

MARKS & SPENCER

Annual report and financial statements 2004



This publication includes the Chairman's message, the Chief Executive's review, the Financial review, the Corporate governance statement, the Remuneration report, the Directors' report, the Financial statements and the Auditors' report for the year ended 3 April 2004. Reviews of financial and operating performance are contained in a separate report entitled Annual review and summary financial statement 2004.

This publication, together with the Annual review and summary financial statement 2004, comprise the full Annual Report and Accounts of Marks and Spencer Group plc for 2004, prepared in accordance with the Companies Act 1985.

1	Chairman's message
2	Chief Executive's review
3	Financial review
12	Corporate governance
16	Remuneration report
24	Directors' interests
24	Directors' responsibilities
25	Directors' report
27	Auditors' report
28	Consolidated profit and loss account
28	Note of group historical cost profits and losses
28	Consolidated statement of total recognised gains and losses
29	Balance sheets
30	Consolidated cash flow information
31	Notes to the financial statements
54	Group financial record
57	Index

The full Annual Report and Accounts with downloadable files are available online on the Marks & Spencer website at: www.marksandspencer.com/thecompany

Chairman's message LUC VANDEVELDE

We have delivered financial performance which I would describe as 'solid' but clearly we are not satisfied with our sales progress. The market share gains that we had hoped to achieve were not delivered and Roger, in his summary opposite, will update you on the actions we are taking to improve our performance. However, it would be easy to lose sight of the fact that we are building this next stage on secure foundations, which we have put in place over the last three years.

During this time we have changed our business fundamentally by:

- continuing to improve our management team;
- developing our supply chain, which will deliver further efficiency and reduce costs; this is only possible because of the painful but necessary shift to overseas sourcing. In 1998, we sourced just 20% of our clothing overseas and today that figure is 90%;
- exiting loss-making operations in Europe and the UK;
- ensuring that the balance sheet is more efficient, with the return of £2 billion to shareholders in 2002;
- delivering impactful but low-cost improvements to our stores throughout the chain; and
- making our special foods more accessible to more customers through the roll-out of the Simply Food format.

More specifically, in the past year we've seen progress in creating new sources of growth. In our Food business, we've further extended our reach with the opening of more Simply Food and Food only stores. In Financial Services, now re-branded Marks & Spencer Money, we've introduced the '&more' credit and loyalty card. And we've opened the first stand-alone Marks & Spencer Lifestore as a major step towards becoming one of the UK leaders in home retail.

All these changes have contributed to a strong recovery in the operating profit of our core UK retailing business. This has enabled us to deliver a 24.7 pence earnings per share this year, more than double the level of 2001. Combined with the restructuring of our balance sheet and capital return in 2002, we have delivered a current return on equity, adjusted for exceptional items, that is ahead of that achieved in 1998, the year of peak Group profitability. Group operating profit increased by 12% to £866 million and Group profit before tax by 6% to £805 million, all on a 53-week basis. Group operating cash flow is £1,066.5 million before a pension contribution of £400 million. A final dividend of 7.1 pence per share shows an increase of 9.2% making the total dividend for the year 11.5 pence compared to 10.5 pence last year.

Although we planned for better sales figures overall, we have made progress in Menswear, Lingerie and women's casualwear. These sales figures should not obscure the hard work throughout the business to ensure better choice and value, more appealing stores and greater efficiencies, all of which will translate into shareholder value over the longer term.

You can read how we're doing in corporate social responsibility (CSR) in our second CSR publication, now available on our website. You can see

details of our Marks & Start programme that we think sets a new standard of effective, measurable social involvement.

Regarding my own role, the unexpected death last year of my very close friend Paul Louis Halley has meant that I must honour, earlier than anticipated, a personal commitment to the Halley family. This will require me to play a significant role in representing their interests and, as a result, I have reluctantly informed the Board of my wish to leave the Company's Board of Directors. I will remain in post for as long as necessary to establish my successor.

I have said previously that we can never claim to have 'made it' and that we must always be looking for ways to improve our business. Looking back on my time at Marks & Spencer, I feel immense pride that we have accomplished a considerable amount. I do, however, recognise that there is still much more to do. I have greatly enjoyed this role and would like to extend my appreciation and thanks for the support shown to me by colleagues, shareholders and suppliers.

Luc Vandeveldt
Chairman

Chief Executive's review ROGER HOLMES

In the last year we have established new areas of growth in Money and Home, but the initial surge in recovery of our core Clothing and Food business faltered. We will now take fundamental action to improve our products, supply chain, stores and ways of working.

Group operating profit before exceptional items increased last year by 12% to £866 million (on a 53 week basis), due to the relatively strong performance from Menswear, Lingerie and women's casualwear, improved margins and tight control of costs. On a 52 week basis Group operating profit before exceptional items increased by 6.5% to £822.9 million after absorbing £59 million for the launch of the '&more' card.

Clothing market share for the year declined by 0.2 percentage points to 11%, because of a decline in Womenswear and weak performance in Childrenswear. We have strengthened our clothing teams, particularly in Womenswear, to deliver our key priorities of improved ranges, choice and value. This includes the major expansion of our Limited Collection, a new approach to our 'smartwear' offer, which will arrive in 66 stores from September 2004. We are delivering greater choice to customers in 90 stores, building on the success of initial trials. And we will make the Womenswear sales floors easier to shop learning from our success in Menswear. We continue to reinvest part of our sourcing gains in lower prices, particularly in our entry price points.

Food held its market share last year, benefiting from the roll-out of Simply Food stores. Consumers are tending to increase their spend on large, 'weekly', supermarket shops and, with the increasing number of quality convenience stores, are spreading their 'top up' shops more widely.

We, therefore, face some significant structural and competitive issues but I'm confident that we can respond to them.

Our customers continue to rate our food offer more highly than our competition. They see us as selling food that is a real treat and of better quality. We plan to develop the appeal of our offer while reducing reasons for customers to go elsewhere. We are on-track against our existing plans to open 500,000 sq ft of additional Food-only space by March 2006. We are planning to extend this total footage and will communicate our plans later this year. We will continue to develop our product ranges in global and special occasion food as well as in fresh and healthy food. We aim to renew at least 30% of our food ranges this year.

We will follow the opening of the Marks & Spencer Lifestore in Gateshead with two further pilot stores. We will also continue to re-position our Home offer, taking lessons from the recent introduction of new product.

Our significant investment in Money has created a customer base of over two million '&more' credit and loyalty card accounts. Our immediate priority is to increase card spending and balances so that the credit card moves into profit during 2006.

More than five years ago we moved manufacturing of our clothing offshore and this now represents over 90% of our production. This move improved our margins by 7.6% between 2000

and 2003. We are committed to achieve a further 3% increase in margins by 2006 through additional changes to our supply chain.

The rapid and low cost refurbishment of our stores over the last three years helped in our initial turnaround, but we want to go further now, focusing on our existing city centre and high street stores and testing new concepts.

We are fortunate to have a dedicated workforce with a relatively low staff turnover, but we can be more efficient. As a result we will be accelerating our Retail Change Programme in stores and cutting costs at our Head Offices with the expected loss of 1,000 jobs.

I have strengthened my top team, appointing Vittorio Radice to take responsibility for Clothing, store development and Home, Maurice Helfgott to take charge of Food and Mark McKeon to be Executive Director of Retail, International and Outlets.

In the last three years we have restructured the business, stabilised our core operations and opened up routes to future growth. However, we still have a significant amount of work to do to secure the full potential of the business.

I am under no illusions about the challenges we face, but I am confident we can succeed. I believe that our plans can put the business on a more secure footing and deliver benefits to our customers, employees, shareholders and suppliers.

Roger Holmes
Chief Executive

Financial review

Group summary

	2004 53 weeks £m	2004 52 weeks £m	2003 52 weeks As restated £m
Summary of results			
Turnover (ex VAT)	8,301.5	8,154.8	8,019.1
Operating profit (before exceptional charges)	866.0	822.9	773.0
Exceptional operating charges	(42.1)	(42.1)	(43.9)
Operating profit (after exceptional charges)	823.9	780.8	729.1
Profit on sale of property and other fixed assets	18.7	18.7	1.6
Loss on sale/termination of operations	–	–	(1.5)
Net interest expense	(45.8)	(44.5)	(40.5)
Other finance (charges)/income	(15.2)	(15.2)	27.0
Profit on ordinary activities before tax	781.6	739.8	715.7
Basic earnings per share	24.2p	22.9p	21.8p
Adjusted earnings per share	24.7p	23.4p	23.3p
Dividend per share	11.5p	11.5p	10.5p

Highlights

Group

- Underlying Group profit before tax* up 6.0% to £805m
- Adjusted earnings per share* up 6.0% to 24.7 pence per share
- Dividend per share of 11.5p, up 9.5%
- Group operating cash flow of £1,066.5m, before pension contribution of £400m

UK Retail

- Sales up 3.8% to £7.3bn (up 1.9% to £7.2bn on a 52 week basis)
- Underlying operating profit* up 19.3% to £768.0m (up 13.1% on a 52 week basis)

Money

- 2.1 million '£more' credit card accounts now in issue

*excluding the effect of exceptional items

The results have been prepared using the same accounting policies as stated in last year's annual report with the exception of those policies that have been amended by the adoption of FRS 17 – 'Retirement Benefits' and Application Note G of FRS 5 – 'Revenue Recognition' (see page 10). Where relevant, comparatives have been restated.

The reporting period for this financial year covers the 53 weeks to 3 April 2004, whereas the prior period covered the 52 weeks to 29 March 2003. For comparative purposes, the commentary that follows, in so far as it relates to the profit and loss account, is provided on a 52 week basis (to 27 March 2004 and 29 March 2003).

	2004 53 weeks £m	2004 52 weeks £m	2003 52 weeks As restated £m
Group turnover			
UK Retail	7,293.7	7,159.8	7,027.1
International Retail	677.8	665.0	662.1
Financial Services	330.0	330.0	329.9
Total	8,301.5	8,154.8	8,019.1

	2004 53 weeks £m	2004 52 weeks £m	2003 52 weeks As restated £m
Group operating profit before exceptional items			
UK Retail	768.0	728.1	643.8
International Retail	47.4	44.2	42.8
Financial Services	50.6	50.6	86.4
Total	866.0	822.9	773.0

Financial review continued

UK Retail

	2004 52 weeks	2003 52 weeks As restated
Turnover (£m)	7,159.8	7,027.1
Operating profit (before exceptional items) (£m)	728.1	643.8
Number of stores (at the end of the year)	375	331
Selling space at the end of the year (m sq ft)	12.8	12.3

Turnover, including VAT, was up 1.8% on last year, down 0.4% on a like-for-like basis.

The performance of Clothing for the year as a whole was disappointing, with total Clothing sales down 0.5% on last year. Womenswear, in particular, performed below expectations with a strong performance from per una and casualwear, held back by the performance in other areas. Elsewhere, Lingerie and Menswear performed ahead of last year until the last quarter when sales were marginally lower. Childrenswear was again weak. Clothing market share for the year declined by 0.2 percentage points to 11.0%.

In Home, we are repositioning our offer and broadening our appeal to more customers. A pilot Marks & Spencer Lifestore was opened in Gateshead in February and new product introduced down the chain. Customers responded well to the Lifestore environment and were excited by the concept, but the product in some areas has been too contemporary and sales were down on last year. A second Marks & Spencer Lifestore is due to open in Kingston in the summer followed by one in Thurrock, taking forward the learnings in environment, product appeal and price.

In Food, we maintained our market share over the year as a whole. We out-performed the market in the first half of the year, but our like-for-like performance was not as strong in the second half in a competitive sector. We continue to benefit from additional footage as we extend the reach of the Food offer. We opened 49 Food stores during the year, of which 40 are Simply Food stores, 10 in partnership with Compass. We remain on plan to open 500,000 sq ft of new food space by March 2006. Like-for-like food inflation for the year was c.1%.

We are continuing to realise gains in our Clothing bought-in margin as a result of work on the supply chain and actions taken in previous years to increase overseas production and consolidate our supply base. For the year as a whole, this delivered an improvement in the bought-in margin which was ahead of plan, helped by a weak dollar. Total markdown costs were marginally ahead of last year, offset by slightly lower shrinkage. Overall, the full year Clothing gross margin was 1.5 percentage points ahead of last year. We expect the bought-in margin in 2004/05 to be 0.75 percentage points ahead of this year, and remain on track to deliver a 3 percentage point improvement to the Clothing bought-in margin in the three years to 2005/06.

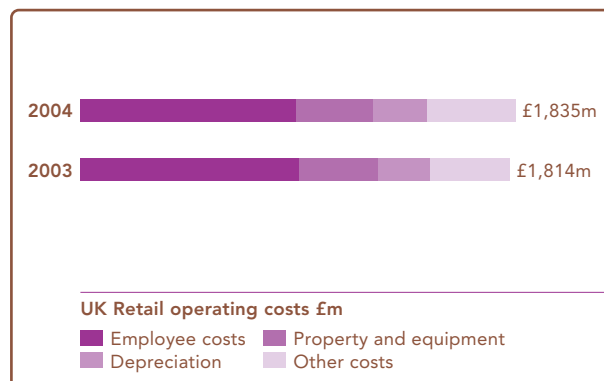
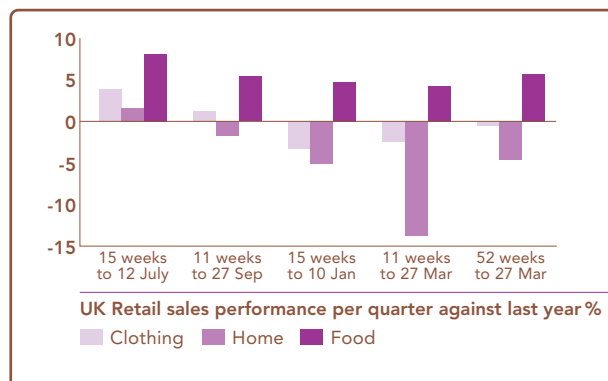
The Food gross margin for the full year was 0.5 percentage points ahead of the same period last year. The improvements seen in Food waste in the first half were negated in the second half as a result of the weaker sales performance and, for the year as a whole, waste as a per cent to sales was in line with last year.

Logistics costs of £310m, which are included in cost of sales, were broadly in line with the same period last year. The changes to the general merchandise logistics operation, which were announced at the end of last year, were completed during the first half of the year. Ten distribution centres are now operated by two contractors, Exel and Christian Salvesen. These new arrangements will generate ongoing annual savings of approximately £20m, of which £11.5m have been realised in the second half of the year. Alongside the change of contractors, progress was made in acquiring the assets used in the distribution network. We have purchased six warehouses, in addition to one we already owned, and agreed leases on three more, incurring capital expenditure of £78.1m.

UK Retail operating costs of £1,835m, excluding exceptional charges, increased by 1.2% over last year:

- employee costs decreased by 1.3% to £912.8m; within this, performance bonuses for management and store staff were down £29m on last year;
- property, repair and renewal costs of £323.6m decreased by 3.4%;
- depreciation was £227.3m, an increase of 4.4%; and
- other operating costs of £371.3m increased by 10.7%. This was largely due to costs incurred in improving business efficiency in Retail Change and the supply chain and IT costs to support the growth initiatives of Simply Food, Home and Loyalty.

Including logistics costs, operating expenses have increased by 1.0% on last year. Underlying UK Retail operating expenses, which exclude the incremental costs of the growth initiatives, were down 1.3%.



During the year, £19.6m of revenue costs were incurred in connection with the relocation of the corporate Head Office and have been charged as exceptional operating costs. This represents a change from previously published guidance of £16m, as a landlord contribution has now been spread over the period to the first rent review in accordance with UITF 28 'Operating Lease Incentives'.

We have also provided £22.5m as an exceptional charge in connection with the Head Office restructuring programme which was announced prior to the year end. This represents the anticipated redundancy costs for 500 people relating to the first phase of the programme. The cost relating to the second phase of the programme will be provided for in 2004/05, again as an exceptional charge, once our plans are further developed.

International Retail

	2004 52 weeks	2003 52 weeks As restated
Turnover (£m)		
– Marks & Spencer branded businesses	426.2	390.5
– Kings Super Markets	238.8	271.6
	665.0	662.1
Operating profit (£m)		
– Marks & Spencer branded businesses	41.8	34.9
– Kings Super Markets	2.4	7.9
	44.2	42.8
Number of stores (at the end of the year)		
Owned	43	43
Franchise	155	152
Selling space at the end of the year ('000 sq ft)		
Owned	908	948
Franchise	1,068	1,024

Turnover for the year in the Marks & Spencer branded businesses (Republic of Ireland, franchises and Hong Kong) increased by 9.1% (6.6% at constant exchange rates).

Operating profit for the Marks & Spencer branded businesses increased by 19.8% to £41.8m. In the Republic of Ireland, sales were ahead of last year and the performance of the three Simply Food stores opened during the year has been encouraging. The franchise business and our stores in Hong Kong suffered in the first quarter from the effects of SARS and the war in Iraq. However, following the end of the war and the removal of Hong Kong from the World Health Organisation's list of affected areas, trading conditions improved. More recently, trading conditions in Hong Kong have benefited from an increase in visitors from mainland China following a relaxation of border controls.

Turnover for the year at Kings Super Markets was 3.9% (at constant exchange rates) lower than the comparative period last year. On a like-for-like basis, which excludes the two stores closed at the beginning of the year, turnover was down 1.4%. The performance during the year was affected by local competition, a weak economy and uncertainty surrounding the disposal of the company, negotiations for which were terminated in August. Since then we have brought in new management who have been working to develop the business and drive financial performance, and we have seen an improvement in the second half of the year, with turnover down 0.5% on a like-for-like basis (first half down 2.3%).

Financial review continued

Financial Services

	2004 £m	2003 £m
Turnover	330.0	329.9
Operating profit	50.6	86.4

Scale of current business

	Cards	Personal Lending	Unit Trusts	Life Assurance
Number of accounts/policyholders (000s)				
2004	5,163	441	328	88
2003	5,016	488	227	90
Customer advances/funds under management (£m)				
2004	1,228	1,224	1,282	n/a
2003	631	1,385	1,017	n/a

The most significant event for Financial Services this year was the October launch of the '&more' credit and loyalty card within Marks & Spencer Money. The total impact of the launch on Money profit for the year was £58.6m. Underlying profit was £89.5m and was impacted by the transfer of £300m of balances to the new '&more' card and the costs of running the enlarged cards business. Profit within Marks & Spencer Insurance, our Guernsey captive, increased by £5.8m to £19.7m, due to an improvement in the performance of underlying investments year-on-year and a release of insurance reserves of £4.2m.

In Personal Loans, our focus was on maintaining net interest margin in an increasingly competitive marketplace. Also, during the critical period around the launch of the credit card, promotional activity was curtailed to avoid customer confusion. As a direct consequence, new business reduced by 15%. However, our earlier decision to concentrate on Marks & Spencer customers, who are lower risk than the industry average, has meant that credit losses were substantially reduced, increasing net income from Personal Loans by 14% year-on-year.

By the end of the year, the total amount of lending to customers had risen to £2.5bn, exceeding the previous peak of £2.3bn in 2001. Within this total, balances on card accounts had reached £1.2bn, almost twice the level at the end of last year.

6

The bad debt charge as a percentage of total customer balances was 2.4% for the year which is similar to the rate charged last year. Within the new credit card portfolio, levels of delinquency as well as bad debt and fraud losses to date were negligible. Using experience based on the Chargecard, a provision of just under 1% of balances has been established. As expected, the operating cost ratio climbed higher this year to reach a peak of 6.7% of average balances. This ratio will now reduce as the rate of investment in new capability declines.

Within Savings and Protection, overall trading profit was down £1.3m, driven by a fall of £3.5m in Life income. The launch in February of our new Mini Cash ISA product went well with new deposits of £325m by the end of the year. Other Savings and Protection products performed well, with an 18% increase to £104m in gross unit trust retail investment, and a three-fold increase in the number of travel insurance policies sold. Initial results from the motor insurance pilot were encouraging and the product was launched nationally in April 2004. A series of new product and regional distribution trials are also planned which if successful will be rolled out during the year ahead.

