



YOUR M&S



Annual report
and financial
statements
2007



We are one of the UK's leading retailers, with over 15.8 million people visiting our stores each week.

We offer stylish, high quality, great value clothing and home products, and outstanding quality foods, all responsibly sourced from suppliers we trust. We employ over 75,000 people and have 520 UK stores, as well as an expanding international business.

Clothing & Home

UK sales (exc. VAT) **£4,002.8m** (+9.6%)

We are the UK's largest clothing retailer with a market share of 11.1% (source: TNS Worldpanel) and sales accounting for 44.8% of our UK business. In womenswear we expanded our 'Autograph' range and the fast fashion choice in 'Limited Collection'; in menswear, 'Blue Harbour' remains the UK's biggest men's casualwear brand; we grew our lingerie market share to 26.1%, offering clearly defined brands; and in childrenswear we reversed our poor performance with stronger ranges. Home, representing 5.4% of our UK business, has had two years of strong growth helped by outstanding value and strong demand in furniture.

read more on pages 12-15 >>



Food

UK sales (exc. VAT) **£3,974.7m** (+9.7%)

Food accounts for 49.8% of our UK business and we have a market share of 4.3% (source: TNS Worldpanel). In 2006/07, we launched a range of 120 'Nutritionally Balanced' ready meals which are free from artificial colours, flavours and hydrogenated fats and follow government salt, fat and sugar guidelines. 'Eat Well' accounts for around 30% of food sales and some 1,300 products. Simply Food grew from 144 stores to 205 across the UK, including franchise stores in BP Connect forecourts, motorway service stations, railway stations and airports.

read more on pages 16-19 >>



International

Sales (exc. VAT) **£610.6m** (+16.8%)

Our international business accounts for 7.1% of Group turnover and has grown to 219 franchise stores in 34 territories worldwide as well as eight wholly-owned stores in Hong Kong and 13 in the Republic of Ireland. During the year, we entered four new territories and opened 36 new stores including our largest ever franchise store in Dubai at 52,000 sq ft. In May 2007, we opened our first store in Taiwan under a joint venture with President Chain Store Corporation.

read more on page 24 >>



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Our plan

We've achieved a lot in the last three years. We are now building on that progress through a relentless focus on our core business, while also laying the foundations for future growth. Our aim is to become a more customer-focused, faster moving and flexible business, offering a wide choice of quality goods and services.

Everything we do has one key goal: building a sustainable business for the long term, generating shareholder value through consistent, profitable growth while making sure that our customers can always trust us to do the right thing.

We will do this by continuing to focus on Product, Service and Environment: offering great products, in great looking stores with great customer service.

In addition, we have begun to pursue new routes to growth through the acquisition of new space; new food formats; new product areas such as home technology; our new website and international expansion.

And we continue to manage our impact on society and the environment with great care, through our 'eco plan', Plan A.

We believe this will all make M&S a better business. We've a long way to go before we are truly a world-class retailer again, but we are on the right track.

Product

We aim to provide a wide choice of great value, quality food, clothing and home products, which are all sourced and made responsibly.

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Service

We have been investing in our people to ensure that we meet our customers' expectations of consistently great service, no matter when or where they visit us.

