows:

Land: not depreciated.

Freehold and leasehold buildings over 50 years: depreciated to their estimated residual value over their estimated remaining economic lives (see also c below).

Leasehold land and buildings under 50 years: over the remaining period of the lease.

Fit out: 10-25 years according to the estimated life of the asset.

Fixtures, fittings and equipment: 3-15 years according to the estimated life of the asset.

Depreciation is charged on all additions to or disposals of depreciating assets in the year of purchase or disposal.

Any impairment in value is charged to the revaluation reserve or the profit and loss account as appropriate.

c Land and buildings

The Company's freehold and leasehold properties in the United Kingdom were valued on the basis of open market value for existing use in 1982. At 31 March 1988, those same properties (excluding subsequent additions and adjusted for disposals) were revalued. On adoption of FRS15, the Group followed the transitional provisions to retain the book value of land and buildings which were revalued in 1988, but not to adopt a policy of revaluation in the future.

These values are retained subject to the requirement to test assets for impairment in accordance with FRS11.

d Investment properties

Investment properties are revalued annually and included in the balance sheet at their open market value. In accordance with SSAP19, no depreciation is provided in respect of investment properties. This represents a departure from the Companies Act 1985 requirements concerning the depreciation of fixed assets. These properties are held for investment and the directors consider that the adoption of this policy is necessary to give a true and fair view.

Long-term assurance business

The value of the long-term assurance business consists of the present value of surpluses expected to emerge in the future from business currently in force, and this value is included in prepayments and accrued income. In determining their value, these surpluses are discounted at a risk-adjusted, post-tax rate. Changes in the value are included in the profit and loss account grossed up at the standard rate of corporation tax applicable to insurance companies.

Operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term.

Derivative financial instruments

The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign currency exchange rates and interest rates. Derivative instruments utilised by the Group include interest rate and currency swaps, forward rate agreements and forward currency contracts. Amounts payable or receivable in respect of interest rate swaps are recognised as adjustments to net interest income over the period of the contract. Forward currency contracts are accounted for as hedges, with the instrument's impact on profit deferred until the underlying transaction is recognised in the profit and loss account.

Foreign currencies

The results of international subsidiaries are translated at the weighted average of monthly exchange rates for sales and profits. The balance sheets of overseas subsidiaries are translated at year-end exchange rates. The resulting exchange differences are dealt with through reserves and reported in the consolidated statement of total recognised gains and losses.

Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Foreign currency assets and liabilities held at the year-end are translated at year-end exchange rates or the exchange rate of a related forward exchange contract where appropriate. The resulting exchange gain or loss is dealt with in the profit and loss account.

Goodwill

Prior to 31 March 1998, goodwill arising on consolidation was written off to reserves in the year of acquisition. As permitted by FRS10, this goodwill has not been reinstated in the balance sheet and remains written off to reserves. Goodwill arising on subsequent acquisitions is capitalised and amortised over its useful economic life. The profit or loss arising on the sale of a previously acquired business includes the attributable goodwill.

Pension contributions

Funded pension plans are in place for the Group's UK employees and the majority of employees overseas. The assets of these pension plans are managed by third party investment managers and are held separately in trust.

Regular valuations are prepared by independent professionally qualified actuaries. These determine the level of contributions required to fund the benefits set out in the rules of the plans and allow for the periodic increase of pensions in payment. The contributions and any variations from regular cost arising from the actuarial valuations are charged or credited to profits on a systematic basis over the estimated remaining service lives of the employees.

Stocks

Stocks are valued at the lower of cost and net realisable value using the retail method.

Notes to the financial statements

1. Trading period

The results for the year comprise store sales and related costs for the 52 weeks to 31 March 2001 (last year 53 weeks to 1 April 2000). All other activities are for the year to 31 March 2001. All results are derived from continuing operations.

2. Segmental information

A Classes of business

The Group has two classes of business: Retailing and Financial Services.

Retailing: Turnover represents goods sold to customers outside the Group, less returns and sales taxes.

Financial Services: Turnover represents the interest and other income attributable to the Financial Services companies and the captive insurance company and arises within the United Kingdom and the Channel Islands.

	Turnover		Operating profit		Operating assets	
	2001 £m	2000 £m	2001 £m	2000 £m	2001 £m	2000 £m
Retailing activities	7,712.6	7,830.9	336.3	355.1	4,389.4	4,494.5
Before exceptional operating charges			362.8	427.1		
Exceptional operating charges (see note 4A)			(26.5)	(72.0)		
Financial Services[1,2]	363.1	364.6	96.3	115.9	518.0	448.7
Total operating activities	8,075.7	8,195.5	432.6	471.0	4,907.4	4,943.2
Add: excess interest charged to cost of sales of Financial Services[2]			7.9	–		
Total operating profit			440.5	471.0		
Loss on sale of property and other fixed assets			(83.2)	(22.3)		
Loss on sale/termination of operations			(1.7)	(45.4)		
Provision for loss on operations to be discontinued			(224.0)	–		
Net interest income			13.9	14.2		
Profit on ordinary activities before taxation			145.5	417.5		
Unallocated net liabilities					(246.4)	(21.4)
Net assets					4,661.0	4,921.8

B Geographical split

	Turnover		Operating profit		Operating assets	
	2001 £m	2000 £m	2001 £m	2000 £m	2001 £m	2000 £m
United Kingdom						
Retail	6,293.0	6,482.7	308.3	356.8	3,757.1	3,905.2
Before exceptional operating charges			334.8	420.1		
Exceptional operating charges			(26.5)	(63.3)		
Financial Services[1,2]	363.1	364.6	96.3	115.9	518.0	448.7
	6,656.1	6,847.3	404.6	472.7	4,275.1	4,353.9
International Retail						
Europe (excluding UK)	548.3	555.6	(11.4)	(14.8)	394.5	387.8
Before exceptional operating charges			(11.4)	(6.1)		
Exceptional operating charges			–	(8.7)		
North America	761.2	691.4	32.0	16.4	232.8	201.2
Far East	110.1	101.2	7.4	(3.3)	5.0	0.3
	1,419.6	1,348.2	28.0	(1.7)	632.3	589.3
Total operating activities	8,075.7	8,195.5	432.6	471.0	4,907.4	4,943.2
Add: excess interest charged to cost of sales of Financial Services[2]			7.9	–		
Total operating profit			440.5	471.0		

[1]Operating profit for Financial Services includes £16.2m of merchant fee income (last year £nil) arising on Marks & Spencer Chargecard transactions. This fee is payable by UK Retail and has been deducted in arriving at UK Retail operating profit.

[2]Financial Services operating profit is stated after charging £115.3m (last year £105.5m) to cost of sales. This interest represents the cost of funding the Financial Services business as a separate segment, including both intra group interest and third party funding. The amount of third party interest payable by the Group amounted to £107.4m (last year £107.4m) (see note 5). Intra group interest of £7.9m (last year £nil), being the excess over third party interest payable, has been added back in the segmental analysis to arrive at total operating profit.

[3]The geographical segments disclose turnover and operating profit by destination and reflect management responsibility.

[4]UK Retail turnover including VAT comprises clothing, footwear and gifts £3,649.5m (last year £3,939.0m); home £355.8m (last year £328.8m) and foods £2,925.9m (last year £2,880.4m). VAT on UK Retail turnover was £638.2m (last year £665.5m). Since the last financial year, sales of certain lines have been transferred from clothing, footwear and gifts to home. Comparatives for the last financial year have been restated accordingly.

[5]Operating profit includes pre-opening costs of £1.0m (last year £2.0m) for Europe.

[6]Turnover originates in the following geographical segments: United Kingdom £6,798.6m (last year £6,990.4m); Europe £435.5m (last year £436.0m); North America £761.2m (last year £691.4m) and Far East £81.4m (last year £77.7m).

[7]The value of goods exported from the UK, including shipments to international subsidiaries, amounted to £436.0m (last year £460.2m).

2. Segmental information (continued)

Turnover and operating profit for North America and Europe comprise:

	Turnover 2001 £m	Turnover 2000 £m	Operating profit 2001 £m	Operating profit 2000 £m
North America				
Brooks Brothers (including Japan)	448.1	395.5	20.2	7.9
Kings Super Markets	313.1	273.7	11.9	11.1
Corporate expenses	–	–	(0.1)	(2.6)
	761.2	669.2	32.0	16.4
M&S Canada	–	22.2	–	–
	761.2	691.4	32.0	16.4
Europe				
Continental Europe	285.0	294.3	(34.0)	(33.5)
Other European operations[1]	263.3	261.3	22.6	18.7
	548.3	555.6	(11.4)	(14.8)

[1]Other European operations include the Republic of Ireland and franchises.