Card and Loyalty Roll-out

This year saw the successful delivery of the largest project ever undertaken by Marks & Spencer Money, with the launch of the '&more' credit and loyalty card, which was delivered on time and within budget. Approximately 2.6 million Chargecard customers were given the option of converting to the '&more' credit card and of these, 1.7 million chose to accept the offer and activate the card. Those choosing not to activate the credit card have been retained as Chargecard customers. In addition, 380,000 new accounts were opened which was ahead of our expectations. According to recent Mori data, Marks & Spencer was ranked equal first in terms of new accounts issued across the UK credit card industry for the first quarter of 2004. At the end of March 2004, there were 2.1 million customers with an '&more' credit card account. This makes us a top ten credit card operator from a standing start.

Within six months of launch, the average balance per account had reached £448, with the percentage of balances bearing interest standing at 77% which is in line with the industry average. Initial data on the newly acquired customers, shows that they spend more in store than converted Chargecard customers. Early results from the loyalty programme, although still in its infancy, indicate that customers are not only spending their loyalty vouchers but also increasing their spend.

Interest

Net interest expense was £45.8m (£44.5m on a 52 week basis) compared to £40.5m for last year. The average rate of interest on borrowings during the period was 5.3%.

Taxation

The tax charge reflects an effective tax rate for the full year of 30.1% before exceptional charges, compared to 28.7% last year. The rate last year is lower due to the favourable resolution of a number of open prior year issues with the Inland Revenue. In particular, the Revenue accepted that contributions to European subsidiary closure costs were tax deductible in the UK. This one-off benefit resulted in a favourable adjustment which was reflected in the effective tax rate for last year.

Earnings per share

Adjusted earnings per share, which excludes the effect of exceptional items, has increased by 6% to 24.7 pence per share (23.4 pence per share on a 52 week basis, an increase of 0.4%).

Dividend

A final dividend of 7.1 pence per share (last year 6.5 pence per share) is proposed, making the total dividend for the year 11.5 pence per share (last year 10.5 pence per share), an increase of 9.5%.

Capital expenditure

Group capital additions for the year were £434m compared to £311m last year and our previously published guidance of £540m. The major components of the additions are analysed below.

Capital expenditure	2004 £m	2003 £m
New stores and extensions	118	81
Head Office relocation	40	–
Store renewal, refurbishment and new selling initiatives	44	96
Refrigeration equipment	39	45
IT equipment	40	25
Logistics	95	17
Other	32	39
UK Retail capital expenditure	408	303
International Retail	20	6
Money	6	2
Total Group capital expenditure	434	311

The increase in capital expenditure over last year reflects the acquisition of warehouses as part of the restructuring of the general merchandise logistics operation, together with expenditure relating to the pending relocation of the Head Office. The decrease compared to previously published guidance is due to the timing of planned new developments and refurbishment of existing stores. Group capital expenditure for 2004/05 is expected to be in the region of £400m.

Balance sheet

Retail and Financial Services balance sheets at 3 April 2004	Retailing £m	Financial Services £m	Total Group £m
Fixed assets and investments	3,493.4	14.2	3,507.6
Stocks	398.0	–	398.0
Loans and advances to customers	–	2,452.4	2,452.4
Other debtors	202.9	95.6	298.5
Customer deposits	–	(439.3)	(439.3)
Trade and other creditors	(895.7)	(354.0)	(1,249.7)
Provisions	(49.3)	–	(49.3)
Net debt	(823.7)	(1,171.0)	(1,994.7)
Net assets before net post-retirement liability	2,325.6	597.9	2,923.5
Net post-retirement liability	(469.5)	–	(469.5)
Net assets	1,856.1	597.9	2,454.0
Gearing % (including net post-retirement liability)	44.7%	73.8%	56.5%

Fixed assets increased by £62.5m to £3,497.6m. Included within this are properties owned by the Group with a net book value of £2.2bn, of which £1.8bn was unencumbered. As a result of the pending relocation of the Head Office, we have reviewed the carrying value of Michael House. This review indicated that there was a shortfall in estimated recoverable value compared to book value as a result of current market conditions. Accordingly, we have written down the carrying value and taken a £20m charge through the statement of total recognised gains and losses, as the property had previously been revalued.

Stock at the end of the year was £398.0m, an increase of £36.2m on the balance at the end of last year. Approximately £10m of the increase is due to the move towards direct sourcing of merchandise which results in the Group taking ownership of the stock earlier in the supply chain. Food stock also increased by £10m due to the increase in footage and the proximity of Easter to the year end. The balance of the increase relates to Clothing and was a consequence of the weak sales performance in the fourth quarter. Action has been taken to clear this stock in the early part of the new financial year, with an appropriate provision made in these results.

Customer advances (net of provisions for bad debts) have increased by £436.5m since last year due to the launch of the 'more' credit and loyalty card in October.

Other debtors decreased by £98.2m to £298.5m. This reduction was driven by the receipt, shortly after last year end, of deferred proceeds from the sale of our business in France and by a decrease in the level of prepaid pension contributions for the UK defined benefit pension scheme.

Financial review continued

Cash and investments at the end of the year were £720.6m, an increase of £248.7m on the balance at the end of last year. This increase was largely driven by the receipt of cash ISA deposits shortly before the year end.

Creditors due within and after more than one year increased in aggregate by £883.4m. This increase was largely due to an increase in gross borrowings of £413.9m, including £400m raised to fund an injection into the UK defined benefit pension scheme and a £360.7m increase in customer deposits mainly driven by the successful launch of the Mini Cash ISA.

Provisions for liabilities and charges decreased by £136.8m as we incurred further costs in connection with the closure of the European operations and the costs associated with rationalising the general merchandise logistics operation, which were provided for last year. In addition, there was a significant decrease in the deferred tax liability as the £400m contribution to the UK pension scheme resulted in a deferred tax asset of £90m, representing the deductions from current tax that we expect to receive in future periods.

Cash flow

Analysis of free cash flow (operating cash flow before acquisitions and disposals and transactions with shareholders) is as follows:

	2004 £m	2003 As restated £m
Cash flow analysis		
Cash inflow from Retail operating activities	602.3	848.8
Cash inflow from Financial Services operating activities	64.2	319.9
Capital expenditure	(428.8)	(324.5)
Proceeds from asset disposals	126.2	25.0
Interest paid	(49.8)	(46.2)
Tax paid	(220.4)	(216.9)
Free cash flow	93.7	606.1

The Group generated an operating cash inflow for the year of £666.5m (last year £1,168.7m). Within this, the cash inflow from retailing activities was £602.3m (last year £848.8m). A major factor in the reduction in operating cash flow was the year-on-year net increase in contributions paid to the UK defined benefit pension scheme of £357m, being the one-off injection of £400m in March 2004, offset by a year-on-year reduction in regular contributions to the scheme. This was partly compensated for by an improvement in working capital.

The cash inflow from Financial Services activities was £64.2m (last year £319.9m). Within this, the growth in customer cash ISA deposits, together with other favourable working capital movements, has more than compensated for the cash outflow required to fund the growth in customer advances following the launch of the ' &more ' card.

During the period, the Group acquired tangible fixed assets totalling £433.5m (last year £311.0m). After taking into account the timing of payments, the cash outflow for capital expenditure was £428.8m (last year £324.5m). During the year, the Group received £126.2m (last year £25.0m) from the sale of properties.

Acquisitions and disposals include a net inflow of £51.3m, being deferred proceeds following the sale of stores in France to Galeries Lafayette less agreed adjustments under the terms of the sale agreement.

The total movements in net debt comprise the amounts shown in the table below:

	2004 £m	2003 As restated £m
Opening net debt	(1,831.4)	(1,907.0)
Free cash flow	93.7	606.1
Equity dividends	(247.1)	(225.4)
Net sale of fixed asset investments	8.7	5.1
Sale/closure of businesses	51.3	(30.8)
Issue of new shares under employee share schemes	24.8	19.6
Repurchase of own shares	(54.4)	(141.7)
Net purchase of own shares held by employee trusts	(3.6)	(0.8)
Redemption of B shares	(33.4)	(158.0)
Exchange and other movements	(3.3)	1.5
Closing net debt	(1,994.7)	(1,831.4)

At the end of the period, net debt was £1,994.7m, an increase of £163.3m, giving rise to retail gearing of 44.7% (last year 53.0%) including the net post-retirement liability.

Financing and capital structure

In order to support the growth of Marks & Spencer Money, additional funding arrangements have been put in place. During August, a three-year Syndicated Loan Facility of £1.25bn was signed which is used to provide surety and flexibility of funding and provide further back-up for the existing Commercial Paper programme.

The Medium Term Note (MTN) programme was renewed in September 2003. Twenty-five new private MTNs were issued during the year by Marks and Spencer Financial Services plc with a Sterling equivalent of £544.1m and maturities ranging from one to five years. The Group's total outstandings within this programme at the end of the financial year were equivalent to £2,196.5m (last year £1,754.8m).

In March 2004, we raised £400m through a 10-year Public Bond Issue under the existing MTN programme at a fixed rate of 5.625%, in order to fund a cash contribution into the UK defined benefit pension scheme.

Debt raised to fund the Financial Services operation is a mix of short to medium term instruments designed to match, on a portfolio basis, the income stream from its customers. The balance of debt, raised to introduce a level of gearing into the retail balance sheet, has a range of maturity terms to reduce the repayment risk of the Group, the first being due in November 2006.

We currently have committed facilities of £405m available together with uncommitted bank facilities of £430m supporting our £1.5bn Commercial Paper programme.

Average interest rates on borrowings were lower during the year at 5.3% (last year 5.8%). Interest cover was 18.4 times and fixed charge cover was 7.3 times.

During the financial year, 18,490,000 ordinary shares (representing 0.8% of the weighted average issued share capital of Marks and Spencer Group plc) were purchased in the market for a total cost of £52.9m, at a weighted average price of 286p.

On 25 September 2003 and 25 March 2004, 28,398,331 and 19,176,707 B shares respectively, were redeemed at par, at a total cost of £33.4m. Following this redemption, 121,244,763 B shares remain in issue. The next opportunity for redemption will be 27 September 2004.

Treasury policy and financial risk management

The Board approves treasury policies and senior management directly control day-to-day operations. The Board delegates certain responsibilities to the treasury committee, comprising two executive directors, one non-executive director, the Director of Corporate Finance and the Group Treasurer. The treasury committee is empowered to take decisions, as necessary, within that delegated authority.

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 and forward currency contracts. 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

Interest rate risk in respect of debt on the retail balance sheet is reviewed on a regular basis. At the balance sheet date interest obligations in respect of the property securitisation and the two Public Bond issues in Sterling were at fixed rates.

The current Group policy for debt raised to finance the operation of Financial Services (see part (e) below), is to match the interest rate profile of customer balances and this is achieved with the help of interest rate swaps.

(b) Foreign currency risk

Currency exposure arising from exports from the UK to overseas subsidiaries is managed by using forward currency contracts to hedge between 80% and 100% of sales for periods averaging 10 to 15 months forward. Imports are primarily contracted in sterling and only economic exposures arise. The Group is 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, customer deposits, bank borrowings, commercial paper, medium term notes and securitised loan notes. Commercial paper issuance and short term borrowings are backed by committed bank facilities totalling £1,655m.

(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.

Financial review continued

(e) Financial Services

Interest rate exposures for Financial Services 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 rate income to floating rate income and floating rate borrowings to fixed rate borrowings as applicable, to meet this purpose.

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 financial statements.

Accounting changes

Accounting for pensions

At the end of last year, we reported that the FRS 17 valuation of the Group’s UK defined benefit pension scheme showed a deficit of £1.2bn (£0.9bn after deferred tax) and announced that we would bring forward the next formal actuarial valuation of the scheme.

In March 2004, we announced the results of this valuation which showed a shortfall of £585m. We have subsequently made a cash contribution of £400m to the scheme, demonstrating our commitment to ensuring that the scheme is adequately funded and providing reassurance to scheme members.

At the same time, we announced the adoption of accounting standard FRS 17 – ‘Retirement Benefits’ for this financial year. The impact of adopting FRS 17 on the profit and loss account charge for the UK scheme together with what the charge would have been under the previous policy based on SSAP 24, is as follows:

	Year ended 3 April 2004		Year ended 29 March 2003	
	FRS 17 £m	SSAP 24 £m	FRS 17 £m	SSAP 24 £m
Operating cost	117	175	122	136
Other finance (income)/charges	14	–	(27)	–
Net charge before tax	131	175	95	136

10

The FRS 17 charge for the year for the Group as a whole was £139.0m compared to a restated £104.8m last year. As a consequence of adopting FRS 17, a deficit of £470m net of deferred tax (£670m before tax) at 3 April 2004 is reflected on the Group’s balance sheet.

These changes have been accounted for by way of a prior year adjustment and previously reported figures have been restated accordingly. The impact of adopting the new policy on the current financial year is to increase profit before tax by £43.2m. The impact of adopting the policy on the year ended 29 March 2003 was to increase profit before tax by £41.6m.

The cumulative effect of this prior year adjustment on the balance sheet as at 29 March 2003 is an increase in the provision for retirement benefits of £1,249.3m, offset by a deferred tax asset of £373.8m, a decrease in pension assets of £42.7m and a reduction in the deferred tax liability of £12.5m, giving rise to a decrease in reserves of £905.7m.

Other accounting changes

The Group has also adopted Application Note G of FRS 5 – ‘Revenue Recognition’ and UITF 38 – ‘Accounting for ESOP Trusts’.

Application Note G of FRS 5 requires a provision to be established for customer returns. A provision has now been made, representing the Group’s cumulative estimate of the amount of merchandise sold during the year which will be returned and refunded in the following year. The new Application Note also requires turnover to be stated net of any discounts given.

Accordingly:

- staff discounts, previously reported as part of employee costs, have been reclassified and are now deducted from turnover; and
- discounts provided to certain customers at Kings Super Markets, previously reported as a deduction from gross margin, have been reclassified as deductions from turnover.

These changes have been accounted for by way of a prior year adjustment and previously reported figures have been restated accordingly.

UITF 38 – ‘Accounting for ESOP Trusts’ has also been adopted for the first time this year. As required by this UITF, own shares held by employee trusts have been reclassified from fixed asset investments to a reduction in shareholders’ funds. This change has been accounted for as a prior year adjustment and previously reported figures have been restated accordingly.

The impact of adopting these new policies on the current financial year is to reduce turnover by £49.8m with a negligible impact on profit before tax. The impact of adopting the policy on the year ended 29 March 2003 was to reduce turnover by £58.1m and profit before tax by £3.4m. The cumulative effect of these prior year adjustments on the balance sheet as at 29 March 2003 is a decrease in fixed asset investments of £1.8m, an increase in the provision for customer returns of £32.1m, offset by a deferred tax asset of £9.5m giving rise to a decrease in reserves of £24.4m.

International Financial Reporting Standards

It will become mandatory for all EU listed companies to report their consolidated financial statements under International Financial Reporting Standards (IFRS) from 2005 onwards. This will apply to the Group for its 31 March 2006 year end. We have set up a programme to ensure compliance with IFRS is met. We have identified that the greatest impact on the Group is likely to be changes in the accounting treatment for property, share-based payments, financial instruments and software capitalisation.

Outlook for 2004/05

The planned opening of new footage, plus the annualisation of footage opened in 2003/04, will add c.2% sales contribution to Clothing and c.5% to Food, on a weighted average basis.

We anticipate further improvements in the Clothing bought-in margin of approximately 0.75 percentage points. We remain on track to deliver a total of 3 percentage points improvement to the Clothing bought-in margin in the three years to 2005/06.

UK retailing operating costs, including logistics, but excluding any accrual for performance-related bonuses, will increase by 5%. The investment in new footage, including the annualisation of costs associated with footage opened in 2003/04, will account for over 4% of this increase.

If performance proves to be in line with business plans agreed by the Board, a bonus provision will be made. Guidance, reporting the impact on operating costs, will be given at the appropriate time.

The revenue costs of the Head Office move to Paddington Basin will be c.£10m, compared to £19.6m incurred this year. These costs will be treated as exceptional.

The Head Office restructuring programme, recently announced, will incur termination costs that will be treated as exceptional. We have made a provision of £22.5m for the cost relating to the first phase of approximately 500 roles in the financial statements for 2003/04. The cost relating to the second phase of the programme will be provided for in 2004/05.

The effect of the continued development of the '£more' credit and loyalty card business will be to reduce the impact of the credit card launch on Financial Services profits by c.£20m, from £58.6m this year to c.£40m in 2004/05.

The effective tax rate is estimated to be c.31%, compared to a rate for 2003/04 of c.30%.

FRS 17 has been adopted for the first time in this year's financial statements. We anticipate the charge to operating profit for the UK defined benefit scheme to be broadly similar to 2003/04 (at c.£117m). We estimate a net charge to interest relating to FRS 17 in 2004/05 of c.£10m, taking into account the funding cost of the £400m public issue.

Group capital expenditure for 2004/05 will be c.£400m.

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 Board is committed to high standards of corporate governance and supports the new Combined Code on Corporate Governance (the 'Code'), published in July 2003, which takes effect for Marks & Spencer from 4 April 2004. The following statement is intended to explain our governance policies and practices in light of the new Code principles and provisions and to provide insight into how the Board and management run the business for the benefit of shareholders. A detailed account of how we will comply with the new Code provisions can be found on the Corporate Governance section of the Company's website, together with the terms of reference of the audit, remuneration and nomination committees, at www.marksandspencer.com.

The Board

At 24 May 2004, the Board comprised the Chairman, Chief Executive, five executive directors and five non-executive directors, who are collectively responsible for the success of the Company. A list of directors, with details of their biographies and committee membership, is given on page 18 of the Annual Review.

Luc Vandeveld is Chairman and his prime responsibility is for the working of the Board, for the balance of its membership subject to Board and shareholder approval, and for ensuring that all directors are able to play their full part in its activities.

Roger Holmes is Chief Executive and he is responsible for all aspects of the management of the Group and its business, which includes developing the appropriate business strategy for Board approval and securing its timely and effective implementation.

The Chairman ensures that the directors receive accurate, timely and clear information. Directors are encouraged to update their skills, knowledge and familiarity with the Group through their initial induction, ongoing participation at Board and committee meetings, and through meeting our people at Head Office and store locations. The Board is regularly updated on governance and regulatory matters. Coaching is also available to directors 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 through the Group Secretary at the Company's expense. This has been extended to the audit, remuneration and nomination committees.

Brian Baldock is Senior Independent Director and his prime responsibility is to provide a communication channel between the Chairman and the non-executive directors and to ensure that the views of each non-executive director are given due consideration. He is also an additional contact point for shareholders if they have reason for concern which contact through the normal channels of Chairman, Chief Executive or Chief Financial Officer has failed to resolve or for which contact is inappropriate.

The non-executive directors provide a wide range of skills and experience to the Group. They bring an independent judgement on issues of strategy, performance, risk and people through their contribution at Board and committee meetings. The Board considers that each non-executive director is independent in character and judgement and that they also meet the independence criteria set out in the Code.

It is currently anticipated that up to three new non-executive directors will be joining the Board in the next 12 months. The first such appointment will re-establish the balance between executive and non-executive directors. Subsequent appointments will lead to first Brian Baldock and then Dame Stella Rimington retiring from the Board, both having served in excess of six years as non-executive directors. This recruitment plan has been agreed by the Board, on the recommendation of the nomination committee, to manage the orderly succession of non-executive directors without compromising Board or committee effectiveness.

Graham Oakley is Group Secretary and Head of Corporate Governance. He acts as a confidential sounding board to the Chairman and individual directors, assisting with their induction, duties and departure. He plays a key role for the Chairman in ensuring the effective functioning of the Board and its committees and that procedures are both followed and regularly reviewed. He also leads the Corporate Governance Group, which provides advice, guidance and support to the Board and its committees and to commercial colleagues on a wide range of governance issues.