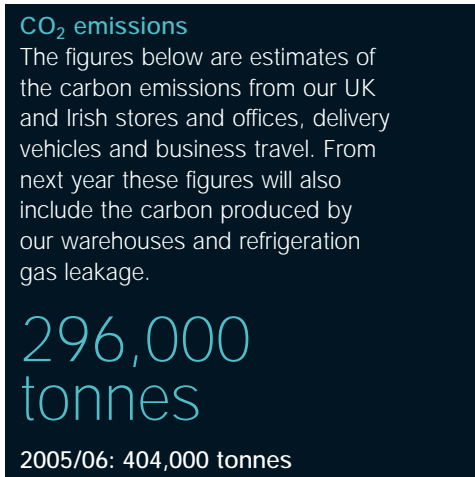
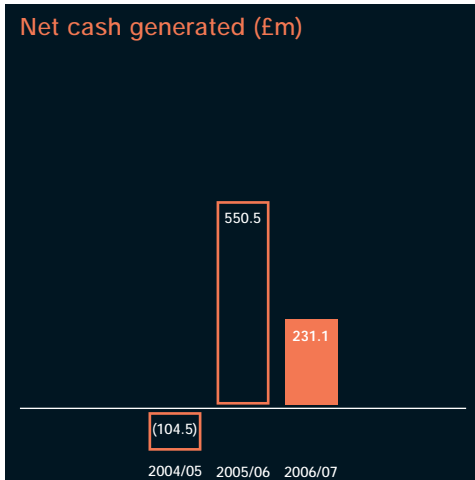
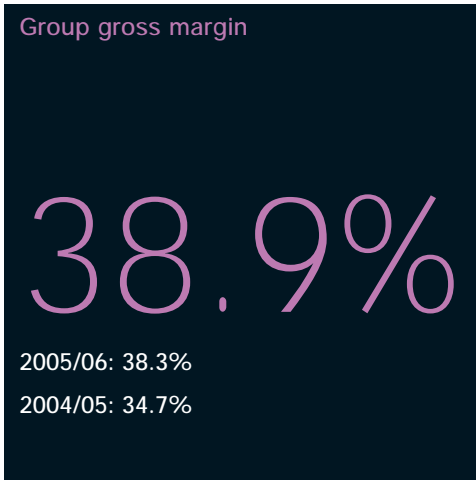
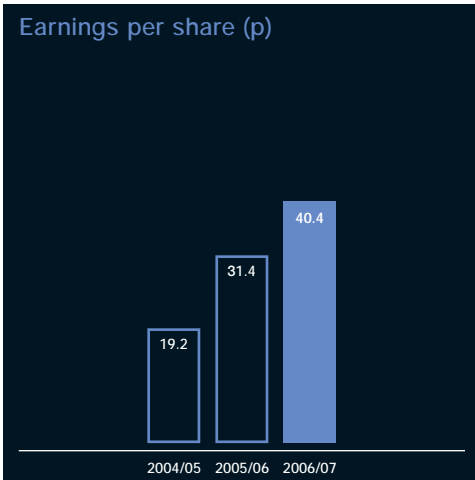
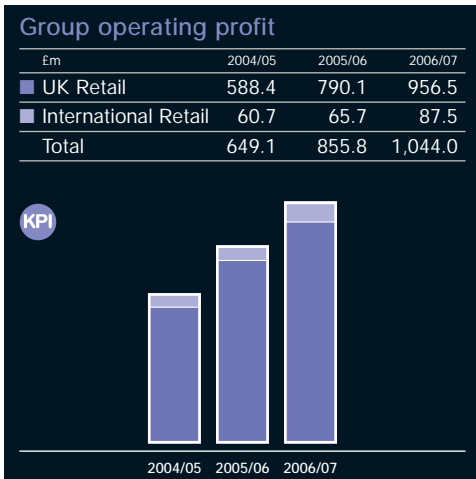
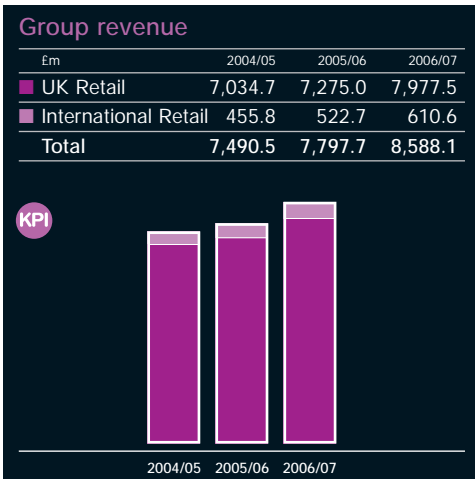
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Environment

We are opening new stores and modernising our existing portfolio to ensure we provide an exciting shopping experience in the right place, in the right space.

continued on page 22 >>

2007 performance



The profit measures above are from continuing operations and stated before property disposals and exceptional items.
KPI = Key Performance Indicator

2006/07 was a good year for M&S with strong growth across the business. Our challenge is to sustain this performance in the face of fierce competition and fast-changing consumer trends.

Chairman's foreword

Last year, in my first year as your Chairman, we made good progress and were able to begin to talk realistically about recovery. But we know this is just the start and no-one underestimates the effort now needed to achieve sustainable growth in a highly competitive retail sector.

Stuart and his team remain focused on getting the basics right as they look to expand the business. That means remaining true to our values – quality, value, service, innovation and trust – and constantly improving product, service and our stores, whilst controlling costs. This attention to detail lies behind our much improved results in 2006/07, our higher share price and a 28.7% increase in earnings per share to 40.4p (last year 31.4p). On the strength of these results, we propose a record final dividend of 12.0p, up 30.4%.