The results of international subsidiaries have been translated using weighted average rates of exchange ruling during the year. The movements in exchange rates used for translation, compared to the same period last year, have increased international sales (excluding Canada) by £57.4m. The effect on international operating profit is not significant.

3. Operating profit

	2001 Before exceptional charges £m	2001 Exceptional charges £m	2001 Total £m	2000 Before exceptional charges £m	2000 Exceptional charges £m	2000 Total £m
Turnover	8,075.7	–	8,075.7	8,195.5	–	8,195.5
Cost of sales	(5,237.2)	–	(5,237.2)	(5,402.8)	–	(5,402.8)
Gross profit	2,838.5	–	2,838.5	2,792.7	–	2,792.7
Employee costs (see note 10)	1,100.8	17.0	1,117.8	1,096.2	68.2	1,164.4
Occupancy costs	311.5	–	311.5	287.8	–	287.8
Repairs, renewals and maintenance of fixed assets	91.2	–	91.2	89.5	–	89.5
Depreciation	275.9	–	275.9	261.6	–	261.6
Other costs[1]	592.1	9.5	601.6	514.6	3.8	518.4
Total net operating expenses[2]	(2,371.5)	(26.5)	(2,398.0)	(2,249.7)	(72.0)	(2,321.7)
Operating profit	467.0	(26.5)	440.5	543.0	(72.0)	471.0

The directors consider that the nature of the business is such that the analysis of expenses shown above is more informative than that set out in the formats of the Companies Act 1985.

[1]Included in 'Other costs' is the remuneration to the auditors for audit and non-audit services as follows:

	The Group 2001 £m	The Group 2000 £m	The Company 2001 £m	The Company 2000 £m
Audit fees	1.1	1.1	0.5	0.4
Non-audit services	2.1	2.8	1.5	2.2

Fees paid for non-audit services are for taxation advice, corporate finance and consulting services.

[2]Included in 'Total net operating expenses' are rentals under operating leases, comprising £4.5m for hire of plant and machinery (last year £2.3m) and £124.1m of other rental costs (last year £123.4m).

Notes to the financial statements

4. Exceptional items

A Exceptional operating charges

	2001 £m	2000 £m
UK restructuring costs[1]	(26.5)	(63.3)
European restructuring costs[2]	–	(8.7)
Total exceptional operating charges	(26.5)	(72.0)

[1]The £26.5m is in respect of the closure of the 'Direct' catalogue business (£16.5m) and the reduction of roles at the Group's head office (£10.0m). The £63.3m charge last year was in respect of the restructuring of UK Retail into customer business units, the rationalisation of store management and the refocusing of existing store roles to customer facing activities, and the closure of two distribution centres.
[2]The European restructuring costs last year were in respect of store closures in France and Germany.

B Loss on sale of property and other fixed assets

	2001 £m	2000 £m
Disposal of European stores[1]	–	(8.3)
Provision for loss on 'Direct' assets[2]	(19.0)	–
Loss on sale of investment properties[3]	–	(16.1)
Other asset disposals[4]	(64.2)	2.1
Loss on sale of property and other fixed assets	(83.2)	(22.3)

[1]The loss of £8.3m last year relates to European store closures. Including the restructuring cost of £8.7m disclosed in note 4A above, this gave rise to total closure costs of £17.0m.
[2]Including the restructuring cost of £16.5m disclosed in note 4A above, this gives rise to total closure costs for the 'Direct' catalogue business of £35.5m.
[3]The loss on sale of investment properties last year was in respect of the disposal of The Gyle shopping centre and a property in Newcastle.
[4]Other asset disposals mainly relates to the closure of UK Stores, £40.2m of which relates to satellite stores and was announced at the half year.

C Loss on sale/termination of operations

	2001 £m	2000 £m
Loss on sale of Splendour.com Ltd	(1.7)	–
Loss on termination of Canadian operations	–	(45.4)
Loss on sale/termination of operations	(1.7)	(45.4)

The loss on sale/termination of operations is stated after charging £1.0m of goodwill (last year £24.4m).

D Provision for loss on operations to be discontinued

	2001 £m	2000 £m
Net closure costs	(225.3)	–
Goodwill previously credited to reserves	1.3	–
Provision for loss on operations to be discontinued	(224.0)	–

The provision for loss on operations to be discontinued represents the expected cost of the intended closure of the Group's Continental European subsidiaries. Net closure costs include provision for future trading losses, losses on disposal of fixed assets, property exit costs and redundancy costs.

5. Net interest income

	2001		2000	
	£m	£m	£m	£m
Bank and other interest income	302.6		309.3	
Less: amounts included in turnover of Financial Services	(288.7)		(293.2)	
		13.9		16.1
Interest expenditure	(107.4)		(107.4)	
Less: interest charged to cost of sales of Financial Services	115.3		105.5	
Intra group interest charged to cost of sales of Financial Services (see note 2)	(7.9)		–	
		–		(1.9)
Net interest income		13.9		14.2

	2001 £m	2000 £m
Interest expenditure comprises:		
Amounts repayable within five years:		
Bank loans, overdrafts and other borrowings	(33.2)	(33.2)
Medium term notes	(73.0)	(73.8)
	(106.2)	(107.0)
Amounts repayable after five years:		
Medium term notes	(1.2)	(0.4)
	(107.4)	(107.4)

6. Taxation on ordinary activities

	2001 £m	2001 £m	2000 £m	2000 £m
The taxation charge comprises:				
Current taxation				
UK corporation tax at 30% (last year 30%):				
Current year	151.0		151.1	
Prior years	(6.3)		2.7	
		144.7		153.8
Double taxation relief		(4.7)		–
		140.0		153.8
Overseas taxation		7.7		6.4
		147.7		160.2
Deferred taxation (see note 22)				
Current year	(4.3)		(1.9)	
Prior years	(0.7)		(0.1)	
		(5.0)		(2.0)
		142.7		158.2

Included in the tax charge for the year is a credit of £8.5m (last year £19.0m) which is attributable to exceptional charges.

7. Profit for the financial year

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the Company is not presented as part of these financial statements.

The consolidated profit for the financial year of £1.3m (last year £258.7m) includes a £23.3m loss (last year £280.6m profit) which is dealt within the financial statements of the Company.

8. Dividends

	2001 £m	2000 £m
Ordinary shares		
Interim paid of 3.7p per share (last year 3.7p)	106.3	106.3
Proposed final of 5.3p per share (last year 5.3p)	152.0	152.3
Total ordinary dividend of 9.0p per share (last year 9.0p)	258.3	258.6

9. Earnings per share

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

An adjusted earnings per share figure has been calculated in addition to the earnings per share required by FRS14, 'Earnings per Share' and is based on earnings excluding the effect of the exceptional charges. It has been calculated to allow shareholders to gain a clearer understanding of the trading performance of the Group. Details of the adjusted earnings per share are set out below:

	2001 £m	2001 Basic pence per share	2001 Diluted pence per share	2000 £m	2000 Basic pence per share	2000 Diluted pence per share
Basic earnings	1.3	0.0	0.0	258.7	9.0	9.0
Exceptional operating charges	19.3	0.7	0.7	53.0	1.8	1.8
Loss on sale of property and other fixed assets	83.2	2.9	2.9	22.3	0.8	0.8
Loss on sale/termination of operations	1.7	0.1	0.1	45.4	1.6	1.6
Provision for loss on operations to be discontinued	222.7	7.7	7.7	–	–	–
Adjusted earnings	328.2	11.4	11.4	379.4	13.2	13.2

Notes to the financial statements

9. Earnings per share (continued)

The IIMR earnings per share has also been calculated in addition to the basic earnings per share and is based on earnings adjusted to eliminate certain capital items as follows:

	2001 £m	2001 Basic pence per share	2001 Diluted pence per share	2000 £m	2000 Basic pence per share	2000 Diluted pence per share
Basic earnings	1.3	0.0	0.0	258.7	9.0	9.0
Loss on sale of property and other fixed assets	83.2	2.9	2.9	22.3	0.8	0.8
Loss on sale/termination of operations	1.7	0.1	0.1	45.4	1.6	1.6
Provision for loss on operations to be discontinued	222.7	7.7	7.7	–	–	–
IIMR earnings	308.9	10.7	10.7	326.4	11.4	11.4

The weighted average number of ordinary shares used in the calculation of earnings per share are as follows:

	2001 m	2000 m
Weighted average ordinary shares in issue during the year ended 31 March	2,872.4	2,872.1
Potentially dilutive share options under the Group's share option schemes	9.8	13.6
Weighted average ordinary shares for diluted earnings per share	2,882.2	2,885.7

10. Employees

The average number of employees of the Group during the year was:

		2001	2000
UK stores	Management and supervisory categories	3,880	3,885
	Other	55,511	54,545
UK head office	Management and supervisory categories	2,242	2,379
	Other	1,299	1,441
Financial Services	Management and supervisory categories	314	320
	Other	1,230	1,127
Overseas		12,015	11,960
		76,491	75,657

If the number of hours worked was converted on the basis of a normal working week, the equivalent average number of full-time employees would have been 52,213 (last year 52,156).