The Board has a formal schedule of matters reserved for its decision. It determines the overall Group strategy; creation, acquisition or disposal of material corporate entities or assets; development and protection of the brand; matters of public interest that could affect the Group's reputation; public announcements including statutory accounts; significant changes in accounting policy; capital structure and dividend policy; operating plans and key performance indicators; prosecution, defence or settlement of material litigation; Group remuneration policy; Board structure, composition and succession.

In January 2004, a new executive committee was created to streamline top decision-making which comprises the Chief Executive, executive directors, Group Secretary and directors of IT, HR and Marketing. It manages the overall performance of the Group, principally through the setting of clear objectives and effective performance coaching, building long-term management capability, and ensuring that the business is managed in a fit and proper manner in keeping with the values and business principles.

Under the Company's Articles of Association, all directors seek election at their first AGM and all directors are required to offer themselves for re-election at least every three years. In addition, any director who is aged 70 or more is required to retire and seek re-election annually.

Committees of the Board

The **audit committee** comprises Kevin Lomax (chairman), Brian Baldock, Paul Myners, Jack Keenan and Dame Stella Rimington, all of whom are independent non-executive directors. Its primary function is to review the reporting of financial and other information to shareholders, the systems of internal control and risk management; and to maintain an appropriate relationship with the Company's auditors and to review the effectiveness and objectivity of the audit process. Additional items reviewed during the year include: food stock accuracy, store assurance, international accounting standards, assurance procedures for CSR reporting and the updated fraud policy. Private meetings have also been held separately with the external auditors and the Chief Internal Auditor.

The audit committee keeps under review the independence and objectivity of the external auditors, PricewaterhouseCoopers ('PwC'). An engagement and fee approvals process is in place which requires prior committee approval for some engagements and excludes others. In some cases, the nature of the advice may make it more timely and cost-effective to select PwC who already have a good understanding of the Group. PwC may also be appointed for consultancy work, but only after rigorous checks, including competitive tender, to confirm they are the best provider. PwC is also subject to professional standards which safeguard the integrity of the auditing role performed on behalf of shareholders. Details of this year's fees are given in note 3 on page 34 of the Annual Report.

The Board is confident that the collective experience of the audit committee members enables them, as a group, to act as an effective audit committee. The committee also has access to the financial expertise of the Group and its auditors and can seek further professional advice at the Company's expense if required. As part of overall non-executive succession we also expect to recruit a new non-executive director with recent and relevant financial experience in order to refresh the skills and experience of the committee as a whole.

The **remuneration committee** comprises Dame Stella Rimington (chairman), Brian Baldock and Jack Keenan, all of whom are independent, non-executive directors. Barbara Cassani was a member until her retirement from the Board. Its primary role is to ensure the executive directors and senior management are fairly rewarded for their individual contributions to the Group's overall performance, giving due regard to the financial and commercial health of the Group. The remuneration for the non-executive directors is determined by the Chairman and executive directors.

The Remuneration Report is set out on pages 16 to 23 of the Annual Report.

The **nomination committee** comprises Luc Vandavelde (Chairman), Brian Baldock, Kevin Lomax, Paul Myners, Jack Keenan and Dame Stella Rimington, all of whom are independent non-executive directors, with the exception of the Chairman. It ensures that appropriate procedures are in place for the nomination, selection, training and evaluation of directors and for successional plans. It reviews Board structure, size, composition and successional needs, thereby keeping under review the balance of membership and that the Board has the required blend of skills, knowledge and experience.

During the year, candidate searches resulted in three directors being appointed to the Board: one executive and one non-executive recruited externally and one executive promoted through our own successional planning. In each case, appointments were made on merit and against objective criteria.

We have recently announced that Luc Vandavelde has informed the Board that, as a result of personal commitments that he needs to honour earlier than expected, he will retire from the Board as soon as a successor has been found. Kevin Lomax, an independent non-executive director, is leading the search for a new Chairman on behalf of the nomination committee. The committee has also commissioned searches for new non-executive directors to address successional arrangements.

The nomination committee keeps under review any other significant external appointments of the Chairman and currently Luc Vandavelde, in addition to his part-time role as Chairman of Marks & Spencer, is Managing Director of Change Capital Partners, a private equity fund, and has been a non-executive director of Vodafone Group plc since September 2003 and of Carrefour SA since April 2004.

The committee has also reviewed the letter of appointment for new non-executive directors. This sets out detailed information including expected time commitment. Despite the care taken in the recruitment of Barbara Cassani in October 2003, her increasing commitments to London's bid for the Olympic Games for 2012, led to her retirement from the Board in April 2004.

The **corporate social responsibility ('CSR') committee** comprises Luc Vandavelde (chairman), Alison Reed, Paul Myners, Jack Keenan, Graham Oakley and three members of senior management. It provides the Board with an overview of the social, environmental and ethical impacts of the Group's activities. Key CSR risks and opportunities are identified in areas such as product safety, sustainable raw materials, animal welfare, ethical trading, employment policy, health and safety and community programmes. Further information is given on page 17 of the Annual Review and our first full CSR Report is available on the Company's website.

Corporate governance continued

The following table sets out the number of meetings of the Board and its committees during the year and individual attendance by Board members at these meetings:

	Group Board	Audit Committee	Remuneration Committee	Nomination Committee	CSR Committee
Number of meetings during the year	8	4	5	3	3
Luc Vanderveelde, Chairman	8	–	–	3	3
Roger Holmes, Chief Executive	8	–	–	–	–
Executive Directors*					
Maurice Helfgott (appointed 19.11.03)	3	–	–	–	–
Justin King (retired 19.11.03)	5	–	–	–	1
David Norgrove (retired 31.3.04)	7	–	–	–	–
Laurel Powers-Freeling	8	–	–	–	–
Vittorio Radice	8	–	–	–	–
Alison Reed	8	–	–	–	3
Non-Executive Directors					
Brian Baldock	8	3	5	3	–
Barbara Cassani (appointed 1.10.03 and retired 30.4.04)	3	–	2	–	–
Jack Keenan	8	4	5	3	2
Kevin Lomax	8	4	–	2	–
Paul Myners	7	3	–	3	2
Stella Rimington	8	3	5	3	–

*Mark McKeon was appointed to the Board on 5 April 2004.

Performance evaluation

Significant progress has been made in performance evaluation this year under the leadership of the Chairman.

Collective Performance: In August 2003, the Board reviewed its own performance through a survey based on our employee survey, which resulted in three key actions 'championed' by directors. As a result:

- a new executive committee has been created to streamline top decision-making;
- succession tools have been developed to improve the process of developing and promoting our best senior management and ensuring that fast track individuals are identified and developed; and
- the Board agenda has been reviewed to give more time and greater focus to business performance and strategic presentations.

Individual Performance: The executive directors have their performance individually reviewed by the Chief Executive against objectives set annually. Remuneration/bonus is directly linked to these reviews and determined by the remuneration committee. Similarly, the Chief Executive and Group Secretary's performance is reviewed by the Chairman, and the Chairman's performance by the non-executive directors led by the Senior Independent Director.

There has been increased focus this year on the non-executive directors. The nomination committee has reviewed the profiles for the Senior Independent Director and the non-executive directors and the Chairman has held individual discussions with them to ensure that Marks & Spencer creates the right environment for them to be at their best and that they continue to be effective and demonstrate commitment to the role.

Committee Performance: The nomination committee has agreed a process whereby committee chairmen will lead an open discussion based on a set of standard discussion points. The outcome is to understand what the committee does well and apply lessons learnt from the past. These discussions are taking place during April to June 2004.

Risk and internal control

The Group's overriding corporate objective is to maximise long-term shareholder value whilst exceeding the expectations 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 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 provide assurance of compliance with these policies. Independent assurance is provided by internal audit, 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

Every six months, the Board reviews the Group Risk Profile – the tool that drives risk assessment and action planning. This is supported by an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. As an

integral part of planning and review, managers from each business area and major projects identify the risks to their plans, the probability of those risks occurring, the impact if they do occur and the actions being taken to manage those risks to the agreed boundaries for risk-taking. This information is communicated upwards on a filter basis, culminating in a comparison with the executive directors' assessment of the Group's risks and discussion by the Board.

This process has been in place for the year under review and up to the date of approval of the annual report and accounts. It has been regularly 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

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 performance. These include:

Purpose and aims

- communication of the Group's strategy, objectives and targets

Plans and policies

- annual and three-year operating and capital plans;
- operating policies and procedures;
- clearly defined capital investment control guidelines;
- review of treasury policies by the Treasury Committee; and
- review of social, environmental and ethical matters by the Corporate Social Responsibility Committee

Competent people

- appointment of employees of the necessary calibre to fulfil their allotted responsibilities; and
- clear roles and accountabilities with regular performance reviews

Monitor and control

- review by operating divisions of their plans with the relevant executive directors prior to submission to the Board for approval, including identification and assessment of risks;
- monthly comparison of operating divisions' actual financial performance against budget; and
- regular consideration by the Board of year-end forecasts

Regulatory update

- reporting of accounting and legal developments; and
- regular briefings on latest best practice corporate governance to the Board.

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; and
- systems of internal control primarily through confirming 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. Management is called upon to present action plans and give assurance. The audit committee has completed its review of the effectiveness of the Group's systems of internal control during the year.

Internal audit's work is focused on areas of priority as identified by the Group Risk Profile 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 financial position of the Group and present their findings to the audit committee.

Relations with shareholders

We are committed to ongoing communication with all shareholders and have a well established cycle of communication. Our Investor Relations department is the focal point for contact with institutional investors and maintains regular dialogue throughout the year. All Company announcements and presentations are made available simultaneously on our website, which also contains corporate and customer information updated on a regular basis.

The Chairman ensures that the Board is regularly updated on institutional shareholder views following meetings they have with him, the Chief Executive or Finance Director. In June, the Board receives a presentation summarising the opinions of our principal shareholders following an extensive survey on their views after the release of our fourth quarter trading statement in April.

Our AGM, held in July, is well attended by shareholders who receive a business presentation from the Chairman and Chief Executive and have the opportunity to ask questions of the full Board, including the chairmen of the audit, remuneration and nomination committees. In July 2003, all AGM resolutions were passed on a show of hands and we received proxy votes representing 51.52% of the ordinary share capital with votes 'for' resolutions ranging from 91.8% to 99.9%.

Having reviewed the recommendations of the Review by Paul Myners of the impediments to voting UK shares, the Board has taken the following action to increase the level of voting for the AGM in 2004:

- campaign 'your vote counts' and encourage the greater use of electronic voting;
- introduce three-way voting on AGM resolutions: 'for', 'against' and 'vote withheld';
- conduct the vote at the AGM by poll rather than by show of hands.

Compliance with the Code

The directors consider that for the year ended 3 April 2004, the Company complied with all the provisions of the existing Code and has put in place procedures to enable it to report future compliance with the new Code, which takes effect for Marks & Spencer from 4 April 2004.

Remuneration report

Compliance

The Remuneration Committee has adopted the principles of good governance relating to directors' remuneration as set out in the new Combined Code. Full consideration has been given to the best practice provisions set out in schedule A of the Code and the requirements of the Listing Rules. This report complies with the Directors' Remuneration Report Regulations 2002.

Part 1: Unaudited Information

Strategy

Marks & Spencer depends upon the skill and experience of motivated employees throughout all levels of the business. It is part of our strategy to have a range of alternatives to attract, motivate and retain high calibre individuals to accelerate the transformation of the business and deliver improved performance. The Board considers the principles of good governance when deciding the remuneration strategy, and recognises that the level of remuneration and benefits we offer is key to supporting this objective and maintaining our market position as an employer of choice.

Remuneration Committee

The Committee comprises Dame Stella Rimington (Chairman), Brian Baldock and Jack Keenan all of whom are independent, non-executive directors. Barbara Cassani was a member of the Committee until her retirement from the Board. The Committee 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 and competitively rewarded, in particular to recognise that the highest standards of performance deliver improved business results.

The Committee keeps itself fully informed of all relevant developments and best practice in the field of remuneration and seeks advice where appropriate from external advisors. New Bridge Street Consultants have provided material advice to the Committee on directors' remuneration in the past year.

The Company Chairman, Chief Executive, Group Secretary and the Head of Senior Remuneration also materially assisted the Committee in its deliberations, except in relation to their own remuneration.

Remuneration policy

Total remuneration for executive directors comprises base pay, variable pay, pension and benefits. Base pay and benefits are set at around median levels when compared with a specific group of retailers and FTSE 100 companies of similar size, based on market capitalisation and turnover. Variable pay provides the opportunity to earn greater amounts for the highest standards of performance. The performance-related element forms a significant proportion of the total potential package. There are two components to variable pay: annual bonus and long-term incentives in the form of share options and participation in the Executive Share Matching Plan.

'Expected value' of future annual remuneration package for full-time executive directors

Fixed		Performance related	
Salary 41%	Pension 10%	On-target annual bonus 17%	Long-term incentives 32%

The value placed on long-term incentives is an estimate of the expected value of option grants and matching shares awarded under the Executive Share Matching Plan based upon the Black-Scholes methodology. The pension benefit represents the average contribution to Company pension schemes on behalf of the executive directors and where applicable, any cash supplement.

The remuneration for the non-executive directors is determined by the Chairman and executive directors and is designed to recognise both the responsibilities of non-executive directors and to attract individuals with the necessary skills and experience to contribute to the future growth of the Company. The non-executives are paid a basic fee with additional fees payable for committee membership and to the chair of the committees. These fees are neither performance related nor pensionable. They do not participate in any of the Company's Share Schemes nor the Annual Bonus Scheme. The fees for non-executive directors were reviewed and changed effective from 1 April 2003.

Salaries and benefits

Salaries and benefits for executive directors are reviewed annually. Salaries are benchmarked against equivalent market salaries for large retailers and for other FTSE 100 companies with a similar turnover and market capitalisation and are currently set around the median point of the comparator groups. The Committee sets the salaries taking into consideration a range of factors such as the Company's performance, market conditions, the level of increase awarded to employees throughout the business and the wish to reward individual performance. Current annual salaries for executive directors are set out in the Directors' emoluments table (page 20).

Under the terms of Luc Vandeveld's service contract, the Company provides accommodation in London and independent tax advice on which he is assessed for tax. The Chairman's remuneration package comprises a monthly allocation of 13,500 shares purchased each month in the market. He no longer participates in any share incentive schemes.

Laurel Powers-Freeling is provided with accommodation in Chester, to accommodate her working pattern (two days in London, three days in Chester – the location of M&S Money). A taxable benefit arises, which is met by the Company.

A payment was also made to Roger Holmes, Justin King and Laurel Powers-Freeling in respect of pension in the form of a supplement of 10% of the difference between the pension earnings cap and their base salary. Vittorio Radice received a pension supplement of 25% of total salary.

As part of his recruitment package Vittorio Radice was issued shares to the value of £665,000 in compensation for the loss of outstanding Long Term Incentive Plans with his previous employer. These shares are released in three tranches, the first of which was released in July 2003. The remaining shares will be issued in July 2004 and July 2005, subject to continuing employment.

For executive directors, the provision of a car and fuel is included in the emoluments table as part of benefits.

Annual Bonus Scheme

The Annual Bonus Scheme is designed to reinforce the relationship between individual and corporate performance and reward. The targets are determined annually by the Committee and incorporate a mixture of financial measures and personal business targets. The Committee assesses the achievement of targets for all executive directors, with advice from the Chairman.

The current bonus for directors starts at 40% of base salary for on-target performance rising to a maximum of 100% for exceeding targets.

This year the financial targets have not been met and no award has been made to any executive director under this element of the scheme. One director received an award under the personal targets as shown in the emoluments table. The bonus figure in the emoluments table (page 20) is inclusive of amounts compulsorily and voluntarily invested in shares for the purposes of the Share Matching Plan.

Long-term Incentive Schemes

(a) Executive Share Matching Plan

An Executive Share Matching Plan for senior management was approved by shareholders at the AGM in 2002 and was introduced in July 2002. The Plan currently operates for approximately 25 selected senior management. Participants are required to invest one-third of any annual bonus earned, in shares of the Company. Any part of the balance may be invested voluntarily.

The pre-tax value of the invested bonus will be matched by an award of shares, with the extent of the match determined by performance conditions. The current performance conditions are:

- 50% of the invested bonus receives a matching award based on the Company's Total Shareholder Return ('TSR')¹ compared to the constituents of the FTSE 100 at the start of the performance period; and
- 50% of the invested bonus receives a matching award based on the Company's TSR compared to a selected comparator group of UK retailers:

Big Food Group	William Morrison
Boots	New Look
Dixons	Next
GUS	Sainsbury
House of Fraser	Somerfield
Kingfisher	Tesco
Matalan	WH Smith
MFI	Woolworths

At the end of the three-year performance period², the Company's TSR performance is ranked against the two comparator groups and the following matching ratios applied:

TSR Performance Ranking in Group	Ratio of Matching Award to relevant portion of Invested Bonus
Top Decile	2.5:1
Between Median and Top Decile	Pro rata between 1:1 and 2.5:1
Median	1:1
Below Median	Zero ³

¹TSR – The return to shareholders comprising the increase or decrease in share price plus the value of dividends received assuming that they are reinvested.

²The performance period for the first year of awards consists of the three consecutive years following the most recent announcement of results prior to the date of award. For subsequent awards, the performance period will consist of three consecutive financial years.

³Any element of bonus that is compulsorily invested in the Plan receives a minimum matching ratio of 0.25:1 irrespective of performance.

These performance conditions closely align the interests of senior management with the interests of shareholders, by rewarding management for achieving superior relative TSR performance compared to direct competitors and the FTSE 100 as a whole.

(b) Executive Share Option Scheme

Executive Share Option Schemes, now open to approximately 400 senior management, have operated for over 20 years.

Under the current scheme, annual awards of up to 150% of basic salary may be offered based on performance and potential and, for exceptional performance and potential, grants of up to 250% of basic salary may be awarded. Recruitment grants can be made up to 400% of salary.

The performance targets for the current Scheme are adjusted earnings per share growth (EPS) measured from the most recent financial year ending prior to grant of at least:

- inflation plus an average of 3% per annum for 50% of each grant; and
- inflation plus an average of 4% per annum for the other 50% of each grant.

Performance targets are assessed over an initial three-year period from the date of grant. If not met over the initial period, for grants previously made the targets can be

Remuneration report continued

retested on two further occasions over the four-and five-year periods from the date of grant. For the year 2004/05, the ability to retest will be removed from all grants. This performance condition was chosen because it requires a significant improvement in the Company's underlying financial performance for options to become exercisable.

As the current option scheme expires in 2005, the Remuneration Committee will undertake a full review of incentive arrangements over the forthcoming year with the intention of seeking shareholder approval for any new long-term incentive arrangements at the 2005 AGM.

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

2000 and 2002 Schemes

For options granted in 2001-03, the performance target is:

- EPS 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 or the EPS figure for the year ending prior to grant if higher; and
- EPS 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, or the EPS figure for the year ending prior to grant if higher.

1997 Scheme

The first grants under this scheme were in June 1998 and no options have been granted since June 2000. Options are subject to the following performance targets on exercise:

- Tier 1 Options: EPS growth over three years of at least inflation plus an average of 3% per annum; and
- Tier 2 Options: EPS growth over five years, placing the Company in the upper quartile of the FTSE 100 companies.

1984 and 1987 Schemes

The last grants under these schemes were awarded in June 1997. The performance targets for the exercise of options granted in 1996 and 1997 require EPS growth of at least inflation plus an average of 2% per annum.

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 current Scheme, the Remuneration Committee decided that MOV would no longer increase with earnings.

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

(c) All-Employee Share Schemes

Executive directors can also participate in the share schemes open to all employees of the Company, currently the SAYE scheme and the Share Incentive Plan. Details of grants and awards made to executive directors under all schemes are given in part 2 of this report.