Our new funding arrangement for the defined benefit pension scheme deficit uses part of our property portfolio to secure payments over the next 15 years. This has put an already good scheme on a sustainable, safer footing, balancing the interests of pension scheme members and investors.

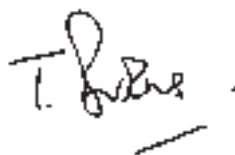
Plan A, our 'eco plan', illustrates a different kind of sustainability and builds directly on our strengths as an ethical company. In keeping with Plan A, this report is produced by carbon neutral printers on 100% recycled paper. At the Annual General Meeting (AGM), we are proposing that we use our website as the main way to communicate with shareholders, sending out reports only to those who tell us they want a paper copy.

Good governance remains a priority. We have a Board with the right blend of skills to support and challenge the executive team. Martha Lane Fox joined as a non-executive director on 1 June 2007, bringing considerable business experience as well as knowledge of the online sector. Jack Keenan is retiring after the AGM. I would like to thank him for his contribution to M&S during the past six years. The executive management changes, which Stuart describes in his review, provide us with an effective structure to take us onto the next stage of our growth.

Our remuneration policy – set out on page 44 – is closely tied to shareholder interests. The way we reward our executive team for their leadership is primarily focused on long-term growth in earnings. We believe in sharing the benefits of success widely and, once again, have awarded all staff a bonus to thank them for their hard work.

The prospects for M&S are good. We are well placed to meet the challenges we face and achieve our goal of long-term growth.

Thank you for your continued support. I look forward to seeing many of you at our AGM on the 10 July at Earls Court in London.



Lord Burns
Chairman

Your dividend

18.3p

Total dividend

6.3p

Half year dividend

12.0p

Final dividend

In the past 12 months, we have made important management changes, promoting existing talent and bringing in new people to ensure that we are set up for the next phase of our growth. We now have the right skills in place to further improve our products, stores and service, as well as pursue new opportunities.

executive team



- 1. Simon Ratcliffe**
Director of GM Logistics
- 2. Dominic Morrey**
Commercial Director,
Food Division
- 3. Jim Waller**
Commercial Director,
Food Division
- 4. Darrell Stein**
Director of IT
- 5. Tony Quinlan**
Director of Financial Control
- 6. Jude Bridge**
Marketing Communications
Director
- 7. Keith Cameron**
Director of Human Resources
- 8. Andrew Skinner**
Director of General
Merchandise Planning
& Supply Chain
- 9. Guy Farrant**
Director of Retail

- 10. Kate Bostock**
Director of Womenswear,
Girlsweat & Lingerie
- 11. Steven Sharp**
Executive Director, Marketing
- 12. Stuart Rose**
Chief Executive
- 13. Ian Dyson**
Group Finance Director
- 14. George Davies**
Chairman of per una
- 15. David Gregory**
Technical Director,
Food Division
- 16. Richard Gillies**
Director of Store Design,
Development & Procurement
- 17. Glen Tinton**
Director of Sourcing
- 18. Flic Howard-Allen**
Director of Communications
& CSR
- 19. Melanie Davies**
Joint Business Unit Director,
per una

- 20. Stuart McIvor**
Director of Far East
Procurement
- 21. Matthew Hudson**
Director of Trading for
Womenswear, Lingerie
& Girlsweat
- 22. John Dixon**
Director of M&S Direct
- 23. Emma Trayner**
Joint Business Unit Director,
per una
- 24. Julian Kilmartin**
Director of Menswear
- 25. Steve Rowe**
Director of Home & Beauty
- 26. Nayna McIntosh**
Director of UK Store
Presentation
- 27. Clem Constantine**
Director of Property
- 28. Richard Wolff**
Director of International
Business



Steven Esom
Director of Food
(joined 1 June 2007)



Carl Leaver
Director of International
Business
(joined 14 May 2007)



The plan to return M&S to growth has remained the same over the last three years. This paid off in 2006/07 with strong results across the business. Our job now is to consolidate this progress as we move towards achieving growth for the long term. We're confident we can do this, but the year ahead is undoubtedly a critical one for us.