The aggregate remuneration and associated costs of Group employees were:

	2001 Before exceptional charges £m	2001 Exceptional charges £m	2001 Total £m	2000 Before exceptional charges £m	2000 Exceptional charges £m	2000 Total £m
Wages and salaries	835.2	14.8	850.0	834.4	52.4	886.8
UK profit sharing (see note 10C)	8.3	0.2	8.5	11.8	0.6	12.4
Social security costs	59.6	0.4	60.0	59.3	1.0	60.3
Pension costs (see note 10A)	119.3	0.8	120.1	120.5	4.0	124.5
Employee welfare and other personnel costs	98.5	0.8	99.3	89.1	10.2	99.3
	1,120.9	17.0	1,137.9	1,115.1	68.2	1,183.3
Classified as:						
Employee costs (see note 3)	1,100.8	17.0	1,117.8	1,096.2	68.2	1,164.4
Manufacturing cost of sales	20.1	–	20.1	18.9	–	18.9
	1,120.9	17.0	1,137.9	1,115.1	68.2	1,183.3

10. Employees (continued)

A Pension costs

The total pension cost for the Group was £120.1m (last year £124.5m) of which £110.6m relates to the UK Scheme (last year £112.1m), £nil relates to the Early Retirement Plan (last year £2.6m) and £9.5m relates to overseas schemes (last year £9.8m).

The Group operates a number of funded defined benefit pension schemes throughout the world.

The latest actuarial valuation of the UK Scheme was carried out at 1 April 1998 by an independent actuary using the projected unit method. The key assumptions adopted were:

Price inflation	3.5%
Rate of increase in salaries	5.25%
Rate of increase in pensions in payment	3.5%
Rate of return on investments	8.25%
Rate of increase in dividend income	4.5%
Rate of interest applied to discount liabilities	8.25%

The latest actuarial valuation revealed a shortfall of £74m in the actuarial value of the assets of the UK Scheme of £2,047m compared to the actuarial liability for pension benefits. (The market value of assets at 1 April 1998 was £2,709m.) This represents a funding level of 97%.

The shortfall of £74m together with the unamortised accounting deficit relating to prior periods gives a total unamortised deficit of £169.4m. This is being amortised over a period of 12 years from 1 April 1998, being the remaining estimated service lives of the current Scheme members.

The next actuarial valuation of the UK Pension Scheme is being carried out as at 1 April 2001 and the results will be reflected in the financial statements for the year ending 31 March 2002.

The total UK pension cost is analysed as follows:

	2001 £m	2000 £m
Normal pension cost[1]	**92.6**	93.9
Amortisation of deficit	**14.1**	14.1
Net interest elements	**3.9**	4.1
Total	**110.6**	112.1

[1]At standard contribution rate of 15.9% (last year 15.9%).

As shown in note 15, the Company has pre-paid pension costs of £162.7m. This includes the partial funding of the deficit, offset by the amortisation and interest elements shown above, with the balance being pre-paid contributions to the UK Scheme.

The pension costs relating to overseas schemes have been determined in accordance with the advice of independent qualified actuaries.

B Post-retirement health benefits

The Company has a commitment to pay all or a proportion of the health insurance premiums for a number of its retired employees and their spouses, the last of whom retired in 1988. There is no commitment in respect of current employees or those who have retired since 1988.

At 31 March 1999, the Company reassessed this liability in accordance with the advice of an independent qualified actuary. The discounted present value of £27.7m (see note 22) has been fully provided. The valuation assumed a premium inflation of 7.5% and an after-tax discount rate of 7.0%. There is a matching deferred taxation asset of £8.3m.

The next actuarial valuation will be carried out as at 31 March 2002.

C United Kingdom and Republic of Ireland profit sharing schemes

The amount of profit which will be allocated this year, in the form of ordinary shares in the Company, has been fixed at £8.5m (last year £12.4m), representing 1.75% (last year 2.5%) of the earnings of 43,741 (last year 44,145) eligible employees.

These shares are now purchased in the market: 4,459,905 ordinary shares were purchased by the Profit Sharing Trustees in respect of the 1999/2000 allocation.

D United Kingdom Employees' Save As You Earn Share Option Scheme

Under the terms of the Scheme, the Board may offer options to purchase ordinary shares in the Company once in each financial year to those employees who enter into an Inland Revenue approved Save As You Earn (SAYE) savings contract. The price at which options may be offered is 80% of the market price for three consecutive dealing days preceding the date of offer. The options may normally be exercised during the period of six months after the completion of the SAYE contract, either three, five or seven years after entering the Scheme.

Notes to the financial statements

10. Employees (continued)

Outstanding options granted under the United Kingdom Employees' Save As You Earn Share Option Scheme are as follows:

	Number of shares 2001	Number of shares 2000	Option price
Options granted			
January 1993	expired	1,390,015	257p
January 1994	518,636	2,559,142	319p
January 1995	2,793,633	7,146,133	322p
January 1996	3,536,269	7,189,225	330p
January 1997	5,384,139	7,209,963	389p
January 1998	3,877,749	5,901,130	467p
January 1999	7,896,779	11,282,225	324p
January 2000	23,856,114	36,500,221	223p
January 2001	32,355,154	–	156p

E Executive Share Option Schemes

Under the terms of the 2000 Scheme, the Board may offer options to purchase ordinary shares in the Company to executive directors and senior employees at the market price on a date to be determined prior to the date of the offer. No further options may be granted under the 1984, 1987 and 1997 Schemes. Outstanding options under each of the 1984 and 1987 Schemes continue to be bound by the Maximum Option Value which is limited to four times remuneration on exercise (further details are set out in the Remuneration Report on page 14). Outstanding options granted under all executive share option schemes are as follows:

	Number of shares 2001	Number of shares 2000	Option price	Option dates
Options granted				
(1984 Scheme)				
May 1991	732,802	748,546	254p	May 1994 – May 2001
May 1992	1,650,583	1,652,102	329p	May 1995 – May 2002
May 1993	1,213,976	1,233,053	341p	May 1996 – May 2003
October 1993	19,576	19,576	399p	Oct 1996 – Oct 2003
May 1994	1,859,827	1,878,391	404p	May 1997 – May 2004
October 1994	21,541	21,541	402p	Oct 1997 – Oct 2004
May 1995	1,545,062	1,566,969	414p	May 1998 – May 2005
May 1996	58,950	58,950	458p	May 1999 – May 2006
November 1996	6,172	6,172	486p	Nov 1999 – Nov 2006
June 1997	39,844	39,844	527p	June 2000 – June 2007
(1987 Scheme)				
May 1994	1,119,504	1,138,068	404p	May 1997 – May 2001
October 1994	9,288	9,288	402p	Oct 1997 – Oct 2001
May 1995	1,426,796	1,426,796	414p	May 1998 – May 2002
May 1996	1,625,742	1,654,620	458p	May 1999 – May 2003
November 1996	39,507	39,507	486p	Nov 1999 – Nov 2003
June 1997	2,003,084	2,032,282	527p	June 2000 – June 2004
(1997 Scheme – Tier 1)				
June 1998	379,338	385,355	557p	June 2001 – June 2008
November 1998	247,221	265,785	404p	Nov 2001 – Nov 2008
June 1999	929,298	985,394	358p	June 2002 – June 2009
November 1999	95,323	95,323	278p	Nov 2002 – Nov 2009
January 2000	360,655	360,655	305p	Jan 2003 – Jan 2010
March 2000	1,992,337	1,992,337	261p	Mar 2003 – Mar 2010
June 2000	184,615	–	260p	June 2003 – June 2010
(1997 Scheme – Tier 2)				
June 1998	3,023,780	4,979,790	557p	June 2003 – June 2008
November 1998	99,261	117,825	404p	Nov 2003 – Nov 2008
June 1999	2,305,306	2,491,935	358p	June 2004 – June 2009
November 1999	59,352	59,352	278p	Nov 2004 – Nov 2009
January 2000	360,655	360,655	305p	Jan 2005 – Jan 2010
March 2000	1,992,337	1,992,337	261p	Mar 2005 – Mar 2010
June 2000	184,615	–	260p	June 2005 – June 2010
(2000 Scheme +3%)				
September 2000	4,209,681	–	215p	Sept 2003 – Sept 2010
December 2000	574,358	–	195p	Jan 2004 – Jan 2011
March 2001	323,393	–	218p	Mar 2004 – Mar 2011
(2000 Scheme +4%)				
September 2000	4,265,494	–	215p	Sept 2003 – Sept 2010
December 2000	574,358	–	195p	Jan 2004 – Jan 2011
March 2001	323,393	–	218p	Mar 2004 – Mar 2011

11. Directors

A Emoluments

Emoluments of directors of the Company are summarised below. Further details are given in the Remuneration Report on pages 10 to 15.