A Save As You Earn (SAYE) Option Scheme was approved by shareholders in 1981 and renewed by shareholders in 1987 and 1997. Inland Revenue rules limit the maximum amount 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 contract matures. Options cannot normally be exercised until a minimum of three years has elapsed.

Shareholding policy

A requirement was introduced in 2002 that the executive directors, within five years of 1 June 2002 or within five years of appointment (whichever is the later), should hold shares whose market value at that time is equivalent to or greater than their then current gross annual base salary. Under these rules, all current executive directors have sufficient holdings in the Company to be able to comply with this requirement.

The Marks & Spencer Pension Scheme

Executive directors and all employees with a permanent appointment date prior to 1 April 2002 are eligible to participate in the Company's Defined Benefit Pension Scheme. The Scheme is non-contributory 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.

The Pension Scheme enables members to achieve the maximum pension of two-thirds of their salary in the 12 months ending at normal retirement date after 30 years' service. For employees 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 p.a., 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.

Post-retirement increases for pensions earned from 6 April 1997 are awarded on a statutory basis. Pension earned prior to 6 April 1997 are 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.

The Marks & Spencer Pension Scheme was closed to new members with effect from 31 March 2002.

The Marks & Spencer Retirement Plan

Executive directors, along with other employees joining the Company on or after 1 April 2002 are, on completion of one year's service, invited to join the contributory Retirement Plan. The Plan is a defined contribution arrangement, where employees may choose to contribute between 3-15% of their salary. Member contributions of 3-6% are matched by Company contributions of 6-12%. The employee is free to choose from a range of investment vehicles, where the total contribution will be invested. During the first year of membership, employees contribute 3-15% of their salary and receive 6-24% from the company to enable the employee to be compensated for the waiting period, if they so wish.

During the one-year waiting period before joining the Plan, employees will be covered for death in service by a capital payment of twice salary, increasing to four times salary from the date of joining the Plan, subject to the statutory earnings cap.

Service contracts

All members of senior management have service contracts. These contracts can be terminated by the Company providing 12 months' notice. Exceptions may exist where new recruits have been granted longer notice periods for the initial period of their employment.

The Company retains the right to terminate the contract of any director summarily in accordance with the terms of their service agreement, on payment of a sum equivalent to the contractual notice entitlement of 12 months' salary and benefits. However, entitlement to participate in future options under the Company's share schemes ceases on summary termination.

All executive directors have rolling service contracts, which can be terminated by the Company giving 12 months' notice and by the director giving 6 months' notice.

Mark McKeon was appointed to the Board on 5 April 2004 with a 12-month rolling contract. His current annual salary is £320,000 and no remuneration was received in the year 2003/04.

External appointments

The Company recognises that executive directors may be invited to become non-executive directors of other companies and that such appointments can broaden their knowledge and experience, to the benefit of the Company. The individual director retains the fees. The following executive directors served as non-executive directors elsewhere during the year and received fees as follows: Luc Vandeveld (Vodafone Group plc – £50,000); Vittorio Radice (Abbey National plc – £45,000); Alison Reed (HSBC Bank plc – £32,000, British Airways plc – £10,000).

Non-executive directors

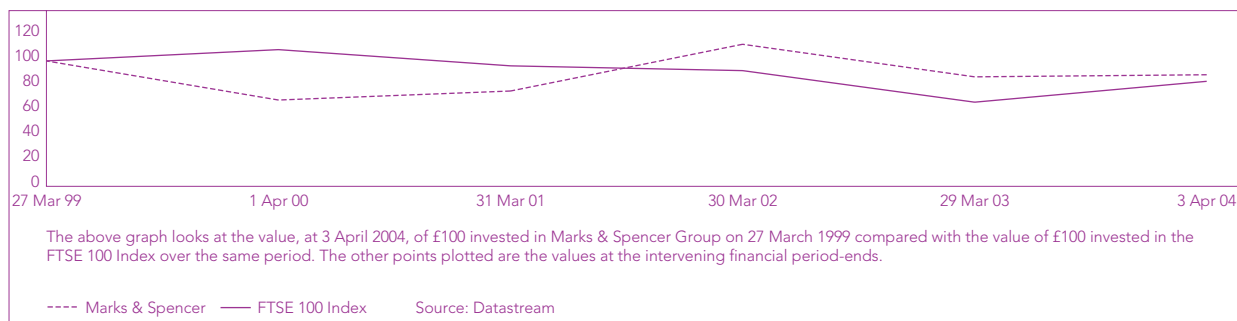
The non-executive directors have service agreements with the Company for an initial three-year term, which are terminable on three months' notice. Barbara Cassani resigned from her position with effect from 30 April 2004.

Name	Date of appointment	Notice period/unexpired term
Brian Baldock	01/10/96	3 mths/3 mths
Barbara Cassani	01/10/03	3 mths/1 mth
Jack Keenan	01/09/01	3 mths/3 mths
Kevin Lomax	01/09/00	3 mths/3 mths
Paul Myners	02/04/02	3 mths/3 mths
Dame Stella Rimington	01/01/97	3 mths/3 mths

Performance graph

This graph illustrates the performance of the Company against the FTSE 100 over the past five years. The FTSE 100 has been chosen as it is a recognised broad equity market index of which the Company has been a member throughout the period. Performance, as required by the legislation, is measured by TSR (share price growth plus dividends paid).

Total Shareholder Return



Remuneration report continued

Part 2: Audited Information

1 Directors' emoluments

	Current annual salary/fee £000	Salary/fee £000	Benefits £000	Bonus £000	Termination payments £000	Total 2004 £000	Total 2003 £000
Chairman							
Luc Vandeveldel ¹	n/a	447	100	–	–	547	1,725
Chief Executive							
Roger Holmes	620	605	88	–	–	693	1,138
Executive directors							
Maurice Helfgott ²	320	116	10	–	–	126	n/a
Laurel Powers-Freeling	350	342	70	35	–	447	699
Vittorio Radice ³	435	427	129	–	–	556	1,200
Alison Reed	360	352	36	–	–	388	695
Non-executive directors							
Brian Baldock	60	60	–	–	–	60	34
Barbara Cassani ⁴	50	25	–	–	–	25	n/a
Jack Keenan	50	50	–	–	–	50	34
Kevin Lomax	60	60	–	–	–	60	34
Paul Myners	50	50	–	–	–	50	34
Dame Stella Rimington	60	60	–	–	–	60	50
Retired directors (retirement date)							
Justin King (19 November 2003) ⁵	–	297	60	–	–	357	370
David Norgrove (31 March 2004) ⁶	–	332	18	–	754	1,104	595
Former directors	–	–	–	–	–	–	681
Total		3,223	511	35	754	4,523	7,289

The elements included in the benefits column of the emoluments table are described in detail in the Salaries and benefits section on pages 16 and 17, and have been audited.

¹Luc Vandeveldel's salary is paid in the form of 13,500 shares bought on the 10th of each month at the market price of shares on that day. The figure in the emoluments table is his salary up to 31 August 2003 and the value of the share purchases from September 2003.

²Maurice Helfgott was promoted to the Board on 19 November 2003 when his salary increased to £320,000.

³Vittorio Radice's annual salary increased from £435,000 to £485,000 with effect from 5 April 2004 to recognise his increased responsibilities.

⁴Barbara Cassani was appointed as a non-executive director on 1 October 2003 on an annual fee of £50,000. She retired from the Board on 30 April 2004.

⁵Justin King retired from the Board on 19 November 2003 and his service contract terminated on 28 March 2004.

⁶David Norgrove retired from the Board on 31 March 2004. His termination payment includes one year's salary of £340,000 and £414,000 for loss of benefits which includes bonus, car benefits and loss of pensionable service.

2 Directors' interests in long-term incentive schemes

a) Executive Share Matching Plan

	Maximum receivable at 30 March 2003 or date of appointment ¹	Awarded in year	Vested in year	Lapsed in year	Maximum receivable at 3 April 2004 or date of retirement ¹	Date of award	Performance period for matching award
Luc Vandeveldel	178,788	–	–	–	178,788	30 Jul 2002 ²	2002-05
Roger Holmes	113,525	–	–	–	113,525	30 Jul 2002 ²	2002-05
	–	396,279	–	–	396,279	23 Jun 2003 ³	2003-06
	113,525	396,279	–	–	509,804		
Maurice Helfgott	35,064	–	–	–	35,064	30 Jul 2002 ²	2002-05
	108,188	–	–	–	108,188	23 Jun 2003 ³	2003-06
	143,252	–	–	–	143,252		
Laurel Powers-Freeling	26,324	–	–	–	26,324	30 Jul 2002 ²	2002-05
	–	244,860	–	–	244,860	23 Jun 2003 ³	2003-06
	26,324	244,860	–	–	271,184		
Alison Reed	76,841	–	–	–	76,841	30 Jul 2002 ²	2002-05
	–	246,983	–	–	246,983	23 Jun 2003 ³	2003-06
	76,841	246,983	–	–	323,824		
Vittorio Radice	–	234,181	–	–	234,181	23 Jun 2003 ³	2003-06

a) Executive Share Matching Plan continued

	Maximum receivable at 30 March 2003 or date of appointment ¹	Awarded in year	Vested in year	Lapsed in year	Maximum receivable at 3 April 2004 or date of retirement ¹	Date of award	Performance period for matching award
Retired directors							
Justin King	37,907	–	–	(37,907)	–	30 Jul 2002 ^{2,4}	2002-05
	–	179,719	–	(179,719)	–	23 Jun 2003 ^{3,4}	2003-06
	37,907	179,719	–	(217,626)	–		
David Norgrove							
	71,625	–	–	(71,625)	–	30 Jul 2002 ^{2,5}	2002-05
	–	216,483	(1,804)	(214,679)	–	23 Jun 2003 ^{3,5}	2003-06
	71,625	216,483	(1,804)	(286,304)	–		

¹The number of matching shares are the maximum (a match of 2.5:1) that could be receivable by the executive if the TSR performance conditions outlined in the policy section above are fully met. These calculations have been independently performed by New Bridge Street Consultants using data from Datastream (an independent data services provider).

²Market price on award date was 339p. After two years of the 2002-05 performance period, Marks & Spencer's TSR is ranked 64th out of 96 in the FTSE 100 Comparator Group and 16th out of 19 in the Retailers Comparator Group. None of the matching shares would be receivable if these positions were to be maintained for the full three-year performance period.

³Market price on award date was 304.5p. After one year of the 2003-06 performance period, Marks & Spencer's TSR is ranked 99th out of 99 in the FTSE 100 Comparator Group and 19th out of 19 in the Retailers Comparator Group. No matching shares would be receivable on shares purchased voluntarily with bonus if these positions were to be maintained for the full three-year performance period. A minimum match of 0.25:1 is receivable on shares purchased compulsorily with bonus.

⁴All outstanding matching shares lapsed when Justin King left the Group's employment.

⁵All outstanding matching shares lapsed when David Norgrove left the Group's employment, apart from the 1,804 matching shares which represented a 0.25:1 match on shares purchased with compulsorily invested bonus. These matching shares vested on 31 March 2004 when the share price was 278.5p.

b) Directors' Share Option Schemes

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

- (i) The options have not been held for three years and therefore cannot be exercised under scheme rules; or
- (ii) The options have not met the appropriate performance criteria.

	At 30 March 2003 or date of appointment	Granted during the year	Exercised/ lapsed during the year	At 3 April 2004 or date of retirement	Option price (pence)	Exercise price (pence)	Option period
Luc Vandeveld							
Exercisable (B)				1,992,337	261.0		Mar 2003 – Feb 2010
Not exercisable (B)	4,365,532			2,373,195	260.0 ¹		Jun 2004 – Jun 2012
Not exercisable (A)	500,000			500,000	350.0		Jun 2005 – Jun 2012
Roger Holmes							
Exercisable (B)				871,794	195.0		Dec 2003 – Jun 2010
Not exercisable (B)	1,120,816			249,022	256.0		Dec 2004 – Jun 2011
Not exercisable (A)	439,284			893,828	323.0 ¹		Dec 2004 – Jun 2013
Granted		454,544			297.0		Jun 2006 – Jun 2013
SAYE				6,951	228.0		Jan 2009 – Jun 2009
SAYE granted		6,951			228.0		Jan 2009 – Jun 2009
Maurice Helfgott							
Exercisable (B)	139,534			139,534	215.0		Sep 2003 – Sep 2010
Exercisable (A)	41,899			41,899	358.0		Jun 2002 – Jun 2009
Not exercisable (B)	99,608			173,682	262.0 ¹		Jun 2004 – Jun 2013
Not exercisable (A)	334,683			334,683	334.0 ¹		Jun 2002 – Jun 2013
Granted		74,074			270.0 ¹		Nov 2006 – Nov 2013
SAYE	6,209						
SAYE exercised ²			6,209		156.0	289.25	
Laurel Powers-Freeling							
Not exercisable (A)	548,569			784,259	334.0 ¹		Dec 2004 – Jun 2013
Granted		235,690			297.0		Jun 2006 – Jun 2013
SAYE				4,046	228.0		Jan 2007 – Jun 2007
SAYE granted		4,046			228.0		Jan 2007 – Jun 2007
Vittorio Radice							
Not exercisable (A)	555,553			555,553	306.0		Mar 2006 – Mar 2013

Remuneration report continued

b) Directors Share Option Schemes continued

	At 30 March 2003 or date of appointment	Granted during the year	Exercised/ lapsed during the year	At 3 April 2004 or date of retirement	Option price (pence)	Exercise price (pence)	Option period
Alison Reed							
Exercisable (B)				148,836	215.0		Sep 2003 – Sep 2010
Exercisable (A)	54,788			70,661	433.0 ¹		Jun 1997 – Jun 2007
Not exercisable (B)	289,460			140,624	256.0		Jun 2004 – Jun 2011
Not exercisable (A)	465,499			677,691	345.0 ¹		Jun 2003 – Jun 2013
Granted		235,690			297.0		Jun 2006 – Jun 2013
Lapsed			7,625				
SAYE	10,166			10,166	166.0 ¹		Jan 2005 – Jun 2006
Retired directors							
Justin King							
Not exercisable	514,288						
Granted		235,690			297.0		Jun 2006 – Jun 2013
Lapsed			749,978				
David Norgrove							
Exercisable (B)				384,386	232.0 ¹		Sep 2003 – Mar 2005
Exercisable (A)	23,612			367,003	434.0 ¹		Jun 1997 – Mar 2005
Not exercisable (B)	384,386						
Not exercisable (A)	415,277						
Granted		166,666			297.0		Jun 2006 – Jun 2013
Lapsed			238,552				
SAYE	4,846						
SAYE exercised ²			2,483		156.0	275.75	
SAYE lapsed			2,363				

22

¹Weighted average price.²David Norgrove exercised an option during the year with a gain of £3,000 and Maurice Helfgott also exercised an option with a gain of £8,000.

The market price of the shares at the end of the financial year was 284.0p; the highest and lowest share price during the financial year were 339.0p and 268.5p respectively.

Exercisable (A) – option price is above market value on 3 April 2004, options have vested.

Exercisable (B) – option price is below market value on 3 April 2004, options have vested.

Not exercisable (A) – option price is above market value on 3 April 2004, options have not matured.

Not exercisable (B) – option price is below market value on 3 April 2004, options have not matured.

In addition, the performance criteria attached to the Executive Share Matching plan and Executive Share Option schemes as described in long-term incentive schemes (section (a) and (b) on pages 17 and 18) have been audited.

3 Directors' pension information

a) Pension Benefits

The directors' remuneration report regulations 2002 require disclosure of defined benefit pension arrangements on a different basis to that specified in the Listings Rules. Details of pension benefits earned by the executive directors during the year ended 3 April 2004 are shown below on both bases.

	Accrued entitlement at 29 March 2003 £000	Additional pension earned in the year £000	Additional pension earned in the year in excess of inflation £000	Transfer value of additional pension in excess of inflation (net of director's contribution) £000	Accrued entitlement at 3 April 2004 £000	Age at 3 April 2004	Transfer value of pension at 29 March 2003 £000	Transfer value of pension at 3 April 2004 £000	Increase in transfer value (net of director's contribution) £000
	Required under Listing Rules				Required under Directors' Remuneration Report Regulations				
Roger Holmes ^{1, 2}	7	3	3	21	10	44	40	71	31
Maurice Helfgott ³	68	21	14	70	89	36	297	455	158
Justin King ^{1, 2}	6	4	4	22	10	42	40	70	30
David Norgrove ⁴	104	24	21	1,113	128	56	1,348	2,788	1,440
Laurel Powers-Freeling ¹	3	2	2	19	5	46	22	46	24
Alison Reed	141	16	12	105	157	47	1,005	1,369	364

¹Roger Holmes, Justin King and Laurel Powers-Freeling are subject to the pension earnings 'cap' (£99,000 at 3 April 2004) which is reviewed annually by the Government. As a result, they also receive a pension-related salary supplement of 10% of the difference between the pension earnings 'cap' and their base salary.

a) Pension Benefits continued

²The pension for Roger Holmes is based on a uniform accrual of two-thirds of the pension earnings 'cap' less the pension which he has accrued from membership of previous employers' pension schemes. The pension for Justin King is based on his deferred pension at his date of retirement of 28 March 2004.

³In accordance with the Listings Rules, the additional pension earned in the year in excess of inflation and the transfer value relates only to the period since Maurice Helfgott's appointment to the Board. All other figures relate to the 12-month period.

⁴The pension shown for David Norgrove is before commutation and is inclusive of an augmentation of one additional year of service as part of his termination package which is shown in the emoluments table. It excludes his AVC pension. He chose not to receive his termination payment (as shown in the emoluments table) in cash, but requested the Company to pay an identical sum into the Pension Scheme in order to enhance his pension.

The accrued entitlement represents the deferred pension to which the director would have been entitled had they left the Company on 29 March 2003 and 3 April 2004 respectively. Under the Listings Rules, the additional pension earned relates to the increase in the deferred pension during the year gross and net of inflation respectively.

The transfer value of the deferred pension calculated as at 3 April 2004 is based on factors supplied by the actuary of the relevant Company pension scheme in accordance with actuarial guidance note GN11. The equivalent transfer value calculated as at 29 March 2003 is on the assumption that the director had left service at that date.

Inflation has been assumed to be equivalent to the actual rate of price inflation which was 2.8% for the year to 30 September 2003. The measurement date accords with the Listing Rules.

The transfer values are the lump sums which could have been paid to another pension scheme for the benefit of the director. It is not possible for a transfer value to be paid directly to the director personally.

Luc Vandeveld and Vittorio Radice do not participate in the Company Pension Scheme.

b) Payments made to former directors

Details of payments made to former directors during the year are:

	2004 £000	2003 £000
Early retirement pensions¹ (payable until)		
James Benfield (22 April 2009)	74	71
Lord Stone of Blackheath (7 September 2002)	–	47
Derek Hayes (19 November 2008)	69	66
Chris Littmoden (28 September 2003)	44	89
Keith Oates (3 July 2002)	–	59
Unfunded pensions		
Clinton Silver ²	93	89
Other		
Robert Colvill ³	–	19

¹Under 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.

²The pension scheme entitlement for Clinton Silver is supplemented by an additional, unfunded pension paid by the Company.

³Robert Colvill continued to receive a fee as non-executive chairman of Marks & Spencer Financial Services until 31 August 2002.

Approved by the Board
24 May 2004

Dame Stella Rimington DCB, Chairman of the Remuneration Committee

Directors' interests

The beneficial interests of the directors and connected persons in the shares of the Company are shown below. 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 pages 37 to 38. Further information regarding employee share option schemes is given in note 10.

There have been no other changes 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, except for the agreed monthly salary of 13,500 shares for Luc Vandeveldel on 8 April 2004 and 10 May 2004. 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.