Chief Executive's business review

Increase in sales

10.1%

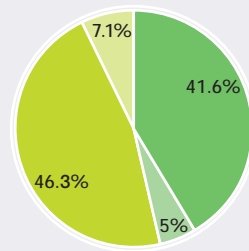
Increase in pre-tax profits

28.5%

Increase in earnings
per share

28.7%

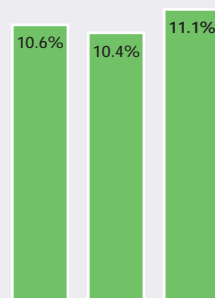
GROUP SALES BREAKDOWN



£000	2004/05	2005/06	2006/07
Clothing	3,270.8	3,269.8	3,570.9
Home	377.6	382.0	431.9
Food	3,386.3	3,623.2	3,974.7
International	455.8	522.7	610.6
Total	7,490.5	7,797.7	8,588.1

MARKETSHARE (VALUE)

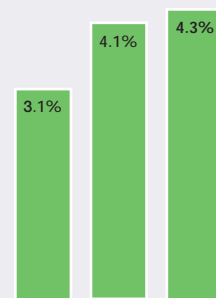
Clothing & footwear



2004/05 2005/06 2006/07

(Source: TNS Worldpanel Fashion)

Food



2004/05 2005/06 2006/07

(Source: TNS Worldpanel, Food & Drink)



Stuart Rose

Since the summer of 2004, M&S has gone from being a retailer struggling to hold its own to one that, last year, was once again setting the pace in a fiercely competitive market.

We've achieved that change by following a simple, but rigorous plan. It has been about getting three basic elements right – our products, the service we offer our customers, and the look and feel of our stores.

This will remain our focus as we continue to drive further improvements in the core business. At the same time, we have begun to look at new opportunities for growth.

M&S has always done best when it has stuck closely to its traditional values – quality, value, service, innovation and trust. They capture just what our customers look to us for – high quality, great value products, sourced and made responsibly and sold through stores which are enjoyable to shop in and which offer excellent customer service.

We are in no way complacent about the results we have achieved to date. We know that we still have much to do.

Performance

Our results last year show that we have made real progress. UK sales rose by 9.7% to £7.98bn (last year £7.27bn). Food sales grew by 9.7%. General merchandise grew by 9.6% with clothing up 9.2% and home up 13.1%. Group operating margins grew to 12.2%, up from 11.0% last year. Group profit before tax rose by 28.5% to £965.2m (last year £751.4m).

These results were achieved in a challenging economic environment, where interest rate rises, higher household bills and personal debt were beginning to dent consumer confidence.

Competition is fierce, with retailers constantly looking to improve their offer, while also extending their reach through aggressive growth of their store portfolios.

Customers are ever more demanding and informed. They want us to provide great value with no compromise on quality or innovation. Increasingly, they also want to know that we are doing this responsibly, addressing key ethical and environmental issues.

Against this backdrop our results were all the more encouraging. We were one of the few retailers to experience strong growth in market share during the year.

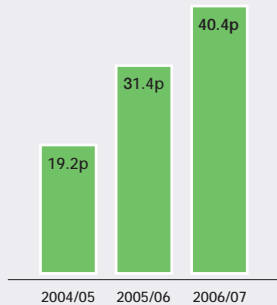
We saw increases in market share, both by value and volume, in all categories during the year. Our share of the UK clothing and footwear market went up from 10.4% to 11.1% and in food our share ended the year on a new high of 4.3%, up from 4.1%.

On average, we had 15.8 million visitors to our stores each week and we successfully encouraged shoppers to buy more each time they visited.

Our TV, newspaper and billboard advertising campaigns are allowing us to project our brand, one of our most valuable assets, with much greater impact. The key to good marketing is

CREATING SHAREHOLDER VALUE

Adjusted earnings per share (EPS)

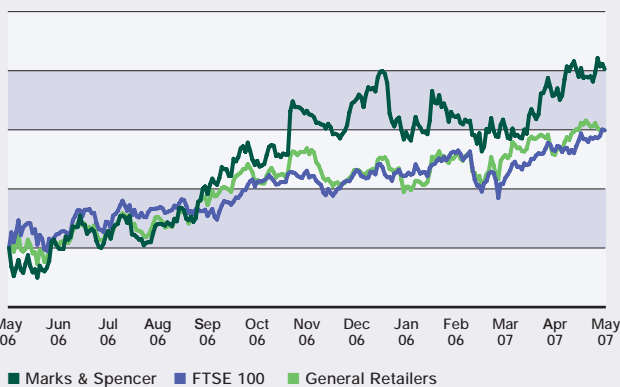


Total shareholder return (TSR)*



* TSR is the value of £100 invested in M&S shares on 30 March 2002 compared to £100 invested in the FTSE 100 over the same period.