	2001 £'000	2000 £'000
Aggregate emoluments	3,998	6,534
Termination payments	2,742	–

B Transactions with directors

Interest-free loans were made, during the financial year, under the employees' loan scheme by the Company as follows:

- £501,000 to Roger Holmes which was repaid in full prior to his appointment as a director on 1 January 2001 (see Remuneration Report, page 12); and
- £80,018 to David Norgrove which was made prior to his appointment as a director and repaid in full before the end of the financial year.

During the year there was no contract of significance to which the Company, or one of its subsidiaries, was a party and in which a director of the Company was materially interested.

12. Goodwill

Goodwill brought forward at the beginning of the year of £1.3m has been dealt with in these financial statements as follows:

	£m
Amortised against operating profit	0.3
Eliminated on disposal of Splendour.com Ltd	1.0
	1.3

13. Tangible fixed assets

A Tangible fixed assets

	The Group				The Company			
	Land & buildings £m	Fixtures, fittings & equipment £m	Assets in the course of construction £m	Total £m	Land & buildings £m	Fixtures, fittings & equipment £m	Assets in the course of construction £m	Total £m
Cost or valuation								
At 1 April 2000	2,868.7	2,756.9	81.3	5,706.9	2,537.7	2,237.2	44.8	4,819.7
Additions	17.0	186.8	51.9	255.7	13.4	167.9	30.5	211.8
Transfers	17.9	24.8	(42.7)	–	17.4	6.7	(24.1)	–
Revaluation deficit	(3.0)	–	–	(3.0)	(3.0)	–	–	(3.0)
Disposals	(16.1)	(27.5)	(0.4)	(44.0)	(11.9)	(21.3)	–	(33.2)
Differences on exchange	11.5	34.0	1.7	47.2	–	–	–	–
At 31 March 2001	**2,896.0**	**2,975.0**	**91.8**	**5,962.8**	**2,553.6**	**2,390.5**	**51.2**	**4,995.3**
Accumulated depreciation								
At 1 April 2000	94.6	1,370.2	–	1,464.8	79.2	1,091.9	–	1,171.1
Depreciation for the year	22.4	253.5	–	275.9	18.3	205.3	–	223.6
Provision for loss on disposal	47.0	64.2	–	111.2	25.8	54.4	–	80.2
Disposals	(4.1)	(22.5)	–	(26.6)	(0.1)	(17.3)	–	(17.4)
Differences on exchange	0.9	17.7	–	18.6	–	–	–	–
At 31 March 2001	**160.8**	**1,683.1**	**–**	**1,843.9**	**123.2**	**1,334.3**	**–**	**1,457.5**
Net book value								
At 31 March 2001	**2,735.2**	**1,291.9**	**91.8**	**4,118.9**	**2,430.4**	**1,056.2**	**51.2**	**3,537.8**
At 1 April 2000	2,774.1	1,386.7	81.3	4,242.1	2,458.5	1,145.3	44.8	3,648.6

Analysis of land & buildings

	The Group				The Company			
	Freehold £m	Long leasehold £m	Short leasehold £m	Total £m	Freehold £m	Long leasehold £m	Short leasehold £m	Total £m
At valuation	865.4	437.9	13.5	1,316.8	865.4	437.9	13.5	1,316.8
At cost	1,006.1	445.5	127.6	1,579.2	723.8	433.2	79.8	1,236.8
	1,871.5	883.4	141.1	2,896.0	1,589.2	871.1	93.3	2,553.6
Accumulated depreciation	(39.0)	(48.8)	(73.0)	(160.8)	(29.4)	(30.8)	(63.0)	(123.2)
Net book value								
At 31 March 2001	**1,832.5**	**834.6**	**68.1**	**2,735.2**	**1,559.8**	**840.3**	**30.3**	**2,430.4**
At 1 April 2000	1,850.3	850.8	73.0	2,774.1	1,583.1	839.4	36.0	2,458.5

Notes to the financial statements

13. Tangible fixed assets (continued)

B Investment properties

Freehold land and buildings include investment properties as follows:	The Group £m	The Company £m
Cost or valuation		
At 1 April 2000	54.5	54.5
Revaluation deficit	(3.0)	(3.0)
At 31 March 2001	**51.5**	**51.5**

C Tangible fixed assets at cost

Gerald Eve, Chartered Surveyors, valued the Company's freehold and leasehold properties in the United Kingdom as at 31 March 1982. This valuation was on the basis of open market value for existing use. At 31 March 1988, the directors, after consultation with Gerald Eve, revalued those of the Company's properties which had been valued as at 31 March 1982 (excluding subsequent additions and adjusted for disposals). The directors' valuation was incorporated into the financial statements at 31 March 1988.

The Company's freehold interests in three investment properties have been valued at open market value in accordance with the RICS Appraisal and Valuation Manual as at 31 March 2001 by external valuers, Gerald Eve, Chartered Surveyors. The valuations of these investment properties are based on the apportionment of larger valuations to exclude an owner occupied Marks & Spencer store in each case. They exclude any income or outgoings attributable to the owner occupied Marks & Spencer stores which have been assumed to continue trading.

If the Company's land and buildings had not been valued as set out above, their net book value would have been:

	2001 £m	2000 £m
At valuation at 31 March 1975[1]	**333.6**	333.6
At cost	**1,497.8**	1,478.9
At 31 March	**1,831.4**	1,812.5
Accumulated depreciation	**(159.2)**	(117.1)
Net book value at 31 March	**1,672.2**	1,695.4

[1]The Company also valued its land and buildings in 1955 and in 1964. In the opinion of the directors, unreasonable expense would be incurred in obtaining the original costs of the assets valued in those years and in 1975.

14. Fixed asset investments

A Investments

	The Group			The Company				
	Joint venture[1,2] £m	Other investments[3] £m	Total £m	Shares in Group undertakings[4] £m	Loans to Group undertakings £m	Joint venture[1] £m	Other investments[3] £m	Total £m
At 1 April 2000	25.4	29.6	55.0	363.1	69.5	15.9	1.9	450.4
Additions	0.7	21.0	21.7	10.0	–	–	6.7	16.7
Disposals	–	(12.1)	(12.1)	(0.4)	(12.0)	–	(1.3)	(13.7)
Share of joint venture's property revaluation	1.3	–	1.3	–	–	–	–	–
Repayment of loan	(7.6)	–	(7.6)	–	–	(7.6)	–	(7.6)
At 31 March 2001	**19.8**	**38.5**	**58.3**	**372.7**	**57.5**	**8.3**	**7.3**	**445.8**

[1]The joint venture represents a 50% interest in Hedge End Park Ltd, a property investment company. The partner in the joint venture is J Sainsbury plc.
[2]The Group's investment in the joint venture includes £2.2m (last year £9.8m) of loans and accumulated reserves of £11.5m (last year £9.5m).
[3]Other investments include listed securities held by a subsidiary. The difference between their book value and market value is negligible. Other investments also include 3,525,198 shares in the Company held by employee share trusts ('the Trusts'). Of these shares, 3,525,198 (last year 468,263) were held by the Marks and Spencer p.l.c. Qualifying Employee Share Ownership Trust (see note 24) and no shares (last year 240,000) were held by other trusts. At 31 March 2001, shares held by the Trusts had a book value of £7.3m (last year £1.9m).
[4]Shares in Group undertakings of £372.7m (last year £363.1m) are stated after cumulative amounts written off of £543.6m (last year £543.6m).

14. Fixed asset investments (continued)

B Principal subsidiary undertakings

The Company's principal subsidiary undertakings are set out below. A schedule of interests in all undertakings is filed with the Annual Return.