Ordinary Shares in the Company – beneficial interests and interests of connected persons	Ordinary shares as at 3 April 2004 or date of retirement	B shares as at 3 April 2004 or date of retirement	As at 29 March 2003 or date of appointment	B shares as at 29 March 2003 or date of appointment
Luc Vandeveldel	988,757	–	880,686	–
Roger Holmes	293,677	–	200,084	3,130
Maurice Helfgott (appointed 19.11.03)	47,395	921	41,086	921
Laurel Powers-Freeling	68,681	–	9,681	–
Vittorio Radice	128,108	–	10,000	–
Alison Reed	144,861	1,069	84,109	2,474
Brian Baldock	86,584	–	56,584	–
Barbara Cassani	2,000	–	2,000	–
Jack Keenan	3,238	–	3,238	–
Kevin Lomax	16,190	–	16,190	–
Paul Myners	50,000	–	30,000	–
Dame Stella Rimington	2,975	–	2,870	–

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 the 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 14 and 15.

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 and Kings Super Markets brand names.

Financial Services consists of the operations of the Group's retail financial services companies, which provide credit and 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, minority interests and non-equity dividends, amounts to £549.3m (last year £500.5m). The directors have declared dividends as follows:

Ordinary shares	£m
Paid interim dividend of 4.4p per share (last year 4.0p per share)	99.5
Proposed final dividend of 7.1p per share (last year 6.5p per share)	160.7
Total ordinary dividend, 11.5p per share (last year 10.5p per share)	260.2

During the year, dividends of £3.0m (last year £6.8m) have been paid on non-equity shares.

The final ordinary dividend will be paid on 16 July 2004 to shareholders whose names are on the Register of Members at the close of business on 4 June 2004.

Changes in share capital

(i) Issue of new ordinary shares

During the period, 13,616,646 ordinary shares in the Company were issued as follows:

- 732,848 shares under the terms of the 1997 Executive Share Option Scheme at prices between 260p and 305p;
- 2,347,981 shares under the terms of the 2000 Executive Share Option Scheme at prices between 195p and 256p; and
- 10,535,817 shares were issued under the terms of the United Kingdom Employees' Save As You Earn Share Option Scheme at prices between 156p and 330p.

(ii) Purchase of ordinary 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. The Company engages in share buybacks to create value for the shareholder, when cash flow permits and there is not an immediate alternative investment use for the funds. During the year, the Company purchased and subsequently cancelled 18,490,000 ordinary shares at a cost of £52.9m, with a nominal value of £4.6m, at prices between 268.2p and 313.4p, representing 0.8% of its weighted average issued share capital. This authority is renewable annually and approval will be sought from shareholders at the Annual General Meeting in 2004 to renew the authority for a further year.

(iii) Redemption of B shares

During the year the Company redeemed 47,575,038 B shares at par.

Major shareholders

As at 11 May 2004, the Company's register of substantial shareholdings showed the following interests in 3% or more of the Company's shares:

	Ordinary shares	% share capital
Brandes Investment Partners, LLC	293,253,186	12.94
The Capital Group Companies, Inc.	108,607,956	4.79
Artisan Partners Limited Partnership	83,676,290	3.69
Legal & General Investment Management	80,630,319	3.56

In addition, JP Morgan has notified a holding of 123,275,970 ordinary shares (5.44%) in the form of American Depositary Receipts, 118,808,154 of which are included in the above figures for Brandes Investment Partners.

Directors' report continued

Directors and their interests

The current directors are listed on page 18 of the Annual Review and Summary Financial Statement.

Maurice Helfgott and Mark McKeon were appointed executive directors of the Company on 19 November 2003 and 5 April 2004 respectively. Justin King and David Norgrove retired as executive directors of the Company on 19 November 2003 and 31 March 2004 respectively. Barbara Cassani was appointed non-executive director on 1 October 2003 and retired on 30 April 2004.

The beneficial interests of the directors and connected persons in the shares of the Company and its subsidiaries are given on page 24.

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. Business Involvement Groups in stores, distribution centres and head office represent employees in two-way communication and are involved in the delivery of change and driving business improvement.

The ninth meeting of the European Council took place last July. This council provides an additional forum for communicating with employee representatives from the countries 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 continue to support employee share ownership through long-established employee share schemes, membership of which is service-related, details of which are given on pages 37 to 39.

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 workplace opportunities on the 'Workstep Programme'.

Creditor payment policy

For all trade creditors, it is the Group'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.

The main trading company's (Marks and Spencer plc) 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;
- food is 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 for Marks and Spencer plc for the year ended 3 April 2004 were 12.3 days, or 8.3 working days (last year 12.7 days, or 8.7 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.

Charitable and political donations

During the year, £7.2m (last year £6.5m) was spent in the UK in support of the community. Within this figure, direct donations to charitable organisations amounted to £4.1m (last year £4.9m).

At the Annual General Meeting in July 2002, shareholders authorised the Company, Marks and Spencer plc and Marks and Spencer Financial Services plc to make donations to EU political organisations and to incur EU political expenditure, under the provisions of the Political Parties, Elections and Referendums Act 2000, of up to £100,000 in aggregate for each company in each year until 10 July 2006.

It is our policy not to make donations to political parties and accordingly no political payments were made. However, we have a long tradition of supporting the community and the Group may support individuals in a number of ways for civic duties, which we shall continue to do.

Auditors

A resolution to re-appoint PricewaterhouseCoopers LLP as auditors of the Company will be proposed at the Annual General Meeting.

Annual General Meeting

The Notice of the Annual General Meeting to be held on 14 July 2004 is given, together with explanatory notes, in the booklet which accompanies this report.

By order of the Board

Graham Oakley, Group Secretary
London
24 May 2004

Auditors' report

Independent auditors' report to the members of Marks and Spencer Group plc

We have audited the financial statements which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the note of group historical cost profits and losses, the consolidated statement of total recognised gains and losses and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the remuneration report ('the auditable part').

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the remuneration report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements and the auditable part of the remuneration report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the directors' remuneration report have been properly prepared in accordance with the Companies Act 1985. 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 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. The other information comprises only the chairman's message, chief executive's and financial review, the corporate governance statement, the unaudited part of the remuneration report, directors' interests and the statement of directors' responsibilities, the directors' report, the group financial record and the Annual Review.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code (issued in June 1998) specified for our review by the Listing Rules of 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 Company's or 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 and the auditable part of the remuneration report. 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 and Group'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 and the auditable part of the remuneration report 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 3 April 2004 and of the profit and cash flows of the Group for the period then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
London
24 May 2004

Consolidated profit and loss account

	Notes	53 weeks ended 3 April 2004			52 weeks ended 29 March 2003		
		Before exceptional items £m	Exceptional items (note 4) £m	Total £m	Before exceptional items As restated £m	Exceptional items (note 4) £m	Total As restated £m
Turnover – continuing operations	2	8,301.5	–	8,301.5	8,019.1	–	8,019.1
Operating profit – continuing operations	2,3	866.0	(42.1)	823.9	773.0	(43.9)	729.1
Profit on sale of property and other fixed assets	4B	–	18.7	18.7	–	1.6	1.6
Loss on sale/termination of operations:	4C						
Loss arising on sale/termination		–	(26.8)	(26.8)	–	(12.3)	(12.3)
Less provision made in 2001		–	26.8	26.8	–	10.8	10.8
Net loss on sale/termination of operations		–	–	–	–	(1.5)	(1.5)
Net interest expense	5	(45.8)	–	(45.8)	(40.5)	–	(40.5)
Other finance (charges)/income	11C	(15.2)	–	(15.2)	27.0	–	27.0
Profit/(loss) on ordinary activities before taxation		805.0	(23.4)	781.6	759.5	(43.8)	715.7
Taxation on ordinary activities	6	(242.0)	12.7	(229.3)	(217.9)	9.1	(208.8)
Profit/(loss) on ordinary activities after taxation		563.0	(10.7)	552.3	541.6	(34.7)	506.9
Minority interests (all equity)		–	–	–	0.4	–	0.4
Profit/(loss) attributable to shareholders		563.0	(10.7)	552.3	542.0	(34.7)	507.3
Dividends (including dividends in respect of non-equity shares)	8	(263.2)	–	(263.2)	(246.0)	–	(246.0)
Retained profit/(loss) for the period		299.8	(10.7)	289.1	296.0	(34.7)	261.3
Earnings per share	9			24.2p			21.8p
Diluted earnings per share	9			24.1p			21.5p
Adjusted earnings per share	9			24.7p			23.3p
Diluted adjusted earnings per share	9			24.6p			23.0p
Dividend per share	8			11.5p			10.5p

28

NOTE OF GROUP HISTORICAL COST PROFITS AND LOSSES

	Notes	53 weeks ended 3 April 2004 £m	52 weeks ended 29 March 2003 As restated £m
Profit on ordinary activities before taxation		781.6	715.7
Realisation of property revaluation surplus	25	0.5	4.1
Share of joint venture's revaluation surplus realised on disposal		–	10.4
Revaluation element of depreciation charge	25	1.0	1.4
Historical cost profit on ordinary activities before taxation		783.1	731.6
Historical cost retained profit for the period		290.6	277.2

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Notes	53 weeks ended 3 April 2004 £m	52 weeks ended 29 March 2003 As restated £m
Profit attributable to shareholders		552.3	507.3
Exchange differences on foreign currency translation	25	(15.9)	3.4
Unrealised surplus/(deficit) on revaluation of investment properties	25	7.3	(0.8)
Impairment of previously revalued properties	25	(20.0)	–
Actuarial gains/(losses) net of taxation	25	150.4	(627.9)
Total recognised gains and losses relating to the period		674.1	(118.0)
Prior year adjustments	25	(928.3)	–
Total recognised gains and losses since last annual report		(254.2)	–

Balance sheets

		Group		Company	
	Notes	3 April 2004 £m	29 March 2003 As restated £m	3 April 2004 £m	29 March 2003 £m
Fixed assets					
Tangible assets:					
Land and buildings		2,151.9	2,148.4	–	–
Fit out, fixtures, fittings and equipment		1,295.3	1,248.2	–	–
Assets in the course of construction		50.4	38.5	–	–
	13	3,497.6	3,435.1	–	–
Investments	14	10.0	29.7	7,643.2	7,643.2
		3,507.6	3,464.8	7,643.2	7,643.2
Current assets					
Stocks		398.0	361.8	–	–
Debtors:					
Receivable within one year	15A	971.6	853.1	262.7	247.8
Receivable after more than one year	15B	1,779.3	1,559.5	–	–
Investments	16	325.9	304.0	–	–
Cash at bank and in hand	17	394.7	167.9	–	–
		3,869.5	3,246.3	262.7	247.8
Current liabilities					
Creditors: amounts falling due within one year	19	(1,884.7)	(1,710.9)	(2,325.9)	(2,246.8)
Net current assets/(liabilities)		1,984.8	1,535.4	(2,063.2)	(1,999.0)
Total assets less current liabilities					
		5,492.4	5,000.2	5,580.0	5,644.2
Creditors: amounts falling due after more than one year					
Provisions for liabilities and charges	20	(2,519.6)	(1,810.0)	–	–
	22	(49.3)	(186.1)	–	–
Net assets before net post-retirement liability		2,923.5	3,004.1	5,580.0	5,644.2
Net post-retirement liability	11	(469.5)	(895.8)	–	–
Net assets		2,454.0	2,108.3	5,580.0	5,644.2
Capital and reserves					
Called up share capital	24,25	651.2	685.7	651.2	685.7
Share premium account	25	45.2	23.8	45.2	23.8
Capital redemption reserve	25	1,924.8	1,886.9	1,924.8	1,886.9
Revaluation reserve	25	356.4	370.6	–	–
Other reserve	25	(6,542.2)	(6,542.2)	–	–
Profit and loss account	25	6,018.6	5,683.5	2,958.8	3,047.8
Shareholders' funds (including non-equity interests)	25,26	2,454.0	2,108.3	5,580.0	5,644.2
Equity shareholders' funds					
Non-equity shareholders' funds		2,369.1	1,990.1	5,495.1	5,526.0
		84.9	118.2	84.9	118.2
Total shareholders' funds		2,454.0	2,108.3	5,580.0	5,644.2

Approved by the Board

24 May 2004

Alison Reed, Chief Financial Officer

Consolidated cash flow information

CASH FLOW STATEMENT

	Notes	53 weeks ended 3 April 2004 £m	52 weeks ended 29 March 2003 As restated £m
Cash inflow from operating activities before contribution to the pension fund	27	1,066.5	1,168.7
Contribution to the pension fund		(400.0)	–
Cash inflow from operating activities		666.5	1,168.7
Dividend received from joint venture		–	8.0
Returns on investments and servicing of finance			
Interest received		14.4	11.9
Interest paid		(61.2)	(51.3)
Non-equity dividends paid		(3.0)	(6.8)
Net cash outflow from returns on investments and servicing of finance		(49.8)	(46.2)
Taxation			
UK corporation tax paid		(216.3)	(212.0)
Overseas tax paid		(4.1)	(4.9)
Cash outflow for taxation		(220.4)	(216.9)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(428.8)	(324.5)
Sale of tangible fixed assets		126.2	25.0
Purchase of fixed asset investments		(0.6)	(0.7)
Sale of fixed asset investments		9.3	5.8
Net cash outflow for capital expenditure and financial investment		(293.9)	(294.4)
Acquisitions and disposals			
Closure of operations		51.3	(10.8)
Sale of subsidiaries		–	(30.2)
Repayment of loan by joint venture		–	2.2
Cash inflow/(outflow) from acquisitions and disposals		51.3	(38.8)
Equity dividends paid		(247.1)	(225.4)
Cash (outflow)/inflow before management of liquid resources and financing		(93.4)	355.0
Management of liquid resources and financing			
Management of liquid resources	28B	(89.0)	(46.9)
Financing	28C	347.0	(712.3)
		258.0	(759.2)
Increase/(decrease) in cash		164.6	(404.2)

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

		2004 £m	2003 £m
Increase/(decrease) in cash		164.6	(404.2)
Cash outflow from increase in liquid resources	28B	89.0	46.9
Cash (inflow)/outflow from (increase)/decrease in debt financing	28C	(413.6)	431.4
Exchange and other movements	29	(3.3)	1.5
Movement in net debt		(163.3)	75.6
Opening net debt	29	(1,831.4)	(1,907.0)
Closing net debt	29	(1,994.7)	(1,831.4)

Notes to the financial statements

1. ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom.

The Group has fully adopted the following new accounting standards, or amendments to existing standards issued by the UK Accounting Standards Board:

- FRS 17 – ‘Retirement Benefits’ (see note 11);
- Application Note G of FRS 5 – ‘Revenue Recognition’ (see note 2); and
- UITF 38 – ‘Accounting for ESOP Trusts’ (see note 14).

The impact of adopting these standards has been reflected throughout the financial statements. Prior year comparatives have been restated where appropriate. A summary of the more important Group accounting policies, as amended by the adoption of the above, is given below.

Accounting convention and basis of consolidation

The Group financial statements incorporate the financial statements of Marks and Spencer Group plc and all its subsidiaries for the 53 weeks ended 3 April 2004.

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 SSAP 19 - ‘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.

On 19 March 2002, the Company acquired 100% of the issued share capital of Marks and Spencer plc following the implementation of a Scheme of Arrangement under Section 425 of the Companies Act 1985. This Scheme of Arrangement was accounted for using merger accounting principles, although it did not satisfy all of the conditions required by Schedule 4 of the Act. In the opinion of the directors, the Scheme of Arrangement was a Group reconstruction rather than an acquisition since the shareholders in the Company were the same as the former shareholders of Marks and Spencer plc and the rights of each shareholder, relative to the others, were unchanged. Therefore, the directors considered that to record the Scheme of Arrangement as an acquisition by the Company, attributing fair values to the assets and liabilities of the Group and reflecting only the post Scheme of Arrangement results within the financial statements would fail to give a true and fair view of the Group’s results and financial position.

Accordingly, having regard to the overriding requirement under Section 227(6) of the Companies Act 1985 for financial statements to give a true and fair view of the Group’s results and financial position, the directors adopted merger accounting principles in drawing up the financial statements. The directors consider that it is not practicable to quantify the effect of this departure from the Companies Act 1985 requirements.

Turnover

Retail turnover comprises sales of goods to customers outside the Group less an appropriate deduction for actual and expected returns, discounts and loyalty scheme voucher costs, and is stated net of Value Added Tax and other sales taxes.

Financial Services turnover comprises interest receivable from customers together with other income attributable to the Financial Services operation.

Operating leases

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

Pensions

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. Following the full adoption of FRS 17, the regular service cost of providing retirement benefits to employees during the year, together with the cost of any benefits relating to past service is charged to operating profit in the year.

A credit representing the expected return on the assets of the retirement benefit schemes during the year is included within other finance income. This is based on the market value of the assets of the schemes at the start of the financial year.

A charge within other finance charges representing the expected increase in the liabilities of the retirement benefit schemes during the year is included within net interest. This arises from the liabilities of the schemes being one year closer to payment.

The difference between the market value of assets and the present value of accrued pension liabilities is shown as an asset or liability in the balance sheet net of deferred tax.

Differences between actual and expected returns on assets during the year are recognised in the statement of total recognised gains and losses in the year, together with differences arising from changes in assumptions.

Goodwill

Prior to 31 March 1998, goodwill arising on consolidation was written off to reserves in the year of acquisition. As permitted by FRS 10, 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.

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.
 - 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.

Notes to the financial statements

1. ACCOUNTING POLICIES *continued*

Any impairment in value is charged to the profit and loss account except where, in certain circumstances, it relates to a previously revalued asset, in which case it is charged through the statement of total recognised gains and losses.

c Land and buildings

The Group'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 FRS 15, 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 FRS 11.

d Investment properties

Investment properties are revalued annually and included in the balance sheet at their open market value. In accordance with SSAP 19, 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.

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. This represents a departure from the Companies Act 1985 requirements concerning the valuation of current asset investments. These assets are held as investments in the insurance and the long-term assurance businesses and the directors consider that the adoption of this policy is necessary to give a true and fair view.

Stocks

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

Loans and advances to customers

Loans and advances are classified as impaired when an instalment is in excess of 30 days overdue. Specific provisions are made against all advances identified as impaired at the balance sheet date to the extent that, in the opinion of the directors, recovery is doubtful. Specific provisions against such exposures are calculated using a bad debt provision model, which uses the last two years' credit history to produce estimates of the likely level of asset impairment. General provisions relate to latent bad and doubtful debts which are present in any lending portfolio but have not been specifically identified. General provisions are calculated using the same bad debt provision model and an evaluation of current economic and political factors.

Loans and advances are written off when there is no realistic prospect of recovery, based on a predetermined set of criteria. Account balances written off include those where no payment has been received for a period of 12 months since the account was identified as doubtful, and in other situations such as bankruptcy, insolvency or fraud.

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.

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, 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 entered into 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.

Deferred taxation

Deferred taxation is accounted for on an undiscounted basis at expected tax rates on all 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 is only recognised when it is more likely than not that the asset will be recoverable in the foreseeable future out of suitable taxable profits from which the underlying timing differences can be deducted.

2. SEGMENTAL INFORMATION

A Classes of business

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

	Turnover		Operating profit		Operating assets	
	2004 £m	2003 As restated £m	2004 £m	2003 As restated £m	2004 £m	2003 As restated £m
Retailing activities	7,971.5	7,689.2	773.3	642.7	3,071.5	2,626.9
Before exceptional operating charges			815.4	686.6		
Exceptional operating charges			(42.1)	(43.9)		
Financial Services ¹	330.0	329.9	50.6	86.4	601.2	648.7
Total	8,301.5	8,019.1	823.9	729.1	3,672.7	3,275.6
Profit on sale of property and other fixed assets			18.7	1.6		
Net loss on sale/termination of operations			–	(1.5)		
Net interest expense			(45.8)	(40.5)		
Other finance (charges)/income			(15.2)	27.0		
Profit on ordinary activities before taxation			781.6	715.7	3,672.7	3,275.6
Unallocated net liabilities					(1,218.7)	(1,167.3)
Net assets					2,454.0	2,108.3

B Geographical split

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

	Turnover		Operating profit		Operating assets	
	2004 £m	2003 As restated £m	2004 £m	2003 As restated £m	2004 £m	2003 As restated £m
United Kingdom						
Retail	7,293.7	7,027.1	725.9	599.9	2,954.2	2,510.2
Before exceptional operating charges			768.0	643.8		
Exceptional operating charges			(42.1)	(43.9)		
Financial Services ¹	330.0	329.9	50.6	86.4	601.2	648.7
	7,623.7	7,357.0	776.5	686.3	3,555.4	3,158.9
International Retail	677.8	662.1	47.4	42.8	117.3	116.7
Total	8,301.5	8,019.1	823.9	729.1	3,672.7	3,275.6

Application Note G of FRS 5 – ‘Revenue Recognition’ has been adopted for the first time in these financial statements.