Share price performance



OUR MARKETPLACE

Interest rate rises and higher bills have begun to dent consumer confidence. But this has not yet changed spending habits, which are being fuelled by increasing levels of debt.

Last year, the retail market continued to grow. However, the proportion of disposable income spent in shops shrank, as people chose to spend more on leisure and other activities.

Traditional high streets remained under pressure. Out-of-town shopping centres became more dominant; online and television shopping were firmly established as mainstream shopping channels; while mail order firms offered branded goods at more competitive prices.

Moreover, the market remained intensely competitive, with new entrants regularly joining the fray and established players steadily increasing their store space.

In the clothing market, a modest increase in total sales value was dwarfed by a large increase in volume, as consumers bought more lower-priced products. In spring 2007, this was further influenced by consumers buying into a multitude of looks in the absence of one dominant fashion trend.

Retailers converged in the middle ground, with value retailers adding higher-priced ranges, and mid-market players expanding their value ranges.

At the same time customers have become less loyal and more savvy, willing to shop anywhere and everywhere to compare price and quality.

More retailers entered the fragmented homeware market in the past year. Consumers, meanwhile, looked for low prices as they regularly freshened up their homes with soft furnishings in fashionable colours and styles.

Shoppers were happy to spend on technology, from flat-screen televisions to MP3 players, upgrading to the latest version. The supermarkets increased their offer to meet this demand, making this market more price sensitive.

Growth in food remained strong, with the big food retailers benefiting at the expense of smaller chains and independents.

Consumers have become much more conscious of food quality, trading up to premium ranges. Increasingly, purchasing decisions are swayed by such things as provenance, with demand for fairly traded and organic goods – from ready-prepared jams and pies, to basics such as milk – increasing rapidly.

Cooking a meal from scratch became popular again, along with a renewed emphasis on fresh food, with consumers shopping more often in more stores. Healthy eating continued to grow in importance, but people still treated themselves to the occasional indulgence.

In the year to come, the expected slowdown in property prices will further impact consumer confidence, whilst competition will increase. Convenience, quality, service and choice will remain key – in stores and online.

Sources: BRC/KPMG; Mintel

great product. Now that we have better products, we are using advertising to drive sales with greater confidence. This year, we extended our television advertising into childrenswear for the first time.

2006/07 saw us invest heavily in modernising our stores. 35% of the portfolio was modernised by Christmas 2006 – from big stores such as Cribbs Causeway and Manchester to small high street stores in Crewe and Clapham. We have a target to complete 70% of the portfolio by the end of 2007.

This is a big programme. But it is being managed with minimal disruption to customers and our overall performance. Feedback from customers is good and sales performance at the new stores is encouraging.

We want to offer a convenient, exciting and modern shopping experience. However, our new stores will only thrive if we keep getting our products and service right.

As well as improving the look and feel of our stores, we have invested in our people, increasing the number of customer assistants and the amount of time they spend helping customers. Our work on reward, training and career paths is helping us recruit and retain the best people.

The website, www.marksandspencer.com, performed well, reaching sales of over £100m for the first time. We know that online is a big opportunity for us and, in March 2007, we launched our new website – the first step in building our multi-channel offer.

Our international business also performed well. We have built a strong franchise operation and now have 219 stores in 34 territories. Turnover, including our eight wholly-owned stores in Hong Kong and 13 in the Republic of Ireland, rose 16.8% to £610.6m (last year £522.7m) while operating profits rose 33.2% to £87.5m (last year £65.7m).

M&S Money is benefiting from our partnership with HSBC, with our share of profits more than doubling from £9.6m to £19.5m. Over three million people now use the &More credit card, re-launched during the year, and we have over 100 Bureaux de Change at our stores serving 3.8 million customers. We expanded the range of financial products, which now includes home and car insurance and a new ethical investment fund.

In the pages that follow I will expand on how each element of the business performed in more detail and look at some of the main opportunities and challenges we see coming up in the year ahead.

OUR BRAND

The public has an affinity with M&S which, arguably, it has with few others. They have grown up with M&S and feel they 'own' it. The award-winning 'Your M&S' tag continues to recognise this and unify the brand.