	Principal activity	Country of incorporation and operation	Proportion of voting rights and shares held by: The Company	A subsidiary
Marks and Spencer International Holdings Limited	Holding Company	Great Britain	100%	–
Marks and Spencer (Nederland) BV	Holding Company	The Netherlands	–	100%
Marks & Spencer Finance Inc	Holding Company	United States	100%	–
Marks and Spencer Ventures Limited	Holding Company	Great Britain	100%	–
Marks & Spencer (France) SA	Retailing	France	–	100%
SA Marks and Spencer (Belgium) NV	Retailing	Belgium	–	100%
Marks and Spencer (España) SA	Retailing	Spain	–	100%
Marks and Spencer (Portugal) Lda	Retailing	Portugal	–	100%
Marks and Spencer Stores BV	Retailing	The Netherlands	–	100%
Marks and Spencer (Deutschland) GmbH	Retailing	Germany	–	100%
Marks and Spencer (Ireland) Limited	Retailing	Republic of Ireland	–	100%
Brooks Brothers Inc	Retailing	United States	–	100%
Brooks Brothers (Japan) Limited	Retailing	Japan	–	51%
Kings Super Markets Inc	Retailing	United States	–	100%
Marks and Spencer (Asia Pacific) Limited	Retailing	Hong Kong	–	100%
M&S Card Services Limited	Credit Card Handling	Great Britain	100%	–
Marks and Spencer Retail Financial Services Holdings Limited	Holding Company	Great Britain	100%	–
Marks and Spencer Financial Services Limited	Financial Services	Great Britain	–	100%
Marks and Spencer Unit Trust Management Limited	Financial Services	Great Britain	–	100%
Marks and Spencer Savings and Investments Limited	Financial Services	Great Britain	–	100%
Marks and Spencer Life Assurance Limited	Financial Services	Great Britain	–	100%
MS Insurance Limited	Financial Services	Guernsey	–	100%
St Michael Finance p.l.c.	Finance	Great Britain	100%	–
Marks & Spencer Finance p.l.c.	Finance	Great Britain	100%	–
Marks and Spencer Property Holdings Limited	Property Investment	Great Britain	100%	–

15. Debtors

	The Group 2001 £m	2000 £m	The Company 2001 £m	2000 £m
A Amounts receivable within one year				
Trade debtors	**34.9**	44.4	**14.6**	26.5
Customer advances	**629.1**	663.3	**–**	–
Amounts owed by Group undertakings	**–**	–	**476.9**	599.1
Other debtors[1]	**29.4**	61.9	**16.8**	21.9
Prepayments and accrued income[2]	**223.8**	218.7	**134.4**	147.7
	917.2	988.3	**642.7**	795.2

	The Group 2001 £m	2000 £m	The Company 2001 £m	2000 £m
B Amounts receivable after more than one year[3]				
Customer advances	**1,630.1**	1,478.1	**–**	–
Other debtors[1]	**16.3**	17.1	**11.3**	12.5
Prepayments and accrued income[2]	**65.7**	71.7	**61.6**	67.8
	1,712.1	1,566.9	**72.9**	80.3

[1]Other debtors include an interest-free loan to an officer of the Company of £87,000 (last year £55,735).
[2]Prepayments and accrued income includes £162.7m (last year £175.0m) in respect of the UK Pension Scheme. Of this, £58.6m (last year £67.8m) is included in amounts receivable after more than one year.
[3]Amounts receivable after more than one year include £70.4m (last year £76.0m) of non-financial assets which have been excluded from the analysis in note 18.

Notes to the financial statements

16. Current asset investments

	The Group 2001 £m	The Group 2000 £m	The Company 2001 £m	The Company 2000 £m
Listed investments:				
Government securities	141.5	74.0	–	–
Listed in the United Kingdom	57.6	47.0	–	–
Listed overseas	50.4	59.8	–	–
Unlisted investments	10.5	11.6	–	–
Short-term deposits[1]	–	194.0	–	–
	260.0	386.4	–	–

[1]Short-term deposits comprise deposits with banks and other financial institutions with initial maturity of more than three months.

17. Cash at bank and in hand

Cash at bank includes commercial paper and short-term deposits with banks and other financial institutions with initial maturity of three months or less.

18. Analysis of financial assets

After taking into account the various interest rate swaps entered into by the Group, the currency and interest rate exposure of the Group's financial assets is set out below. There are no financial assets other than short-term debtors excluded from this analysis.

A Interest rate and currency analysis

	2001 Fixed rate £m	2001 Floating rate £m	2001 Non-interest bearing £m	2001 Total £m	2000 Fixed rate £m	2000 Floating rate £m	2000 Non-interest bearing £m	2000 Total £m
Currency								
Sterling	141.2	1,740.5	87.8	1,969.5	96.7	1,912.0	77.1	2,085.8
US dollar	11.5	30.1	2.0	43.6	17.0	29.4	4.0	50.4
Euro	14.1	21.7	11.1	46.9	16.5	20.8	9.2	46.5
Other	10.7	22.4	1.5	34.6	4.7	18.9	1.7	25.3
	177.5	1,814.7	102.4	2,094.6	134.9	1,981.1	92.0	2,208.0

The Group

The floating rate sterling and US dollar assets are at interest rates linked to LIBID. The non-interest bearing cash is predominantly cash in tills and uncleared deposits.

B Analysis of fixed interest rate

Fixed rate financial assets

	2001 Weighted average interest rate %	2000 Weighted average interest rate %	2001 Weighted average period for which rate is fixed Years	2000 Weighted average period for which rate is fixed Years
Currency				
Sterling	6.7	7.0	9.0	7.5
US dollar	6.5	6.0	11.1	7.3
Euro	5.1	4.6	6.0	7.3
Other	2.3	2.6	8.2	3.6

C Analysis of financial assets

The Group

	2001 £m	2000 £m
Cash at bank and in hand	154.4	301.1
Current asset investments	260.0	386.4
Customer advances falling due in more than one year	1,630.1	1,478.1
Fixed asset investments	38.5	29.6
Other amounts receivable after more than one year	11.6	12.8
Financial assets as defined by FRS13	2,094.6	2,208.0
Customer advances falling due in less than one year	629.1	663.3
Financial assets including short-term customer advances	2,723.7	2,871.3

19. Creditors: amounts falling due within one year

	The Group 2001 £m	The Group 2000 £m	The Company 2001 £m	The Company 2000 £m
Bank loans and overdrafts	534.8	469.0	35.8	29.3
Medium term notes (see note 21B)	486.8	700.4	–	–
Trade creditors	207.5	219.3	173.6	180.8
Amounts owed to Group undertakings	–	–	20.9	9.3
Taxation	95.6	112.8	68.1	82.9
Social security and other taxes	33.7	30.1	24.0	21.6
Other creditors[1]	247.4	254.3	131.0	138.3
Accruals and deferred income	223.8	224.5	123.7	121.4
Proposed final dividend	152.0	152.4	152.0	152.4
	1,981.6	2,162.8	729.1	736.0

[1]Other creditors include £22.5m (last year £27.1m) which is shown in the calculation of the Group's net debt and is treated as financing within the cash flow statement.

20. Creditors: amounts falling due after more than one year

	The Group 2001 £m	The Group 2000 £m	The Company 2001 £m	The Company 2000 £m
Medium term notes (see note 21B)	598.3	686.1	–	–
Other creditors[1,2]	136.8	118.2	–	–
	735.1	804.3	–	–

[1]Other creditors include £49.8m (last year £56.3m) which is shown in the calculation of the Group's net debt and is treated as financing within the cash flow statement.
[2]Other creditors include £84.8m (last year £58.2m) of non-financial liabilities which have been excluded from the analysis in note 21.

21. Analysis of financial liabilities

A Interest rate and currency analysis

After taking into account the various interest rate and currency swaps entered into by the Group, the currency and interest rate exposure of the Group's financial liabilities are set out below. There are no financial liabilities other than short-term creditors excluded from this analysis.

The Group	2001 Fixed rate £m	2001 Floating rate £m	2001 Total £m	2000 Fixed rate £m	2000 Floating rate £m	2000 Total £m
Currency						
Sterling	100.0	1,236.2	1,336.2	100.0	1,408.3	1,508.3
US dollar	–	193.9	193.9	–	183.8	183.8
Euro	–	145.0	145.0	–	184.9	184.9
Other	–	19.3	19.3	–	65.6	65.6
	100.0	1,594.4	1,694.4	100.0	1,842.6	1,942.6

The floating rate sterling and US dollar borrowings are linked to interest rates related to LIBOR. These rates are for periods ranging from one month to six months. The fixed rate sterling borrowings are at a weighted average rate of 6.8% (last year 6.8%) and the weighted average time for which the rate is fixed is 2.3 years (last year 3.3 years).