The key areas affected by the adoption of the new guidance are as follows:

- a provision for customer returns has now been made representing the Group’s cumulative estimate of the amount of merchandise sold during the year which will be returned and refunded in the following year;
- staff discounts, previously reported as part of employee costs, have been reclassified and are now deducted from turnover; and
- discounts provided to certain customers at Kings Super Markets, previously reported as a deduction from gross margin, have been reclassified as deductions from turnover.

These changes have been accounted for by way of a prior year adjustment and previously reported figures have been restated accordingly. The impact of adopting the new policy for the current financial year is to reduce turnover by £49.8m with a negligible impact on profit before tax. The impact of adopting the policy for the year ended 29 March 2003 was to reduce turnover by £58.1m and profit before tax by £3.4m.

¹Operating profit for Financial Services includes £9.3m of merchant fee income (last year £14.1m) arising on Marks & Spencer Chargecard transactions. This fee is payable by UK Retail and has been deducted in arriving at UK Retail operating profit.

²UK Retail turnover including VAT comprises Clothing £4,032.6m (last year £3,976.5m); Home £526.6m (last year £542.6m) and Foods £3,490.2m (last year £3,242.3m). VAT on UK Retail turnover was £755.7m (last year £734.3m). Since last year end, £138.0m of gifts have been reclassified to be included within Home. Certain other product lines have also been reclassified to reflect management responsibility. As a result of this change, comparative figures have been restated.

³Turnover from continuing operations originates in the following geographical segments: United Kingdom £7,783.4m (last year £7,500.5m) and International £518.1m (last year £518.6m).

⁴The value of goods exported from the UK, including shipments to international subsidiaries, amounted to £293.0m (last year £271.6m).

Notes to the financial statements continued

3. OPERATING PROFIT

	2004			2003		
	Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items As restated £m	Exceptional items £m	Total As restated £m
Turnover	8,301.5	–	8,301.5	8,019.1	–	8,019.1
Cost of sales	(5,259.9)	–	(5,259.9)	(5,118.2)	–	(5,118.2)
Gross profit	3,041.6	–	3,041.6	2,900.9	–	2,900.9
Employee costs (see note 10)	(1,067.0)	(24.5)	(1,091.5)	(1,064.1)	(2.5)	(1,066.6)
Occupancy costs	(280.4)	(5.2)	(285.6)	(264.7)	–	(264.7)
Repairs, renewals and maintenance of fixed assets	(93.2)	–	(93.2)	(114.8)	–	(114.8)
Depreciation	(241.9)	(4.2)	(246.1)	(234.9)	–	(234.9)
Other costs ¹	(493.1)	(8.2)	(501.3)	(449.4)	(41.4)	(490.8)
Total net operating expenses ²	(2,175.6)	(42.1)	(2,217.7)	(2,127.9)	(43.9)	(2,171.8)
Operating profit	866.0	(42.1)	823.9	773.0	(43.9)	729.1

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.

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

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Statutory audit services				
Annual audit	1.2	0.9	0.2	0.1
Non-audit related services				
Further assurance services	0.1	0.4	–	–
Tax advisory services	0.9	0.4	–	–
General consultancy	0.4	0.6	–	–
	1.4	1.4	–	–

²Included in 'Total net operating expenses' are rentals under operating leases, comprising £4.1m for hire of plant and machinery (last year £3.8m) and £108.9m of other rental costs (last year £102.0m).

4. EXCEPTIONAL ITEMS

A Exceptional operating charges

	2004 £m	2003 £m
Head office relocation	19.6	7.6
Head office restructuring programme	22.5	–
Restructuring of general merchandise logistics operations	–	36.3
Exceptional operating charges	42.1	43.9

B Profit on sale of property and other fixed assets

	2004 £m	2003 £m
Profit on sale of property and other fixed assets	18.7	1.6

C Loss on sale/termination of operations

	2004 £m	2003 £m
Loss on sale/termination of operations	(26.8)	(12.3)
Less provision made in 2001	26.8	10.8
Net loss on sale/termination of operations	–	(1.5)

The loss on sale/termination in the current year relates to the closure of the Continental European operations.

5. NET INTEREST EXPENSE

	2004		2003	
	£m	£m	£m	£m
Bank and other interest income	248.5		272.8	
Less: amounts included in turnover of Financial Services	(235.2)		(262.0)	
		13.3		10.8
Interest expenditure	(136.1)		(137.0)	
Less: interest charged to cost of sales of Financial Services	77.0		85.7	
		(59.1)		(51.3)
Net interest expense		(45.8)		(40.5)
Interest expenditure comprises:				
Amounts repayable within five years:				
Bank loans, overdrafts and other borrowings	(22.2)		(22.4)	
Medium term notes	(68.1)		(69.8)	
Securitised loan notes	(1.2)		(1.0)	
		(91.5)		(93.2)
Amounts repayable after five years:				
Medium term notes	(24.8)		(24.1)	
Securitised loan notes	(19.8)		(19.7)	
		(44.6)		(43.8)
		(136.1)		(137.0)

6. TAXATION ON ORDINARY ACTIVITIES**A Taxation charge for the period**

	2004		2003	
	£m	£m	£m	£m
Current taxation				
UK corporation tax at 30% (last year 30%):				
Current year	205.7		211.2	
Prior years	(3.6)		(16.4)	
		202.1		194.8
Overseas taxation		3.7		3.7
Total current taxation		205.8		198.5
Deferred taxation (see note 22)				
Current year	26.0		7.4	
Prior years	(2.5)		2.9	
Total deferred taxation		23.5		10.3
		229.3		208.8

Included in the tax charge for the year is a credit of £12.7m (last year £9.1m credit) which is attributable to exceptional charges.

B Taxation reconciliation

	2004	2003
	£m	£m
Profit before taxation	781.6	715.7
Taxation at the standard UK corporation tax rate of 30% (last year 30%)	234.5	214.7
Permanent differences	6.0	10.5
Capital allowances in (excess of)/less than depreciation	(1.8)	2.4
Other timing differences	(24.2)	(9.7)
Net effect of restructuring charges	1.9	0.6
Net effect of different rates of tax in overseas businesses	(7.0)	(3.6)
Adjustments to tax charge in respect of prior periods	(3.6)	(16.4)
Total current taxation	205.8	198.5

Notes to the financial statements continued

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.

A profit before tax of £262.1m (last year £247.6m) is dealt with in the financial statements of the Company.

8. DIVIDENDS

	2004 £m	2003 £m
Dividends on equity shares		
Paid interim ordinary dividend of 4.4p per share (last year 4.0p per share)	99.5	91.8
Proposed final ordinary dividend of 7.1p per share (last year 6.5p per share)	160.7	147.4
Total ordinary dividend of 11.5p per share (last year 10.5p per share)	260.2	239.2
Dividends on non-equity shares		
Interim B share dividend paid at 2.73% (last year 3.32%)	1.6	4.6
Final B share dividend paid at 2.86% (last year 2.98%)	1.4	2.2
	3.0	6.8
	263.2	246.0

9. EARNINGS PER SHARE

The calculation of earnings per ordinary share is based on earnings after tax, minority interests and non-equity dividends, 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 FRS 14 – 'Earnings per Share' and is based on earnings excluding the effect of the exceptional items. It has been calculated to allow shareholders to gain a clearer understanding of the underlying trading performance of the Group. Details of the adjusted earnings per share are set out below:

	2004			2003		
	£m	Basic pence per share	Diluted pence per share	As restated £m	As restated Basic pence per share	As restated Diluted pence per share
Basic earnings	549.3	24.2	24.1	500.5	21.8	21.5
Exceptional operating charges	29.4	1.3	1.3	34.8	1.5	1.5
Profit on sale of property and other fixed assets	(18.7)	(0.8)	(0.8)	(1.6)	(0.1)	(0.1)
Loss on sale/termination of operations	–	–	–	1.5	0.1	0.1
Adjusted earnings	560.0	24.7	24.6	535.2	23.3	23.0

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

	2004 m	2003 m
Weighted average ordinary shares in issue during the year	2,266.7	2,293.9
Potentially dilutive share options under the Group's share option schemes	15.4	29.0
Weighted average ordinary shares for diluted earnings per share	2,282.1	2,322.9

10. EMPLOYEES

A Aggregate remuneration

The aggregate remuneration and associated costs of Group employees were:

	2004			2003		
	Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items As restated £m	Exceptional items £m	Total As restated £m
Wages and salaries	845.3	23.0	868.3	834.1	1.0	835.1
Share Incentive Plan (see note 10C)	–	–	–	8.8	–	8.8
Social security costs	55.7	0.1	55.8	47.4	0.3	47.7
Pension costs (see note 11)	123.8	–	123.8	131.8	–	131.8
Employee welfare and other personnel costs	42.2	1.4	43.6	42.0	1.2	43.2
Employee costs	1,067.0	24.5	1,091.5	1,064.1	2.5	1,066.6

Exceptional employee costs include £22.5m (last year £nil) in connection with the Head Office restructuring programme and £2.0m (last year £2.5m) relating to the Head Office relocation.

B Average number of employees

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

		2004	2003
UK stores	Management and supervisory categories	4,419	4,335
	Other	56,008	53,191
UK head office	Management and supervisory categories	2,755	2,616
	Other	919	997
Financial Services	Management and supervisory categories	265	200
	Other	1,354	1,267
Overseas		4,381	4,527
		70,101	67,133

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 46,654 (last year 47,756).

C United Kingdom Share Incentive Plan and Republic of Ireland Profit Share Scheme

The Company has adopted the free share element of the new all-employee Share Incentive Plan, which is approved by the Inland Revenue. This is a discretionary plan and the Company will decide each year whether an award is to be made, depending upon the year-end profits. The Republic of Ireland Profit Sharing Scheme remains unchanged. No award will be made in July 2004 in respect of the financial year ended 3 April 2004. Last year, an award of £8.8m, representing 2.0% of the earnings of 53,418 eligible employees (with a maximum award of approximately £220) was made.

These shares are purchased in the market: 2,556,366 ordinary shares were purchased by the Profit Sharing Trustees in respect of the 2002/03 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.

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

Options granted	Number of shares		Option price
	2004	2003	
January 1996	Expired	1,180,359	330p
January 1997	1,499,213	1,564,432	389p
January 1998	1,160,288	1,607,993	467p
January 1999	3,832,848	4,262,582	324p
January 2000	11,292,814	13,540,426	223p
January 2001	15,825,503	26,601,132	156p
January 2002	8,720,985	10,462,668	250p
January 2003	9,729,981	11,809,605	283p
January 2004	12,811,587	–	228p

Notes to the financial statements continued

10. EMPLOYEES continued

E Executive Share Option Schemes

Under the terms of the current Scheme, approved by shareholders in 2002, 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 17). Outstanding options granted under all executive share option schemes are as follows:

Options granted	Number of shares		Option price	Option dates
	2004	2003		
(1984 Scheme)				
May 1993	–	725,149	341p	May 1996 – May 2003
October 1993	–	19,576	399p	Oct 1996 – Oct 2003
May 1994	1,071,186	1,174,865	404p	May 1997 – May 2004
October 1994	21,541	21,541	402p	Oct 1997 – Oct 2004
May 1995	1,060,075	1,139,414	414p	May 1998 – May 2005
May 1996	45,850	45,850	458p	May 1999 – May 2006
November 1996	6,172	6,172	486p	Nov 1999 – Nov 2006
June 1997	17,076	17,076	527p	Jun 2000 – Jun 2007
(1987 Scheme)				
May 1996	–	1,097,040	458p	May 1999 – May 2003
November 1996	–	14,546	486p	Nov 1999 – Nov 2003
June 1997	1,269,006	1,323,650	527p	Jun 2000 – Jun 2004
(1997 Scheme – Tier 1)				
June 1998	172,429	273,683	557p	Jun 2001 – Jun 2008
November 1998	179,008	247,221	404p	Nov 2001 – Nov 2008
June 1999	449,913	562,374	358p	Jun 2002 – Jun 2009
November 1999	59,352	59,352	278p	Nov 2002 – Nov 2009
January 2000	–	360,655	305p	Jan 2003 – Jan 2010
March 2000	1,992,337	1,992,337	261p	Mar 2003 – Mar 2010
June 2000	–	11,538	260p	Jun 2003 – Jun 2010
(1997 Scheme – Tier 2)				
June 1998	884,667	1,409,816	557p	Jun 2003 – Jun 2008
November 1998	20,544	99,261	404p	Nov 2003 – Nov 2008
June 1999	648,081	1,067,713	358p	Jun 2004 – Jun 2009
November 1999	59,352	59,352	278p	Nov 2004 – Nov 2009
January 2000	–	360,655	305p	Jan 2005 – Jan 2010
March 2000	1,992,337	1,992,337	261p	Mar 2005 – Mar 2010
(2000 Scheme +3%)				
September 2000	1,792,689	2,493,207	215p	Sep 2003 – Sep 2010
December 2000	451,281	574,358	195p	Dec 2003 – Dec 2010
March 2001	105,504	270,641	218p	Mar 2004 – Mar 2011
June 2001	5,403,205	6,059,643	256p	Jun 2004 – Jun 2011
July 2001	168,674	168,674	249p	Jul 2004 – Jul 2011
December 2001	1,204,236	1,263,166	350p	Dec 2004 – Dec 2011
(2000 Scheme +4%)				
September 2000	1,839,642	2,511,067	215p	Sep 2003 – Sep 2010
December 2000	435,897	443,358	195p	Dec 2003 – Dec 2010
March 2001	105,504	270,641	218p	Mar 2004 – Mar 2011
June 2001	2,734,313	3,264,203	256p	Jun 2004 – Jun 2011
July 2001	156,626	156,626	249p	Jul 2004 – Jul 2011
December 2001	985,798	1,027,586	350p	Dec 2004 – Dec 2011
(2002 Scheme +3%)				
June 2002	4,170,578	4,585,112	350p	Jun 2005 – Jun 2012
November 2002	567,519	575,115	353p	Nov 2005 – Nov 2012
January 2003	242,424	242,424	297p	Jan 2006 – Jan 2013
March 2003	282,678	282,678	306p	Mar 2006 – Mar 2013
March 2003	111,486	111,486	296p	Mar 2006 – Mar 2013
June 2003	5,838,559	–	297p	Jun 2006 – Jun 2013
November 2003	564,256	–	270p	Nov 2006 – Nov 2013
(2002 Scheme +4%)				
June 2002	3,515,049	3,900,988	350p	Jun 2005 – Jun 2012
November 2002	330,546	338,142	353p	Nov 2005 – Nov 2012
January 2003	222,222	222,222	297p	Jan 2006 – Jan 2013
March 2003	272,875	272,875	306p	Mar 2006 – Mar 2013
March 2003	101,351	101,351	296p	Mar 2006 – Mar 2013
June 2003	5,082,684	–	297p	Jun 2006 – Jun 2013
November 2003	349,173	–	270p	Nov 2006 – Nov 2013

10. EMPLOYEES continued

F Executive Share Matching Plan

An Executive Share Matching Plan for senior management was approved by shareholders at the AGM in 2002 and was introduced for the first time in July 2002. The plan currently operates for around 25 members of senior management. Participants are required to invest one-third of any annual bonus earned in shares in the Company. The balance of the annual bonus may be invested voluntarily.

The pre-tax value of the invested bonus will be matched by an award of shares, with the extent of the match determined by performance conditions over a three-year period. Further details of the plan are given in the Remuneration Report on page 17. £0.5m (last year £0.5m) has been charged against profits for this year.

11. RETIREMENT BENEFITS

The Group has adopted FRS 17 – 'Retirement Benefits' in full for the year ended 3 April 2004. For the year ended 29 March 2003, the Group accounted for retirement benefits under SSAP 24 and gave disclosures under the FRS 17 transitional arrangements.

The total cost of retirement benefits for the Group was £139.0m (last year £104.8m) under FRS 17 of which £123.8m (last year £131.8m) has been charged against operating profit and £15.2m (last year a credit of £27.0m) has been charged within other finance charges. If the Group had continued to account for retirement benefits under SSAP 24, the total Group cost would have been £182.2m (last year £146.4m). The SSAP 24 cost would have been higher this year when compared to last year because it includes the impact of the full actuarial valuation of the UK defined benefit pension scheme at 31 March 2003 (see below).

Within the total Group retirement benefit cost of £139.0m, £130.7m relates to the UK defined benefit pension scheme. The Group also operates small defined benefit pension schemes in the Republic of Ireland and at Kings Super Markets in the USA. Retirement benefits also includes a UK post-retirement healthcare scheme and unfunded pension plans.

Contributions to non-defined benefit pension schemes in the year were £2.3m (last year £5.7m). These are included in note (e).

(a) A full actuarial valuation of the UK defined benefit pension scheme was carried out at 31 March 2003 and showed a deficit of £585m. This valuation, and the most recent actuarial valuations of the other post-retirement schemes, have been updated by independent qualified actuaries to take account of the requirements of FRS 17 in order to assess the liabilities of the schemes at 3 April 2004. The FRS 17 data for 2003 and 2002 has been restated to include the defined benefit pension scheme at Kings Super Markets. The major assumptions used for FRS 17 purposes were:

	2004 %	2003 %	2002 %
Rate of increase in salaries	3.5	3.5	4.0
Rate of increase in pensions in payment	2.7	2.5	2.5
Discount rate	5.6	5.5	5.9
Inflation rate	2.7	2.5	2.5
Long-term healthcare cost increases	7.7	7.5	7.5

(b) The market value of the assets in the Group defined benefit pension schemes and the expected long-term rates of return as at 3 April 2004 were:

	Expected long-term rate of return p.a.			Value		
	2004 %	2003 %	2002 %	2004 £m	2003 As restated £m	2002 As restated £m
UK equities	8.1	8.7	7.9	974.7	757.0	1,113.4
Overseas equities	8.6	9.0	8.3	1,011.4	777.2	955.8
Government bonds	4.8	4.6	5.3	833.4	500.2	290.1
Corporate bonds (Triple B or above)	5.6	5.5	5.9	483.3	561.1	740.9
Other	3.7	4.0	4.6	331.4	43.0	9.0
Total market value of assets ¹	6.8	7.3	7.3	3,634.2	2,638.5	3,109.2
Present value of scheme liabilities				(4,280.1)	(3,888.1)	
Pension scheme deficit				(645.9)	(1,249.6)	
Unfunded pension plans				(3.2)	(3.9)	
Post-retirement healthcare				(20.4)	(24.7)	
Total post-retirement liabilities				(669.5)	(1,278.2)	
Less: Related deferred tax asset				200.0	382.4	
Net post-retirement liability				(469.5)	(895.8)	

¹The expected return on assets of 6.8% for 2004 is based on the assumption that cash of £306m (included under 'other') was invested in government bonds immediately following the year end.