During the year, we continued to focus on fewer, bigger impact campaigns and to use mass-appeal, traditional communication channels, like television, to bring clarity and authority to our messages.

We freshened our womenswear and lingerie formula, introducing Lizzie Jagger to appeal to younger audiences. In March 2007, Myleene Klass joined the girls outside for a fashion picnic in the park.

In menswear, rock-star turned photographer Bryan Adams captured our 'Autograph' offer; while our first childrenswear television ad drove up sales faster than any previous campaign. In our home department we developed our catalogues, in-store décor and website offer further.

'Not just food...' advertising continued to give a strong visual taste of our high quality products, such as our organic nut-free Easter eggs.

For the important festive season, we ran a feature-length ad, with Shirley Bassey, capturing the special quality we bring to Christmas.

'Look behind the label' and Plan A responded to customers' desire to better understand our approach to environmental and ethical issues.

But it's not just about advertising. Better product, better looking stores, investment in customer service and a new website have been critical in encouraging people to reassess our brand.

The positive net effect of our marketing mix continues to build: footfall is growing ahead of the market and brand momentum is the highest it has ever been and the M&S brand grew by 192% during the year to a value of £4.75bn, making it the fastest growing top 100 global brand (Millward Brown). Our challenge is to maintain this by keeping our brand fresh.



Exploring new opportunities

2007/08 will be critical as we seek to put the business on the path to solid and sustainable growth, consolidating on our progress to date, whilst also building the foundations for future growth.

Our plan to focus on product, service and environment will remain front of mind – we can't afford to take our foot off the accelerator.

Our other challenge in the months ahead is also to pursue new product opportunities in our stores and online to encourage our existing customers to spend more with us.

We will do more of what we do already, but at greater pace. For instance, this year we will open more Simply Food stores than ever before, working towards our aim to have more than 400, in addition to selling our food in BP Connect service stations under the Simply Food banner in up to 200 locations within five years.

Our property review, outlined in November, means that over the next five years we will expand our overall space by 15-20%, with new or extended stores out of town, on Retail Parks and in city centres. The objective is to be in the right place with the right space for tomorrow's customers. We are reviewing our high street stores to make sure we are properly represented in well-located sites where customers most want to shop.

Our new website, developed in partnership with Amazon and launched in March 2007, makes us a truly multi-channel operation, allowing us to offer customers greater choice and convenience. With the right technology in place attached to a much better service offer, we believe we can increase our sales through this channel five-fold in the next five years.

We have tested new product and service offers too, such as home technology, new formats for men's shoes, and new eating offers, such as our 'eat over delicatessens', all of which we are now trialling more widely. This year, we will also trial a new layout for women's shoes and for childrenswear.

We will develop our overseas business at a faster pace. We have teams exploring opportunities both in markets where we already perform well and in new locations, as I describe in more detail on page 24.

The continued tight control of our costs and stock levels remains an important priority. But we are prepared to invest heavily, as we have with the modernisation of our stores, in areas where we see real opportunities for long-term growth and investment returns.

Management team

We have made some important changes to the leadership of M&S in the last 12 months to prepare us for the next phase of growth.

In the autumn, we brought supply chain, sourcing and planning for our clothing and home businesses together under one director, Andrew Skinner, in order to get our supply chain fit for the future. Julian Kilmartin replaced Andrew as our Director of Menswear.

In addition, we have emphasised the importance of e-commerce and the new director for this area, John Dixon, now reports directly to me.

We reinforced the strength of the team in April 2007, with two new appointments and the promotion of key talent.

Steven Esom joined as Director of Food on 1 June 2007 from Waitrose, where he was Managing Director. Guy Farrant, our previous Director of Food, was appointed Director of Retail, replacing Anthony Thompson who has left the business.

Carl Leaver joined on 14 May 2007 as our Director of International Business and reports to me. He was previously CEO of De Vere Group plc and will replace Richard Wolff, who retires later in the year after 36 years with the Company.

Kate Bostock, Director of Womenswear and Girlsweat takes on additional responsibility for lingerie, helping us to ensure a co-ordinated offer for all of our ranges for women. Matt Hudson, our previous Director of Lingerie became Director of Trading for the new, enlarged womenswear, lingerie and girlsweat group.