Notes to the financial statements

21. Analysis of financial liabilities (continued)

B Maturity of financial liabilities

	The Group 2001 £m	The Group 2000 £m
Repayable within one year:		
Bank loans, overdrafts and commercial paper	**534.8**	469.0
Medium term notes	**486.8**	700.4
Other creditors	**22.5**	27.1
	1,044.1	1,196.5
Repayable between one and two years:		
Medium term notes	**175.1**	95.2
Other creditors	**20.5**	23.3
	195.6	118.5
Repayable between two and five years:		
Medium term notes	**403.3**	571.0
Other creditors	**27.0**	31.5
	430.3	602.5
Repayable in five years or more:		
Medium term notes	**19.9**	19.9
Other creditors	**4.5**	5.2
	24.4	25.1
	1,694.4	1,942.6

[1]Financial liabilities include £2.2m (last year £3.7m) of other creditors which is excluded from the reconciliation of net debt in note 29.

C Borrowing facilities

At 31 March 2001, the Group had an undrawn committed facility of £425.0m (last year $50.0m) linked to its commercial paper programme and subject to annual review. The Group also has a number of undrawn uncommitted facilities available to it. At 31 March 2001 these amounted to £547.5m (last year £533.3m).

22. Provisions for liabilities and charges

	The Group £m	The Company £m
Post-retirement health benefits[1]		
At 1 April 2000	27.7	27.7
Utilised during the year	(1.8)	(1.8)
Interest charged	1.8	1.8
At 31 March 2001	**27.7**	**27.7**
UK restructuring[2,5]		
At 1 April 2000	42.6	42.6
Additions during the year	30.1	30.1
Utilised during the year	(29.5)	(29.5)
At 31 March 2001	**43.2**	**43.2**
Overseas restructuring[3,5]		
At 1 April 2000	8.1	–
Additions during the year	194.5	8.6
Utilised during the year	(1.7)	–
Exchange differences	0.4	–
At 31 March 2001	**201.3**	**8.6**
Deferred tax[4]		
At 1 April 2000	48.2	42.7
Credited to the profit and loss account (see note 6)	(5.0)	(3.0)
Exchange differences	0.3	–
At 31 March 2001	**43.5**	**39.7**
Total at 31 March 2001	**315.7**	**119.2**
Total at 31 March 2000	126.6	113.0

[1]The £27.7m provision for post-retirement health benefits represents the estimated value of the Company's subsidy of the Marks & Spencer Health Insurance Scheme, in so far as it relates to private medical benefits for retired employees and their dependants, for whom the Company meets the whole, or part, of the cost (see note 10B for further details).
[2]The provision for UK restructuring costs relates to the ongoing costs of restructuring the Group's UK operations. The balance at 31 March 2001 primarily relates to the ongoing restructuring of the Group's head office functions and 'Direct' operations. The majority of these costs are expected to be incurred during the next financial year.
[3]The provision for Overseas restructuring costs primarily relates to the costs expected to be incurred in respect of the intended closure of the Group's operations in Continental Europe. The balance at 31 March 2001 primarily relates to redundancy costs and future trading losses, the majority of which are expected to be incurred during the next financial year.
[4]The deferred tax provision consists of £51.8m (last year £56.5m) arising on short-term timing differences offset by £8.3m (last year £8.3m) arising on post-retirement health benefits.
[5]Since last year, the analysis of provisions has been revised to show UK and Overseas restructuring costs separately. The brought-forward provision for Overseas restructuring consists of £4.1m and £4.0m in respect of Europe and Canada respectively.

Unprovided deferred tax

	The Group		The Company	
	2001 £m	2000 £m[1]	2001 £m	2000 £m[1]
Excess of capital allowances over depreciation on tangible fixed assets	**79.6**	72.8	**66.4**	58.5

[1]The comparatives for 2000 for the Group and the Company have been restated following a reassessment of the quantum of the book value of fit out on which capital allowances have been claimed.

In December 2000 the Accounting Standards Board issued FRS 19 'Deferred Tax'. This FRS requires deferred tax to be provided for on a 'full provision' basis. The Group will adopt this standard for the year ended 31 March 2002.

In the opinion of the directors, any taxable gains arising on the disposal of revalued properties will be covered by brought forward tax losses and rollover relief. Accordingly, the potential deferred tax in respect of these properties has not been quantified in the above analysis.

Deferred tax is not provided in respect of liabilities which might arise on the distribution of unappropriated profits of international subsidiaries.

Notes to the financial statements

23. Financial instruments and risk management

A Fair values of financial instruments

Set out below is a comparison of current and book values of all the Group's financial instruments by category. Where market prices are not available for a particular instrument, fair values have been calculated by discounting cash flows at prevailing interest rates and exchange rates.

	The Group			
	2001		2000	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Assets/(liabilities)				
Customer advances falling due in more than one year	1,630.1	1,646.2	1,478.1	1,474.2
Current asset investments[1]	260.0	255.5	386.4	386.4
Fixed asset investments[2]	38.5	38.5	29.6	29.6
Cash at bank and in hand[1]	154.4	154.4	301.1	301.1
Borrowings due within one year[1]	(1,044.1)	(1,039.6)	(1,196.1)	(1,199.6)
Financial liabilities due after more than one year[1]	(650.3)	(694.7)	(746.1)	(737.4)
Interest rate swaps[3]	–	22.6	–	(2.6)
Forward foreign currency contracts[3]	–	(1.4)	–	20.2
FTSE 100 put options[4]	1.3	2.8	2.2	3.1

[1]Current asset investments and cash at bank are predominantly short-term deposits placed with banks, financial institutions and on money markets, and investments in short-term securities. Borrowings are at floating rates. Therefore, fair values closely approximate book values.
[2]Fixed asset investments comprise listed securities held by a subsidiary.
[3]Interest rate swaps and forward foreign currency contracts have been marked to market to produce a fair value figure.
[4]FTSE 100 put options provide no loss guarantees on certain Unit Trust offers. The options are on a fully matched basis and are not traded. They have been marked to market to produce a fair value figure.

B Hedges of future transactions

Unrecognised gains and losses on instruments used for hedging and those recognised in the year ended 31 March 2001 are as follows:

	Gains £m	Losses £m	Net total £m
Unrecognised gains/(losses) on hedges at 1 April 2000	57.7	(39.2)	18.5
(Gains)/losses arising in previous years recognised in the year	(46.7)	20.2	(26.5)
Gains/(losses) in previous years not recognised in the year	11.0	(19.0)	(8.0)
Gains/(losses) arising in the year	44.9	(14.2)	30.7
Unrecognised gains/(losses) on hedges at 31 March 2001	**55.9**	**(33.2)**	**22.7**
Of which:			
Gains/(losses) expected to be recognised within one year	6.2	(13.2)	(7.0)
Gains/(losses) expected to be recognised after one year	49.7	(20.0)	29.7

C Currency risk

The effect of currency exposures arising from the translation of overseas investments is mitigated by Group borrowings in the local currencies of its main operating subsidiaries. Gains and losses arising on net investments in overseas subsidiaries are recognised in the consolidated statement of total recognised gains and losses.

After taking into account the effect of any hedging transactions that manage transactional currency exposures, no Group company had any material monetary assets or liabilities in currencies other than their functional currencies at the balance sheet date.

24. Called up share capital

	The Company 2001 £m	The Company 2000 £m
Authorised:		
3,200,000,000 ordinary shares of 25p each	800.0	800.0
Allotted, called up and fully paid:		
2,867,383,731 ordinary shares of 25p each (last year 2,874,587,298)	716.9	718.6

3,415,705 ordinary shares having a nominal value of £0.9m were allotted during the year under the terms of the Company's share schemes which are described in note 10. The aggregate consideration received was £7.1m. Contingent rights to the allotment of shares are also described in note 10.

Of the 3,415,705 ordinary shares referred to above, 3,265,848 ordinary shares were subscribed for by the Marks and Spencer p.l.c. Qualifying Employee Share Ownership Trust (the 'QUEST') at market value of £6.8m. Of these shares, 208,913 were allocated to employees, including executive directors, in satisfaction of options exercised under the Marks and Spencer United Kingdom Employees' Save As You Earn Share Option Scheme. The Company provided £nil (last year £1.1m) to the QUEST for this purpose. The cost of this contribution was transferred by the Company directly to the profit and loss account reserve (see note 25). At 31 March 2001, 3,525,198 shares were held by the QUEST (see note 14).

10,619,272 ordinary shares having a nominal value of £2.6m were purchased by the Company for an aggregate consideration of £20.3m. The nominal value of the cancelled shares has been transferred to the capital redemption reserve (see below).