Notes to the financial statements continued

11. RETIREMENT BENEFITS continued

(c) Analysis of the amount charged against profits:

	2004 £m	2003 As restated £m
Operating profit		
Current service costs	123.8	131.8
Finance cost		
Expected return on scheme assets	(196.9)	(231.0)
Interest on scheme liabilities	212.1	204.0
Net finance charges/(income)	15.2	(27.0)
Total charge	139.0	104.8

(d) Analysis of the amount recognised in the statement of total recognised gains and losses:

	2004 £m	2003 As restated £m
Actual return less expected return on scheme assets	401.9	(713.3)
Experience (losses)/gains arising on scheme liabilities	(30.3)	16.0
Changes in assumptions underlying the present value of scheme liabilities	(157.8)	(196.1)
Actuarial gain/(loss) recognised in the consolidated statement of total recognised gains and losses	213.8	(893.4)

(e) Movements in liability during year:

	2004 £m	2003 As restated £m
Post-retirement liability at beginning of year	(1,278.2)	(420.8)
Current service cost ¹	(123.8)	(131.8)
Cash contribution ²	533.7	140.8
Net finance (charges)/income	(15.2)	27.0
Actuarial gain/(loss)	213.8	(893.4)
Exchange movement	0.2	–
Post-retirement liability at end of year	(669.5)	(1,278.2)

¹The UK defined benefit pension scheme is closed to new members and so under the projected unit method the service cost rate would be expected to increase over time due to the expected increase in the average age of employed members subject to actual experience.

²The cash contribution of £533.7m includes £400m to the UK defined benefit pension scheme in respect of the deficit identified at the time of the full actuarial valuation of the scheme at 31 March 2003. Future contributions to the UK scheme will be made at the rate of 15.8% of pensionable salaries up to the next full actuarial valuation.

(f) History of experience gains and losses (these will be built up over time to give a five-year history):

	2004 £m	2003 As restated £m
Actual return less expected return on scheme assets:		
Amount	401.9	(713.3)
% of scheme assets at end of year	11.1%	(27.0%)
Experience (losses)/gains arising on scheme liabilities:		
Amount	(30.3)	16.0
% of scheme liabilities at end of year	(0.7%)	0.4%
Total amount recognised in statement of total recognised gains and losses:		
Amount	213.8	(893.4)
% of scheme liabilities at end of year	5.0%	(23.0%)

12. DIRECTORS

A Emoluments

Emoluments of directors of the Company are summarised below. Further details are given in the Remuneration Report on pages 16 to 23.

	2004 £000	2003 £000
Aggregate emoluments	3,769	6,838
Termination payments	754	451

B Transactions with directors

During the year, transactions entered into by Marks and Spencer Financial Services plc with directors and connected persons resulted in the following outstanding balances on their combined credit and loyalty cards as at 3 April 2004:

	2004		2003	
	No. of persons	Total balances £	No. of persons	Total balances £
	10	41,236	5	11,888

Except as noted above, there was no contract of significance to which the Company, or any of its subsidiaries, was a party and in which a director of the Company was materially interested during the year.

An interest free loan was made under the employees' loan scheme by the Group to Maurice Helfgott, prior to his appointment as a director. The balance at 19 November 2003 was £45,710, which was the highest balance since his appointment. The loan balance was £40,630 at 3 April 2004.

13. TANGIBLE FIXED ASSETS

A Tangible fixed assets

	Group			
	Land & buildings £m	Fixtures, fittings & equipment £m	Assets in the course of construction £m	Total £m
Cost or valuation				
At 30 March 2003	2,265.9	2,966.2	38.5	5,270.6
Additions	79.4	303.5	50.6	433.5
Transfers	29.7	8.7	(38.4)	–
Revaluation surplus	7.3	–	–	7.3
Impairment of previously revalued properties	(20.0)	–	–	(20.0)
Disposals	(88.7)	(103.5)	–	(192.2)
Differences on exchange	(4.4)	(18.1)	(0.3)	(22.8)
At 3 April 2004	2,269.2	3,156.8	50.4	5,476.4
Accumulated depreciation				
At 30 March 2003	117.5	1,718.0	–	1,835.5
Depreciation for the year	10.8	235.3	–	246.1
Disposals	(10.5)	(79.5)	–	(90.0)
Differences on exchange	(0.5)	(12.3)	–	(12.8)
At 3 April 2004	117.3	1,861.5	–	1,978.8
Net book value				
At 3 April 2004	2,151.9	1,295.3	50.4	3,497.6
At 29 March 2003	2,148.4	1,248.2	38.5	3,435.1
Analysis of land and buildings				
	Group			
	Freehold £m	Long leasehold £m	Short leasehold £m	Total £m
At valuation	604.0	383.6	12.2	999.8
At cost	777.1	417.5	74.8	1,269.4
Accumulated depreciation	1,381.1 (31.4)	801.1 (21.3)	87.0 (64.6)	2,269.2 (117.3)
Net book value				
At 3 April 2004	1,349.7	779.8	22.4	2,151.9
At 29 March 2003	1,286.1	834.7	27.6	2,148.4

Notes to the financial statements continued

13. TANGIBLE FIXED ASSETS continued

B Investment properties

Freehold land and buildings include investment properties as follows:

Group
£m

Cost or valuation	
At 30 March 2003	30.5
Revaluation surplus	7.3
At 3 April 2004	37.8

The properties were valued as at 3 April 2004, by qualified professional valuers working for the company of DTZ Debenham Tie Leung, Chartered Surveyors, acting in the capacity of External Valuers. All such valuers are Chartered Surveyors, being members of the Royal Institution of Chartered Surveyors.

The properties were valued on the basis of open market value at an aggregate value of £37.8m. All valuations were carried out in accordance with the RICS Appraisal and Valuation Manual.

C Tangible fixed assets at cost

Gerald Eve, a firm of independent Chartered Surveyors, valued the Group'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 Group'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.

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

	2004 £m	2003 £m
At valuation at 31 March 1975 ¹	227.1	228.7
At cost	1,402.0	1,368.6
	1,629.1	1,597.3
Accumulated depreciation	(146.3)	(146.0)
Closing net book value	1,482.8	1,451.3

¹The Group 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

Group

	Joint venture ¹ £m	Other investments ² £m	Own shares ³ £m	Total £m
Cost				
At 30 March 2003	8.8	29.1	2.2	40.1
Prior year adjustment	–	–	(2.2)	(2.2)
At 30 March 2003 as restated	8.8	29.1	–	37.9
Additions	–	0.6	–	0.6
Disposals	–	(11.9)	–	(11.9)
Share of joint venture's losses	(0.3)	–	–	(0.3)
Differences on exchange	–	(1.9)	–	(1.9)
At 3 April 2004	8.5	15.9	–	24.4
Accumulated provision and amortisation				
At 30 March 2003	–	8.2	0.4	8.6
Prior year adjustment	–	–	(0.4)	(0.4)
At 30 March 2003 as restated	–	8.2	–	8.2
Provision for impairment	–	7.1	–	7.1
Differences on exchange	–	(0.9)	–	(0.9)
At 3 April 2004	–	14.4	–	14.4
Net book value				
At 3 April 2004	8.5	1.5	–	10.0
At 29 March 2003 as restated	8.8	20.9	–	29.7

¹The joint venture represents a 50% equity interest in Hedge End Park Ltd, a property investment company incorporated in Great Britain. The partner in the joint venture is J Sainsbury plc. The Group's investment in the joint venture includes accumulated reserves of £2.4m (last year £2.7m).

²Investments include listed securities held by a subsidiary. The difference between their book value and market value is negligible.

³UITF 38 – 'Accounting for ESOP Trusts' has been adopted for the first time in these financial statements. As a result, shares in Marks and Spencer Group plc held by employee share ownership trusts have been reclassified from fixed asset investments to a reduction in shareholders' funds. This change has been accounted for as a prior period adjustment and previously reported figures have been restated accordingly.

14. FIXED ASSET INVESTMENTS continued

	Company Shares in group undertakings £m
At 3 April 2004	7,643.2
At 29 March 2003	7,643.2

Shares in group undertakings represents the Company's investment in Marks and Spencer plc

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:	
			Company	A subsidiary
Marks and Spencer plc	Retailing	Great Britain	100%	–
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 (Ireland) Limited	Retailing	Republic of Ireland	–	100%
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 plc	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%
M.S. Insurance L.P.	Financial Services	Guernsey	–	100%
M.S. II Insurance L.P.	Financial Services	Guernsey	–	100%
Marks and Spencer Investments Limited	Finance	Great Britain	–	100%
St Michael Finance plc	Finance	Great Britain	–	100%
Marks and Spencer Finance plc	Finance	Great Britain	–	100%
Amethyst Leasing (Properties) Limited	Finance	Great Britain	–	100%
Amethyst Finance plc	Finance	Great Britain	–	– ¹
Marks and Spencer Property Holdings Limited	Property Investment	Great Britain	–	100%
Marks and Spencer SCM Limited	Procurement	Great Britain	–	100%
The Zip Project Limited	Procurement	Great Britain	–	75%

The Company has taken advantage of the exemption under Section 231(5) of the Companies Act 1985 by providing information only in relation to subsidiary undertakings whose results or financial position, in the opinion of the directors, principally affected the financial statements.

¹Amethyst Finance plc is a wholly owned subsidiary of a non-group company but has been consolidated in these accounts as a quasi-subsiary in accordance with FRS 5. The quasi-subsiary has net assets of £nil (last year £nil), the material balances being securitised loan notes of £325.6m (last year £328.7m) offset by a receivable from a group company.

Notes to the financial statements continued

15. DEBTORS

	Group		Company	
	2004 £m	2003 Restated £m	2004 £m	2003 Restated £m
A Amounts receivable within one year				
Trade debtors	30.5	32.1	–	–
Customer advances	740.8	534.3	–	–
Amounts owed by Group undertakings	–	–	262.1	247.7
Other debtors ¹	44.0	110.7	0.6	0.1
Deferred tax asset (see note 22)	3.5	–	–	–
Prepayments and accrued income ²	152.8	176.0	–	–
	971.6	853.1	262.7	247.8
B Amounts receivable after more than one year³				
Customer advances	1,711.6	1,481.6	–	–
Other debtors ¹	8.8	15.7	–	–
Prepayments and accrued income ²	58.9	62.2	–	–
	1,779.3	1,559.5	–	–

¹Other debtors include interest-free loans to a director and officer of the Company of £45,586 (last year £16,944).

²Prepayments and accrued income include £76.0m (last year £119.5m) in respect of the UK pension scheme. In addition, prepayments include £61.3m (last year £57.4m) relating to the long-term assurance business.

³Amounts receivable after more than one year include £61.1m (last year £64.4m) of non-financial assets which have been excluded from the analysis in note 18.

16. CURRENT ASSET INVESTMENTS

	Group	
	2004 £m	2003 £m
Listed investments:		
Government securities	86.9	131.4
Listed in the United Kingdom	191.8	108.5
Listed overseas	42.6	59.5
Unlisted investments	4.6	4.6
	325.9	304.0

Listed investments include £175.5m (last year £160.9m) in relation to the long-term assurance business.

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

Currency	2004				Group 2003			
	Fixed rate £m	Floating rate £m	Non-interest bearing £m	Total £m	Fixed rate £m	Floating rate £m	Non-interest bearing £m	Total £m
Sterling	624.2	1,633.9	110.5	2,368.6	144.4	1,641.2	53.8	1,839.4
US dollar	–	15.0	3.7	18.7	6.2	18.0	0.4	24.6
Euro	–	19.6	6.3	25.9	27.6	30.3	11.5	69.4
Other	–	18.5	8.6	27.1	19.5	34.4	0.6	54.5
	624.2	1,687.0	129.1	2,440.3	197.7	1,723.9	66.3	1,987.9

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

B Analysis of fixed interest rate

Currency	2004	2003	2004	Group
	Weighted average interest rate %	Weighted average interest rate %	Weighted average period for which rate is fixed Years	2003 Weighted average period for which rate is fixed Years
Sterling	5.6	5.6	2.5	10.1
US dollar	–	3.8	–	9.5
Euro	–	4.8	–	8.9
Other	–	2.6	–	6.6

C Analysis of financial assets

	Group	
	2004 £m	2003 £m
Current asset investments	325.9	304.0
Cash at bank and in hand	394.7	167.9
Customer advances falling due in more than one year	1,711.6	1,481.6
Fixed asset investments	1.5	20.9
Other amounts receivable after more than one year	6.6	13.5
Financial assets as defined by FRS 13	2,440.3	1,987.9
Customer advances falling due in less than one year	740.8	534.3
Financial assets including short-term customer advances	3,181.1	2,522.2

Notes to the financial statements continued

19. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2004 £m	2003 As restated £m	2004 £m	2003 £m
Bank loans, overdrafts and commercial paper ¹	126.0	150.2	–	–
Medium term notes (see note 21B)	216.5	443.9	–	–
Securitised loan notes (see note 21B)	2.7	2.5	–	–
Trade creditors	210.2	201.6	–	–
Amounts owed to Group undertakings	–	–	2,165.0	2,099.0
Taxation	79.8	96.9	–	–
Social security and other taxes	43.1	30.5	–	–
Other creditors ²	297.7	288.5	–	0.4
Customer deposits	439.3	78.6	–	–
Accruals and deferred income	308.7	270.8	0.2	–
Proposed final dividend	160.7	147.4	160.7	147.4
	1,884.7	1,710.9	2,325.9	2,246.8

¹Bank loans, overdrafts and commercial paper includes a £5.0m (last year £5.0m) loan from the Hedge End Park Ltd joint venture.

²Other creditors include £32.6m (last year £31.7m) 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

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Medium term notes (see note 21B)	1,980.0	1,310.9	–	–
Securitised loan notes (see note 21B)	313.3	315.7	–	–
Other creditors ^{1,2}	226.3	183.4	–	–
	2,519.6	1,810.0	–	–

¹Other creditors include £44.2m (last year £48.4m) which is shown in the calculation of the Group's net debt and is treated as financing within the cash flow statement, and include £182.1m (last year £132.6m) of non-financial liabilities which have been excluded from the analysis in note 21.

²Other creditors include £179.5m (last year £130.5m) in relation to the long-term assurance business.

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.

Currency	2004			Group 2003		
	Fixed rate £m	Floating rate £m	Total £m	Fixed rate £m	Floating rate £m	Total £m
Sterling ¹	1,731.6	1,056.6	2,788.2	780.9	1,633.3	2,414.2
US dollar	–	8.3	8.3	–	9.5	9.5
Euro	–	3.6	3.6	–	0.2	0.2
Other	–	0.1	0.1	–	–	–
	1,731.6	1,068.6	2,800.2	780.9	1,643.0	2,423.9

¹Included within floating rate liabilities are £84.9m (last year £118.2m) of unredeemed B Shares.

The floating rate sterling, US dollar and euro 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 5.5% (last year 6.2%) and the weighted average time for which the rate is fixed is 8.6 years (last year 13.2 years).

21. ANALYSIS OF FINANCIAL LIABILITIES continued**B Maturity of financial liabilities¹**

	2004 £m	Group 2003 £m
Repayable within one year:		
Bank loans, overdrafts and commercial paper	126.0	150.2
Medium term notes	216.5	443.9
Securitised loan notes	2.7	2.5
B shares (see note 24)	84.9	118.2
Other creditors	32.6	31.7
	462.7	746.5
Repayable between one and two years:		
Medium term notes	309.8	26.6
Securitised loan notes	3.2	5.9
Other creditors	22.3	22.3
	335.3	54.8
Repayable between two and five years:		
Medium term notes	903.4	915.2
Securitised loan notes	11.4	11.4
Other creditors	21.9	24.3
	936.7	950.9
Repayable in five years or more:		
Medium term notes ²	766.8	369.1
Securitised loan notes ³	298.7	298.4
Other creditors	–	4.2
	1,065.5	671.7
	2,800.2	2,423.9

¹Financial liabilities include £nil (last year £2.4m) of other creditors which are excluded from the reconciliation of net debt in note 29.

²Relates to two fixed rate bonds at rates of 6.375% repayable on 7 November 2011 and 5.625% repayable on 24 March 2014.

³Relates to three separate bonds securitised against 45 of the Group's properties. Two are repayable in instalments. The gross amounts before finance costs are £54.6m and £131m respectively. The first is a floating rate bond which has been swapped into a fixed rate of 6.34%, amortised on a quarterly basis from 12 March 2002, with final payment due on 12 September 2015. The second is a floating rate bond which has been swapped into a fixed rate of 6.344%, amortised on a quarterly basis from 12 September 2015, with final payment due on 12 December 2026. The gross amount of the remaining bond is £140m before finance costs. It relates to a fixed rate bond at a rate of 6.282% and is repayable in full on 12 December 2026.

C Borrowing facilities

At 3 April 2004, the Group had undrawn committed facilities of £405m (last year £385m) 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 3 April 2004, these amounted to £415.0m (last year £402.2m), all of which are due to be reviewed within a year. The Group also has a three-year syndicated credit facility of £1.25bn.

Notes to the financial statements continued

22. PROVISIONS FOR LIABILITIES AND CHARGES

	Post-retirement health benefits £m	UK restructuring ¹ £m	Overseas restructuring ² £m	Deferred tax ³ £m	Group Total £m
At 30 March 2003	25.0	54.0	44.1	105.3	228.4
Prior year adjustment	(0.3)	–	–	(395.8)	(396.1)
Transfer to net post-retirement liability	(24.7)	(3.9)	–	382.4	353.8
At 30 March 2003 as restated	–	50.1	44.1	91.9	186.1
Provided in the period	–	25.3	–	29.1	54.4
Utilised during the period	–	(39.1)	(26.8)	–	(65.9)
Released	–	(4.1)	–	(5.6)	(9.7)
Movement in net post-retirement liability	–	–	–	(118.9)	(118.9)
Exchange differences	–	–	(0.2)	–	(0.2)
Transfer to deferred tax asset (see note 15)	–	–	–	3.5	3.5
At 3 April 2004	–	32.2	17.1	–	49.3

¹The provision for UK restructuring costs relates to the costs of restructuring the Group's UK operations. The majority of these costs are expected to be incurred during the next financial year.

²The provision for Overseas restructuring costs primarily relates to further closure costs in respect of the Group's discontinued operations in Continental Europe, the majority of which are expected to be incurred during the next financial year.

³The deferred tax balance comprises the following:

	2004 £m	2003 £m
Accelerated capital allowances	72.3	67.1
Pension prepayment	(67.2)	35.0
Other short-term timing differences	(8.6)	(10.2)
Deferred tax (asset)/liability	(3.5)	91.9

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

The Group is claiming UK tax relief for losses incurred by some of its current and former European subsidiaries. The case has been referred to the European Court of Justice, and it may take several years for the issue to be resolved. Were the Group to be ultimately successful, the Group would receive a corporation tax refund, before interest, of at least £30m. No asset has been recognised in respect of this claim.

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

A Fair values of financial instruments

Set out below is a comparison of fair 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.

Assets/(liabilities)	2004		Group	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Customer advances falling due in more than one year	1,711.6	1,712.3	1,481.6	1,495.0
Current asset investments ¹	325.9	325.9	304.0	304.0
Fixed asset investments	1.5	1.5	20.9	20.9
Cash at bank and in hand ¹	394.7	394.7	167.9	167.9
Other financial assets due after more than one year	6.6	6.6	13.5	13.5
Borrowings due within one year ²	(377.8)	(372.0)	(628.3)	(652.8)
B shares	(84.9)	(84.9)	(118.2)	(118.2)
Financial liabilities due after more than one year ²	(2,337.5)	(2,392.6)	(1,677.4)	(1,763.2)
Cross currency swaps ²	–	24.5	–	90.1
Interest rate swaps ²	–	11.9	–	(24.9)
Forward foreign currency contracts ²	–	3.8	–	(8.0)

¹Current 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. Therefore, these fair values closely approximate book values.

²Interest rate, cross currency swaps and forward foreign currency contracts have been marked to market to produce a fair value figure.