Responsibility for our ongoing store modernisation programme passed to Ian Dyson, our Group Finance Director, to allow Steven Sharp to focus on the next generation of store design, alongside his responsibilities for marketing and M&S Money.

The Executive Committee, which oversees the day-to-day running of the business, was extended and now includes Kate Bostock, Steven Esom, Guy Farrant, Andrew Skinner and Carl Leaver, in addition to the executive board directors.

This executive team in turn forms part of a wider Directors' Group, which you can see on pages four and five of this report, including three new food director roles created in April 2007.

This structure retains the fast decision making which has been critical in recent years, whilst also ensuring that we have a joined-up approach to our customer offer.

Plan A

In any company, the temptation can be to focus too narrowly on short-term business performance. Responsible companies have to look to the long term.

PLAN A

Plan A is our five-year, 100-point plan to tackle some of the biggest challenges facing our business and our world.



Climate Change We aim to make our UK and Republic of Ireland operations carbon neutral in five years. We will minimise energy use, maximise the use of renewables and offset only as a last resort.



Waste We'll reduce packaging by 25%, find new ways to recycle and stop sending waste to landfill from our stores, offices and warehouses.



Sustainable Raw Materials From fish to forests, our goal is to make sure our key raw materials come from the most sustainable sources available.



Fair Partner By being a fair partner, we'll help improve the lives of hundreds of thousands of people in our worldwide supply chain and local communities.



Health We'll help customers and employees choose healthier lifestyles through healthy food ranges and clear labelling.

To find out more visit www.marksandspencer.com/PlanA

CLIMATE CHANGE

55,000

All our Simply Food stores, our stores in Scotland and our London head office are now powered by 'renewable' green energy – saving 55,000 tonnes of CO₂ every year.



We set ourselves very high quality and ethical standards. Last year, we used our 'Look behind the label' campaign to describe the lengths we go to to ensure everything we sell is produced responsibly.

But customers and staff wanted to understand our overall approach and our plan for the future.

The result was Plan A, our five-year, £200m 'eco plan' launched in January 2007.

We've made 100 commitments across the five areas, including becoming carbon neutral, sending no waste to landfill, cutting our packaging by a quarter and only using fish and wood from sustainable sources. As well as addressing the wider issues, we continue to work closely with local communities through our 'Marks & Start' work experience programme, for example.

All of these commitments are described in our 'How we do business' report, published alongside this document at www.marksandspencer.com/howwedobusinessreport2007.

Each year we will report on how far we have got in achieving them.

To make sure Plan A is a success it is being completely integrated into our day-to-day operations. It will change how we operate forever.

The impact will be felt widely. We are taking action across 35,000 product lines, involving more than 2,000 factories, 10,000 farms and 250,000 workers around the world. We will also involve customers and co-operate with governments, environmental agencies and like-minded organisations.

One of our aims is to help customers and employees live healthier and more sustainable lives. We've trained 1,500 assistants to give our customers advice on nutrition and we continued to expand our 'Eat Well' ranges. Later this year, we will start selling 'green home' products from energy-saving light bulbs to composters. As well as committing to reduce the amount of food we import by air, we have also started to introduce an aeroplane symbol on 'flown' food. And we'll be making it easier for customers to recycle our packaging.

Plan A is deliberately ambitious. We don't have all the answers yet. But responsible retailing has always been at the heart of our approach, so we have a strong starting point.

I'm convinced we have no alternative but to make Plan A work. Doing nothing is not an option. Businesses can no longer ignore the challenges facing the world.



 SUSTAINABLE RAW MATERIALS


Over 90% of our new collection of timber garden furniture will be Forest Stewardship Council (FSC) certified. By 2012 all of our products that are made using wood will carry FSC certification so that our customers can be confident that our products meet independent environmental management standards which aim to protect our forests.



 HEALTH

1,500

We now have 1,500 trained Healthy Eating Assistants in our stores to advise our customers on healthy options. We will train all our food hall teams in nutrition within three years.

 WASTE

100%

Almost all the carrier bags we use in our clothing and home departments are now made from 100% recycled material. Our 'Bag for Life', which has been reduced in price from 15p to 10p, is also 100% recycled.

 FAIR PARTNER

We are committed to helping disadvantaged groups like the disabled and homeless get into jobs via work placements in our stores and supplier factories. Since it launched in 2004, over 9,000 people have taken part in our 'Marks & Start' programme. This work was recognised in March 2007 when we won the Prince's Trust Partnership & Innovation Award.