25. Shareholders' funds

	The Group 2001 £m	The Group 2000 £m	The Company 2001 £m	The Company 2000 £m
Called up share capital (see note 24)	716.9	718.6	716.9	718.6
Share premium account:				
At 1 April	369.4	358.5	369.4	358.5
Shares issued under the Company's share schemes	6.2	10.9	6.2	10.9
At 31 March	375.6	369.4	375.6	369.4
Revaluation reserve:				
At 1 April	457.9	531.0	458.9	533.2
(Deficit)/surplus on revaluation of investment properties	(3.0)	1.8	(3.0)	1.8
Share of joint venture's movement in revaluation reserve	1.3	1.2	–	–
Revaluation deficit/(surplus) realised on disposals	1.3	(74.2)	–	(74.2)
Revaluation element of depreciation charge	(1.9)	(1.9)	(1.9)	(1.9)
At 31 March	455.6	457.9	454.0	458.9
Capital redemption reserve:				
At 1 April	–	–	–	–
Purchase of own shares	2.6	–	2.6	–
At 31 March	2.6	–	2.6	–
Profit and loss account reserve:				
At 1 April	3,359.4	3,276.7	2,983.5	2,886.5
Revaluation element of depreciation charge	1.9	1.9	1.9	1.9
Revaluation (deficit)/surplus realised on disposals	(1.3)	74.2	–	74.2
Purchase of own shares	(20.3)	–	(20.3)	–
Goodwill reinstated in respect of closure of businesses	(1.3)	24.4	–	–
Amounts deducted in respect of shares issued to the QUEST (see note 24)	–	(1.1)	–	(1.1)
Retained (loss)/profit for the year	(257.0)	0.1	(281.6)	22.0
Exchange differences on foreign currency translation	13.3	(16.8)	–	–
At 31 March	3,094.7	3,359.4	2,683.5	2,983.5
Shareholders' funds at 31 March – all equity	4,645.4	4,905.3	4,232.6	4,530.4

Cumulative goodwill of £430.2m (last year £428.9m) arising on the acquisition of US (last year US and Spanish) subsidiaries has been written off against the profit and loss account reserve. As permitted by FRS10, this goodwill has not been reinstated in the balance sheet and remains written off to reserves.

Notes to the financial statements

26. Reconciliation of movements in Group shareholders' funds

	The Group 2001 £m	2000 £m
Profit attributable to shareholders	1.3	258.7
Dividends	(258.3)	(258.6)
	(257.0)	0.1
Other recognised gains and losses relating to the year	11.6	(13.8)
New share capital subscribed	7.1	11.8
Amounts deducted from profit and loss account reserve in respect of shares issued to the QUEST	–	(1.1)
Purchase of own shares	(20.3)	–
Goodwill transferred to profit and loss account on closure of businesses	(1.3)	24.4
Net (reduction)/addition to shareholders' funds	(259.9)	21.4
Shareholders' funds at 1 April	4,905.3	4,883.9
Shareholders' funds at 31 March	4,645.4	4,905.3

27. Reconciliation of operating profit to net cash inflow from operating activities

	The Group 2001 £m	2000 £m
Operating profit	440.5	471.0
Exceptional operating charges (see note 4A)	26.5	72.0
Operating profit before exceptional charges	467.0	543.0
Depreciation	275.9	261.6
Decrease in stocks	14.7	40.3
Increase in customer advances	(117.8)	(206.2)
Decrease in other debtors	43.8	0.9
Increase in creditors	23.1	51.1
Net cash inflow before exceptional items	706.7	690.7
Exceptional operating cash outflow (see note 28A)	(30.3)	(49.2)
Net cash inflow from operating activities	676.4	641.5

28. Analysis of cash flows given in the cash flow statement

	The Group 2001 £m	2000 £m
A Exceptional operating cash flows		
UK redundancy costs paid	(29.5)	(44.7)
European restructuring costs paid	(0.8)	(4.5)
Exceptional operating cash outflow	(30.3)	(49.2)
B Returns on investments and servicing of finance		
Interest received	13.1	17.8
Interest paid	–	(2.0)
Dividends paid to minorities	(0.5)	(0.6)
Net cash inflow from returns on investments and servicing of finance	12.6	15.2
C Taxation		
UK corporation tax paid	(164.5)	(143.5)
Overseas tax paid	(0.1)	(2.2)
Cash outflow for taxation	(164.6)	(145.7)
D Capital expenditure and financial investment		
Purchase of tangible fixed assets	(269.8)	(447.5)
Sale of tangible fixed assets	18.9	266.0
Purchase of fixed asset investments	(18.0)	(1.9)
Sale of fixed asset investments	10.7	16.4
Net cash outflow for capital expenditure and financial investment	(258.2)	(167.0)

28. Analysis of cash flows given in the cash flow statement (continued)

	The Group 2001 £m	The Group 2000 £m
E Acquisitions and disposals		
Closure of Canadian operations	**(0.9)**	(15.4)
Sale of Splendour.com Ltd	**(0.8)**	–
Repayment of loan by joint venture	**7.6**	0.5
Acquisition of minority interest	**–**	(6.2)
Cash inflow/(outflow) for acquisitions and disposals	**5.9**	(21.1)

	The Group 2001 £m	The Group 2000 £m
F Management of liquid resources		
Decrease in cash deposits treated as liquid resources	**135.5**	18.4
Net purchase of government securities	**(67.5)**	(5.0)
Net purchase of listed investments	**(0.3)**	(12.9)
Net sale of unlisted investments	**2.0**	31.0
Net decrease/(increase) in short-term deposits	**194.0**	(194.0)
Cash inflow/(outflow) from decrease/(increase) in liquid resources	**263.7**	(162.5)

	The Group 2001 £m	The Group 2000 £m
G Financing		
Increase in bank loans, overdrafts and commercial paper treated as financing	**76.0**	2.3
(Redemption)/issue of medium term notes	**(310.8)**	254.3
Decrease in other creditors treated as financing	**(11.1)**	(5.7)
Debt financing as shown in analysis of net debt (see note 29)	**(245.9)**	250.9
Purchase of own shares	**(20.3)**	–
Shares issued under employees' share schemes	**0.8**	9.4
Net cash (outflow)/inflow from (decrease)/increase in financing	**(265.4)**	260.3

29. Analysis of net debt

	At 1 April 2000 £m	Cash flow £m	Exchange movement £m	At 31 March 2001 £m
Net cash:				
Cash at bank and in hand (see note 18C)	301.1	(149.2)	2.5	**154.4**
Less: deposits treated as liquid resources (see below)	(160.1)	135.5	(0.4)	**(25.0)**
	141.0	(13.7)	2.1	**129.4**
Bank loans, overdrafts and commercial paper (see note 21B)	(469.0)	(50.5)	(15.3)	**(534.8)**
Less: amounts treated as financing (see below)	382.0	76.0	13.7	**471.7**
	(87.0)	25.5	(1.6)	**(63.1)**
Net cash per cash flow statement	54.0	11.8	0.5	**66.3**
Liquid resources:				
Deposits included in cash (see above)	160.1	(135.5)	0.4	**25.0**
Current asset investments (see note 16)	386.4	(128.2)	1.8	**260.0**
Liquid resources per cash flow statement and note 28F	546.5	(263.7)	2.2	**285.0**
Debt financing:				
Bank loans, overdrafts and commercial paper treated as financing (see above)	(382.0)	(76.0)	(13.7)	**(471.7)**
Medium term notes (see note 21B)	(1,386.5)	310.8	(9.4)	**(1,085.1)**
Other creditors (see note 21B)	(83.4)	11.1	–	**(72.3)**
Debt financing (see note 28G)	(1,851.9)	245.9	(23.1)	**(1,629.1)**
Net debt	(1,251.4)	(6.0)	(20.4)	**(1,277.8)**

Notes to the financial statements

30. Commitments and contingent liabilities

	The Group		The Company	
	2001 £m	2000 £m	2001 £m	2000 £m
A Commitments in respect of properties in the course of development	**54.6**	103.9	**44.8**	101.1
B Guarantees by the Company in respect of debt instruments issued by subsidiaries	**–**	–	**1,716.6**	1,780.8
C Guarantees made in the ordinary course of business on behalf of overseas subsidiaries	**–**	–	**121.3**	129.2

D Marks and Spencer (Ireland) Limited and its subsidiary Aprell Limited have availed themselves of the exemption provided for in S17 of the Companies (Amendment) Act 1986 (Ireland) in respect of the documents required to be annexed to their annual returns.

E Other material contracts:
In the event of a material change in the trading arrangements with certain warehouse operators, the Company has a commitment to purchase fixed assets, at values ranging from historical net book value to market value, which are currently owned and operated by them on the Company's behalf.