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued**B Hedges of future transactions**

Unrecognised gains and losses on instruments used for hedging and those recognised in the period ended 3 April 2004 are as follows:

	2004			2003		
	Gains £m	Losses £m	Net total £m	Gains £m	Losses £m	Net total £m
Unrecognised gains/(losses) on hedges at beginning of the period	114.8	(57.6)	57.2	66.5	(46.6)	19.9
(Gains)/losses arising in previous years recognised in the period	(26.1)	12.5	(13.6)	(13.7)	15.4	1.7
Gains/(losses) in previous years not recognised in the period	88.7	(45.1)	43.6	52.8	(31.2)	21.6
Gains/(losses) arising in the period	(14.4)	11.0	(3.4)	62.0	(26.4)	35.6
Unrecognised gains/(losses) on hedges at end of the period	74.3	(34.1)	40.2	114.8	(57.6)	57.2
Of which:						
Gains/(losses) expected to be recognised within one year	10.4	(12.1)	(1.7)	26.1	(12.7)	13.4
Gains/(losses) expected to be recognised after one year	63.9	(22.0)	41.9	88.7	(44.9)	43.8

C Currency risk

The effect of currency exposures arising from the translation of overseas investments is mitigated by Group borrowings in local currencies as appropriate. 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

	2004 £m	2003 £m
Authorised:		
3,200,000,000 ordinary shares of 25p each (last year 3,200,000,000)	800.0	800.0
3,200,000,000 non-equity B shares of 70p each (last year 3,200,000,000)	2,240.0	2,240.0
Allotted, called up and fully paid:		
2,265,144,934 ordinary shares of 25p each (last year 2,270,018,288)	566.3	567.5
121,244,763 non-equity B shares of 70p each (last year 168,819,801)	84.9	118.2
	651.2	685.7

Issue of new shares:

13,616,646 ordinary shares having a nominal value of £3.4m 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 £24.8m.

Purchase of own shares:

During the period, 18,490,000 ordinary shares having a nominal value of £4.6m were purchased by the Group for an aggregate consideration of £52.9m. These shares were then cancelled and the nominal value of the shares transferred to the capital redemption reserve (see note 25).

Redemption of B shares:

During the period 47,575,038 B shares were redeemed at par at a total cost of £33.4m. The nominal value of £33.3m has been transferred to the capital redemption reserve (see note 25).

The holders of B shares are not entitled to receive notification of any general meeting of Marks and Spencer Group plc, or to attend, speak or vote at any such meeting. B shares carry the right to a sub-LIBOR dividend paid on a semi-annual basis in priority to any dividend paid to the holders of ordinary shares. In the event of the winding up of Marks and Spencer Group plc, the holders of B shares will be entitled to 70p in respect of each B share held, together with the relevant proportion of the dividend payable. The B shares may be redeemed at six monthly intervals. The next redemption date will be 27 September 2004. At any time after 19 March 2005, or earlier, when the total number of B shares remaining in issue becomes less than 25% of the total number of B shares originally issued, Marks and Spencer Group plc may, on giving notice in writing to the holders of the B shares, redeem all, but not some, of the B shares in issue on that date. The redemption shall be on the basis of 70p per share.

Notes to the financial statements continued

25. SHAREHOLDERS' FUNDS

Group

	Share capital		Share premium account £m	Capital redemption reserve £m	Revaluation reserve £m	Other reserve £m	Profit ¹ and loss account £m	Total £m
	Ordinary shares £m	Non-equity B shares £m						
At 30 March 2003 as previously reported	567.5	118.2	23.8	1,886.9	370.6	(6,542.2)	6,613.6	3,038.4
Prior year adjustment (see below)	–	–	–	–	–	–	(930.1)	(930.1)
Opening shareholders' funds as restated	567.5	118.2	23.8	1,886.9	370.6	(6,542.2)	5,683.5	2,108.3
Purchase of own shares	(4.6)	–	–	4.6	–	–	(54.4)	(54.4)
Redemption of B shares	–	(33.3)	–	33.3	–	–	(33.4)	(33.4)
Purchase of own shares held by employee trusts	–	–	–	–	–	–	(2.2)	(2.2)
Shares issued on exercise of share options	3.4	–	21.4	–	–	–	–	24.8
Revaluation of investment properties	–	–	–	–	7.3	–	–	7.3
Impairment of previously revalued properties	–	–	–	–	(20.0)	–	–	(20.0)
Revaluation surplus realised on disposals	–	–	–	–	(0.5)	–	0.5	–
Revaluation element of depreciation charge	–	–	–	–	(1.0)	–	1.0	–
Actuarial gain on post-retirement liability	–	–	–	–	–	–	150.4	150.4
Exchange differences on foreign currency translation	–	–	–	–	–	–	(15.9)	(15.9)
Profit for the period	–	–	–	–	–	–	289.1	289.1
At 3 April 2004	566.3	84.9	45.2	1,924.8	356.4	(6,542.2)	6,018.6	2,454.0

50

¹Included in the profit and loss account reserve is a pension reserve of £469.5m (last year £895.8m) which equates to the net post-retirement liability under FRS 17 (see note 11).

Cumulative goodwill of £62.0m (last year £62.0m) arising on the acquisition of subsidiaries has been written off against the profit and loss account reserve. As permitted by FRS 10, this goodwill has not been reinstated in the balance sheet and remains written off to reserves.

The following adjustments have been made to opening shareholders' funds as a result of the adoption of FRS 17, FRS 5 Application Note G and UITF 38.

	March 2003 £m	March 2002 £m
Post-retirement liability (net of deferred tax)	875.5	270.9
Reversal of SSAP 24 pension prepayment	42.7	51.7
Deferred tax on SSAP 24 pension prepayment	(12.5)	(15.4)
FRS 5 returns provision net of tax	22.6	20.0
Prior year adjustments recognised in the statement of total recognised gains and losses	928.3	327.2
UITF 38	1.8	1.4
Total prior year adjustments	930.1	328.6

Company

	Share capital		Share premium account £m	Capital redemption reserve £m	Profit and loss account £m	Total £m
	Ordinary shares £m	Non-equity B shares £m				
At 30 March 2003	567.5	118.2	23.8	1,886.9	3,047.8	5,644.2
Purchase of own shares	(4.6)	–	–	4.6	(54.4)	(54.4)
Redemption of B shares	–	(33.3)	–	33.3	(33.4)	(33.4)
Shares issued on exercise of share options	3.4	–	21.4	–	–	24.8
Loss for the period	–	–	–	–	(1.2)	(1.2)
At 3 April 2004	566.3	84.9	45.2	1,924.8	2,958.8	5,580.0

26. RECONCILIATION OF MOVEMENTS IN GROUP SHAREHOLDERS' FUNDS

	2004 £m	Group 2003 As restated £m
Profit attributable to shareholders	552.3	507.3
Dividends	(263.2)	(246.0)
	289.1	261.3
Other recognised (losses)/gains relating to the year	(28.6)	2.6
Actuarial gains/(losses) net of taxation	150.4	(627.9)
Purchase of shares held by employee trusts	(2.2)	(0.4)
New share capital subscribed	24.8	23.0
Amounts deducted from profit and loss account reserve in respect of shares issued to the QUEST	–	(2.9)
Redemption of B shares	(33.4)	(158.0)
Purchase of own shares	(54.4)	(141.7)
Net increase/(decrease) in shareholders' funds	345.7	(644.0)
Opening shareholders' funds as previously stated	3,038.4	3,080.9
Prior year adjustment (see note 25)	(930.1)	(328.6)
Opening shareholders' funds as restated	2,108.3	2,752.3
Closing shareholders' funds	2,454.0	2,108.3

27. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2004 £m	Group 2003 As restated £m
Operating profit	823.9	729.1
Exceptional operating charges (see note 4A)	42.1	43.9
Operating profit before exceptional charges	866.0	773.0
Depreciation	241.9	234.9
Increase in stocks	(38.9)	(37.5)
(Increase)/decrease in customer advances	(436.5)	167.1
Increase in customer deposits	360.7	46.7
Decrease in other debtors	21.2	9.6
Increase/(decrease) in creditors	100.3	(5.8)
Net cash inflow before exceptional items	1,114.7	1,188.0
Exceptional operating cash outflow (see note 28A)	(48.2)	(19.3)
Cash inflow from operating activities before contribution to the pension fund	1,066.5	1,168.7
Contribution to the pension fund	(400.0)	–
Cash inflow from operating activities	666.5	1,168.7

Notes to the financial statements continued

28. ANALYSIS OF CASH FLOWS GIVEN IN THE CASH FLOW STATEMENT

	2004 £m	Group 2003 As restated £m
A Exceptional operating cash flows		
UK restructuring costs paid	(8.0)	(11.7)
Head office relocation	(10.5)	(7.6)
Restructuring of general merchandise logistics operations	(29.7)	–
Exceptional operating cash outflow	(48.2)	(19.3)
B Management of liquid resources		
Increase in cash deposits treated as liquid resources	(65.5)	(14.6)
Net sale/(purchase) of government securities	44.6	(9.5)
Net purchase of listed investments	(67.9)	(24.3)
Net (purchase)/sale of unlisted investments	(0.2)	1.5
Cash outflow from increase in liquid resources	(89.0)	(46.9)
C Financing		
Decrease in bank loans, overdrafts and commercial paper treated as financing	(22.3)	(125.1)
Issue/(redemption) of medium term notes	441.7	(308.4)
Redemption of securitised loan notes	(2.5)	(2.3)
(Decrease)/increase in other creditors treated as financing	(3.3)	4.4
Debt financing as shown in analysis of net debt (see note 29)	413.6	(431.4)
Purchase of own shares	(54.4)	(141.7)
Net purchase of own shares held by employee trusts	(3.6)	(0.8)
Redemption of B shares	(33.4)	(158.0)
Shares issued under employees' share schemes	24.8	19.6
Net cash inflow/(outflow) from increase/(decrease) in financing	347.0	(712.3)

52

29. ANALYSIS OF NET DEBT

	At 30 March 2003 £m	Cash flow £m	Exchange and other movements £m	At 3 April 2004 £m
Net cash:				
Cash at bank and in hand (see note 18C)	167.9	228.2	(1.4)	394.7
Less: deposits treated as liquid resources (see below)	(56.1)	(65.5)	1.0	(120.6)
	111.8	162.7	(0.4)	274.1
Bank loans, overdrafts and commercial paper (see note 21B)	(150.2)	24.2	–	(126.0)
Less: amounts treated as financing (see below)	77.9	(22.3)	–	55.6
	(72.3)	1.9	–	(70.4)
Net cash per cash flow statement	39.5	164.6	(0.4)	203.7
Liquid resources:				
Deposits included in cash (see above)	56.1	65.5	(1.0)	120.6
Current asset investments (see note 16)	304.0	23.5	(1.6)	325.9
Liquid resources per cash flow statement	360.1	89.0	(2.6)	446.5
Debt financing:				
Bank loans, overdrafts and commercial paper treated as financing (see above)	(77.9)	22.3	–	(55.6)
Medium term notes (see note 21B)	(1,754.8)	(441.7)	–	(2,196.5)
Securitised loan notes (see note 21B)	(318.2)	2.5	(0.3)	(316.0)
Other creditors (see note 21B)	(80.1)	3.3	–	(76.8)
Debt financing (see note 28C)	(2,231.0)	(413.6)	(0.3)	(2,644.9)
Net debt	(1,831.4)	(160.0)	(3.3)	(1,994.7)

30. COMMITMENTS AND CONTINGENT LIABILITIES

	2004 £m	Group 2003 £m
A Commitments in respect of properties in the course of development	74.9	75.8

B 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.

C Other material contracts:

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

D Commitments under operating leases:

At 3 April 2004 the Group had annual commitments under operating leases as follows:

	2004		2003	
	Land & buildings £m	Other £m	Land & buildings £m	Other £m
Expiring within one year	1.2	0.4	3.5	0.7
Expiring in the second to fifth years inclusive	14.6	3.1	13.5	2.7
Expiring in more than five years	99.7	–	82.3	–
	115.5	3.5	99.3	3.4

31. FOREIGN EXCHANGE RATES

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

	Weighted average sales rate		Weighted average profit rate		Balance sheet rate	
	2004	2003	2004	2003	2004	2003
Euro	1.44	1.56	1.43	1.56	1.50	1.46
US dollar	1.69	1.55	1.71	1.54	1.85	1.57
Hong Kong dollar	13.23	12.05	13.44	12.01	14.39	12.23

32. RELATED PARTY TRANSACTIONS

There were no material transactions with related parties as defined by FRS 8, 'Related Party Transactions'.

Group financial record

	2004 53 weeks £m	2003 52 weeks As restated £m	2002 52 weeks £m	2001 52 weeks £m	2000 53 weeks £m
Profit and loss account					
Turnover:					
Continuing operations					
Retailing	7,971.5	7,689.2	7,268.6	6,979.5	7,119.0
Financial Services	330.0	329.9	350.8	363.1	364.6
Total continuing operations	8,301.5	8,019.1	7,619.4	7,342.6	7,483.6
Discontinued operations	–	–	516.0	733.1	711.9
Total turnover (excluding sales taxes)	8,301.5	8,019.1	8,135.4	8,075.7	8,195.5
Operating profit					
Continuing operations					
United Kingdom	776.5	686.3	589.4	404.6	472.7
Overseas	47.4	42.8	33.3	41.9	24.0
Excess interest charged to cost of sales of Financial Services	–	–	6.4	7.9	–
	823.9	729.1	629.1	454.4	496.7
Discontinued operations	–	–	14.7	(13.9)	(25.7)
Total operating profit	823.9	729.1	643.8	440.5	471.0
Analysed as:					
Before exceptional operating charges	866.0	773.0	643.8	467.0	543.0
Exceptional operating charges	(42.1)	(43.9)	–	(26.5)	(72.0)
Retailing					
Continuing	773.3	642.7	538.5	350.2	380.8
Discontinued	–	–	14.7	(13.9)	(25.7)
Financial Services	50.6	86.4	84.2	96.3	115.9
Excess interest charged to cost of sales of Financial Services	–	–	6.4	7.9	–
Provision for loss on operations to be discontinued	–	–	–	(224.0)	–
Loss on closure of businesses	–	(1.5)	(366.7)	(1.7)	(45.4)
Profit/(loss) on disposal of property and other fixed assets	18.7	1.6	41.2	(83.2)	(22.3)
Net interest (expense)/income	(45.8)	(40.5)	17.6	13.9	14.2
Other finance (charge)/income	(15.2)	27.0	–	–	–
Profit before taxation	781.6	715.7	335.9	145.5	417.5
Taxation on ordinary activities	(229.3)	(208.8)	(182.5)	(149.5)	(140.4)
Minority interests	–	0.4	(0.4)	(1.5)	(0.6)
Profit attributable to shareholders	552.3	507.3	153.0	(5.5)	276.5
Dividends	(263.2)	(246.0)	(238.9)	(258.3)	(258.6)
Profit/(loss) for the period	289.1	261.3	(85.9)	(263.8)	17.9

Comparatives for 2003 have been restated following the adoption of FRS 17 – ‘Retirement Benefits’, Application Note G of FRS 5 – ‘Revenue Recognition’ and UITF 38 – ‘Accounting for ESOP Trusts’. Comparatives for prior years have not been restated as in the opinion of the directors, unnecessary expense would be incurred to obtain the relevant information. Comparatives for 2000 and 2001 were restated in 2002 following the adoption of FRS 19 – ‘Deferred Taxation’ in 2002.

Group financial record continued

	2004 53 weeks £m	2003 52 weeks As restated £m	2002 52 weeks £m	2001 52 weeks £m	2000 53 weeks £m
Balance sheet					
Intangible fixed assets	–	–	–	–	1.3
Tangible fixed assets	3,497.6	3,435.1	3,381.2	4,118.9	4,242.1
Fixed asset investments	10.0	29.7	50.3	58.3	55.0
Current assets	3,869.5	3,246.3	3,760.7	3,516.2	3,717.1
Total assets	7,377.1	6,711.1	7,192.2	7,693.4	8,015.5
Creditors due within one year	(1,884.7)	(1,710.9)	(1,750.8)	(1,981.6)	(2,162.8)
Total assets less current liabilities	5,492.4	5,000.2	5,441.4	5,711.8	5,852.7
Creditors due after more than one year	(2,519.6)	(1,810.0)	(2,156.3)	(735.1)	(804.3)
Provisions for liabilities and charges	(49.3)	(186.1)	(203.8)	(395.3)	(199.4)
Net post-retirement liability	(469.5)	(895.8)	–	–	–
Net assets	2,454.0	2,108.3	3,081.3	4,581.4	4,849.0
Cash flow					
Net cash inflow from operating activities	666.5	1,168.7	1,093.7	676.4	641.5
Dividends received from joint venture	–	8.0	–	–	–
Returns on investments and servicing of finance	(49.8)	(46.2)	36.8	12.6	15.2
Taxation	(220.4)	(216.9)	(179.4)	(164.6)	(145.7)
Capital expenditure and financial investment	(293.9)	(294.4)	176.0	(258.2)	(167.0)
Acquisitions and disposals	51.3	(38.8)	261.6	5.9	(21.1)
Equity dividends paid	(247.1)	(225.4)	(256.7)	(258.6)	(413.5)
Cash (outflow)/inflow before management of liquid resources and financing	(93.4)	355.0	1,132.0	13.5	(90.6)
Management of liquid resources	(89.0)	(46.9)	(29.1)	263.7	(162.5)
Financing	347.0	(712.3)	(730.2)	(265.4)	260.3
Increase/(decrease) in cash	164.6	(404.2)	372.7	11.8	7.2
Increase/(decrease) in net debt defined by FRS 1	163.3	(75.6)	629.2	26.4	69.8

Group financial record continued

Key performance measures

		2004 53 weeks	2003 52 weeks As restated	2002 52 weeks	2001 52 weeks	2000 53 weeks
Gross margin ¹	$\frac{\text{Gross profit}}{\text{Turnover}}$	36.6%	36.2%	35.8%	34.3%	31.8%
Net margin ¹	$\frac{\text{Operating profit}}{\text{Turnover}}$	9.9%	9.1%	8.3%	6.2%	6.6%
Net margin excluding exceptional items ¹		10.4%	9.6%	8.3%	6.5%	7.5%
Profitability ¹	$\frac{\text{Profit before tax}}{\text{Turnover}}$	9.4%	8.9%	9.0%	5.2%	6.3%
Profitability excluding exceptional items ¹		9.7%	9.5%	8.5%	6.7%	7.3%
Earnings per share (Defined by FRS 14)	$\frac{\text{Standard earnings}}{\text{Weighted average ordinary shares in issue}}$	24.2p	21.8p	5.4p	(0.2)p	9.6p
Earnings per share adjusted for exceptional items		24.7p	23.3p	16.3p	11.2p	13.8p
Dividend per share		11.5p	10.5p	9.5p	9.0p	9.0p
Dividend cover ²	$\frac{\text{Profit attributable to shareholders}}{\text{Dividends}}$	2.1x	2.1x	2.2x	n/a	1.1x
Return on equity ²	$\frac{\text{Profit attributable to equity shareholders}}{\text{Average equity shareholders' funds}}$	25.2%	22.4%	11.5%	(0.1)%	5.7%
Retail gearing	$\frac{\text{Retail debt+net post-retirement liability}}{\text{Retail debt+net post-retirement liability +retail shareholders' funds}}$	44.7%	53.0%	27.0%	n/a	n/a
Retail fixed charge cover	$\frac{\text{Operating profit before depreciation and operating lease charges}}{\text{Fixed charges}^3}$	7.3x	6.9x	12.6x	10.2x	10.8x
Capital expenditure		£433.5m	£311.0m	£290.5m	£255.7m	£450.6m

¹Based on results from continuing operations only.

²Stated before goodwill written off of £368.2m in 2002, dividend cover and return on equity are 0.6 times and 3.4% respectively after writing off of goodwill.

³Fixed charges are defined as interest and operating lease charges.



Corporate social
responsibility
report 2004
(only available on-line at
www.marksandspencer.com)



Annual review and
summary financial
statement 2004

www.marksandspencer.com/thecompany



Percent Club



Additional copies of this document and the Annual review and summary financial statement 2004 or an audio tape or CD, giving highlights can be obtained by calling 0800 591 697. Further information for shareholders can be found in the Annual review and summary financial statement 2004 on pages 28 and 29.