F Commitments under operating leases:
At 31 March 2001 annual commitments under operating leases were as follows:

	The Group		The Company	
	Land & buildings £m	Other £m	Land & buildings £m	Other £m
Expiring within one year	4.5	1.4	0.7	1.2
Expiring in the second to fifth years inclusive	29.2	1.8	2.1	1.2
Expiring in more than five years	87.4	–	44.5	–
	121.1	**3.2**	**47.3**	**2.4**

31. Foreign exchange rates

The principal foreign exchange rates used in the financial statements are as follows (local currency equivalent of £1):

	Sales Average Rate		Profit Average Rate		Balance Sheet Rate	
	2001	2000	2001	2000	2001	2000
Euro[1]	**1.63**	–	**1.62**	–	**1.62**	1.67
US dollar	**1.48**	1.62	**1.47**	1.61	**1.43**	1.60
Hong Kong dollar	**11.54**	12.57	**11.59**	12.51	**11.11**	12.43
Japanese yen	**163.67**	177.16	**163.54**	175.88	**178.50**	163.91

[1]Prior year sales and profits were translated using exchange rates for legacy currencies and a weighted average exchange rate for the Euro has therefore not been calculated.

32. Related party transactions

There were no material transactions with related parties as defined by FRS8, 'Related Party Transactions'.

Group financial record

FOR THE YEAR ENDED 31 MARCH

	2001 £m 52 weeks	2000 £m 53 weeks	1999 £m 52 weeks	1998 £m 52 weeks	1997 £m 52 weeks
Profit and loss account[1,2]					
Turnover:					
General	4,413.5	4,629.6	4,765.1	4,811.4	4,601.7
Foods	3,299.1	3,201.3	3,110.3	3,157.1	3,024.1
Financial Services	363.1	364.6	348.6	274.8	216.1
Total turnover (excluding sales taxes)	8,075.7	8,195.5	8,224.0	8,243.3	7,841.9
Retailing	7,712.6	7,830.9	7,875.4	7,968.5	7,625.8
Financial Services	363.1	364.6	348.6	274.8	216.1
Operating profit					
United Kingdom	404.6	472.7	565.1	1,014.1	931.3
Europe (excluding UK)[3]	(11.4)	(14.8)	(90.8)	31.9	37.3
North America	32.0	16.4	15.7	16.7	20.7
Far East	7.4	(3.3)	(3.5)	18.3	32.7
Excess interest charged to cost of sales of Financial Services	7.9	–	25.5	22.7	–
Total operating profit	440.5	471.0	512.0	1,103.7	1,022.0
Analysed as:					
Before exceptional operating (charges)/income	467.0	543.0	600.5	1,050.5	1,022.0
Exceptional operating (charges)/income	(26.5)	(72.0)	(88.5)	53.2	–
Retailing	336.3	355.1	375.8	991.6	946.3
Financial Services	96.3	115.9	110.7	89.4	75.7
Excess interest charged to cost of sales of Financial Services	7.9	–	25.5	22.7	–
Loss on operations to be discontinued	(224.0)	–	–	–	–
Loss on closure of businesses	(1.7)	(45.4)	–	–	–
(Loss)/profit on disposal of property and other fixed assets	(83.2)	(22.3)	6.2	(2.8)	(1.8)
Net interest income	13.9	14.2	27.9	54.1	65.9
Profit before taxation	145.5	417.5	546.1	1,155.0	1,086.1
Taxation on ordinary activities	(142.7)	(158.2)	(176.1)	(338.7)	(346.1)
Minority interests	(1.5)	(0.6)	2.1	(0.4)	(1.3)
Profit attributable to shareholders	1.3	258.7	372.1	815.9	738.7
Dividends	(258.3)	(258.6)	(413.3)	(409.1)	(368.6)
(Loss)/profit for the year	(257.0)	0.1	(41.2)	406.8	370.1
Balance sheet[1]					
Intangible fixed assets	–	1.3	–	–	–
Tangible fixed assets	4,118.9	4,242.1	4,387.5	3,964.8	3,412.0
Fixed asset investments	58.3	55.0	61.2	69.7	36.6
Current assets	3,516.2	3,717.1	3,355.9	3,401.5	3,203.0
Total assets	7,693.4	8,015.5	7,804.6	7,436.0	6,651.6
Creditors due within one year	(1,981.6)	(2,162.8)	(2,029.8)	(2,345.0)	(1,775.1)
Total assets less current liabilities	5,711.8	5,852.7	5,774.8	5,091.0	4,876.5
Creditors due after more than one year	(735.1)	(804.3)	(772.6)	(187.2)	(495.8)
Provisions for liabilities and charges	(315.7)	(126.6)	(105.0)	(31.0)	(31.8)
Net assets	4,661.0	4,921.8	4,897.2	4,872.8	4,348.9

[1]Restated for 1998 and prior years for the change in accounting policy relating to the depreciation of fit out.
[2]Restated for 1997 to include turnover and operating profit by destination, the results of the captive insurance company within turnover and cost of sales and the results of the treasury company within net interest income.
[3]1999 reflects £64.0m provision for impairment of fixed assets.

Group financial record

FOR THE YEAR ENDED 31 MARCH

	2001 £m 52 weeks	2000 £m 53 weeks	1999 £m 52 weeks	1998 £m 52 weeks	1997 £m 52 weeks
Cash flow[1]					
Net cash inflow from operating activities	**676.4**	641.5	472.3	967.7	903.1
Returns on investments and servicing of finance	**12.6**	15.2	29.0	56.1	65.4
Taxation	**(164.6)**	(145.7)	(345.9)	(342.3)	(318.6)
Capital expenditure and financial investment	**(258.2)**	(167.0)	(628.1)	(788.3)	(419.1)
Acquisitions and disposals	**5.9**	(21.1)	1.0	2.6	(0.2)
Equity dividends paid	**(258.6)**	(413.5)	(412.6)	(325.8)	(305.6)
Cash inflow/(outflow) before management of liquid resources and financing	**13.5**	(90.6)	(884.3)	(430.0)	(75.0)
Management of liquid resources	**263.7**	(162.5)	180.6	226.6	91.3
Financing	**(265.4)**	260.3	505.0	307.4	64.7
Increase/(decrease) in cash	**11.8**	7.2	(198.7)	104.0	81.0
Increase in net debt defined by FRS1	**26.4**	69.8	862.3	380.8	35.5

Key performance measures[1]

		2001	2000	1999	1998	1997
Gross margin[2,3]	Gross profit / Turnover	**35.1%**	34.1%	33.4%	35.2%	34.9%
Net margin[2,3]	Operating profit / Turnover	**5.4%**	5.7%	5.9%	13.1%	13.0%
Net margin excluding exceptional items[4]		**5.7%**	6.6%	7.0%	12.5%	13.0%
Profitability[2]	Profit before tax / Turnover	**1.8%**	5.1%	6.6%	14.0%	13.8%
Profitability excluding exceptional items[5]		**6.0%**	6.8%	7.6%	13.4%	13.9%
Earnings per share (Defined by FRS14)	Standard earnings[6] / Weighted average ordinary shares in issue	**0.0p**	9.0p	13.0p	28.6p	26.1p
Earnings per share adjusted for exceptional items		**11.4p**	13.2p	15.6p	27.4p	26.2p
Earnings per share (Defined by IIMR)	Headline earnings[7] / Weighted average ordinary shares in issue	**10.7p**	11.4p	15.0p	28.7p	26.2p
Dividend per share		**9.0p**	9.0p	14.4p	14.3p	13.0p
Dividend cover	Profit attributable to shareholders / Dividends	**0.0**	1.0	0.9	2.0	2.0
Return on equity[2]	Profit after tax and minority interests / Average shareholders' funds	**0.0%**	5.3%	7.6%	17.8%	17.9%
Capital expenditure[1]		**£255.7m**	£450.6m	£683.1m	£750.2m	£431.6m

[1]Restated for 1998 and prior years for the change in accounting policy relating to the depreciation of fit out.
[2]Based on results reported as continuing operations.
[3]Based on segmental results.
[4]Figures for 2001 exclude exceptional operating charges of £26.5m. Figures for 2000 exclude exceptional operating charges of £72.0m. Figures for 1999 exclude exceptional operating charges of £88.5m. 1998 excludes exceptional operating income of £53.2m.
[5]Excludes operating exceptional items referred to in (4) above together with non-operating exceptional items.
[6]Standard earnings are defined as profit after tax and minority interests.
[7]Headline earnings are standard earnings adjusted for certain capital items.