INNOVATION

Our technologists work closely with suppliers to introduce new, innovative products, which have real practical benefits for our customers.

This year, we launched our exclusive men's 'Stormwear' range which is made with an innovative water and stain repellent, breathable fabric originally developed for the military.

Initially applied to some of our men's jeans, we plan to introduce more 'Stormwear' products for both adults and children.

We also developed a new fleece made from recycling plastic bottles into polyester, instead of using oil. We will be using 4.5 million

plastic bottles this year to make fleeces for sale in-store and for a store uniform trial.

During the year, we also extended our use of innovative materials that we introduced in 2005/06. This included Insolia shoes, which work by moving weight back to your heel for better body alignment and balance, keeping legs comfortable.

We also used 'Real Cool Cotton', a trademark fabric that was initially introduced into men's undergarments and helps to keep you cool, in new categories including adult t-shirts and baby sleepsuits.

In hosiery, we now sell ladder-resistant tights and hold-ups

as fine as seven denier from £3.50. The fabric is made from revolutionary new yarns, which join to form thousands of invisible mini-joints. This means that should a yarn break, rather than creating an unsightly ladder, the fabric forms a discreet hole. This hosiery also has a reinforced toe and added stretch.

In womenswear, we built on the success of 'Magicwear', which we had introduced in lingerie to provide invisible shape and support.

We applied this shaping technology to the 'Magic Dress' – as worn by Shirley Bassey in our Christmas TV adverts – and are now offering 'Magic Jeans'.

product





SOURCING AND SUPPLY CHAIN

It is 20 months since we opened our network of sourcing offices: Hong Kong and Shanghai – which opened in September 2006 – covering China and the Far East; Bangalore, Colombo and Dhaka covering South East Asia; and the Turkish office in Istanbul focusing on Eastern Europe and North Africa.

With a staff of around 200, the offices have co-ordinated the direct buying, production and transportation of over 129 million items in 8,000 styles.

These offices are our eyes and ears on the ground, helping us to operate more efficiently, such as getting new fast fashion ranges from the drawing board into stores in eight weeks. They also play a key role in monitoring our suppliers' labour standards. Last year, 677 independent visits to supplier factories were carried out to make sure they were meeting our ethical standards on issues such as fair pay and working conditions.

Our overseas offices also help us to find new suppliers who we can work with directly to produce great value products for our customers. In 2006/07, we bought 28% of our clothing and home products directly (last year 21%). Full Service Vendors still account for the large majority of our supply and remain key supplier partners, helping us to maintain our record on innovation.

We said last year that our main aim was to provide great quality, responsibly sourced clothing and home products in our stores at the right time, the right price and in the right quantities.

Womenswear, menswear, lingerie, childrenswear and home all recorded strong growth in sales and market share as we also brought in more choice and translated trends more quickly into really wearable fashion, or stylish ranges for your home.

But customers expect us to do more. Relentless competition from high street value retailers, supermarkets and established rivals means we cannot be complacent. We need to keep getting the basics right if we are to retain the support of customers and keep improving our performance.

Performance

Our growth last year shows what we are capable of. Womenswear executed its 'every woman, every time' strategy with skill with marketshare increasing from 10.5% to 11.3%. Key looks such as slim trousers, leggings, tunics, knitted jumpers and jersey t-shirts proved successful and our new denim shops traded well in a tricky market. Formal clothes prospered – our £50 polyester and linen mix suit remained a top seller – offsetting slower demand for casual trousers and some leisure wear. 'Limited Collection' was well-received by younger, more fashion-conscious shoppers.

'Per una' continued to grow strongly in the year, with sales of £423.5m, as it celebrated its fifth birthday with strong ranges from 'Collezione Italia' fashion flair to stylish eveningwear and a re-launched jeans collection.

Footwear also performed well, with improved choice and quality – from £9.50 pumps to leather-lined 'Autograph' shoes. In 2007/08, we will be trialling a new women's footwear layout to make this enhanced offer easier to shop.

Menswear saw growth across the board from casual clothing to tailoring and its share of the market grew from 9.6% to 10.3%. Our shoe ranges benefited from new serviced shoe shops, which will be rolled out to 30 modernised stores. Our three menswear sub-brands also performed well. 'Autograph' was the main engine for growth, 'Blue Harbour' remains the UK's biggest men's casualwear brand and 'Collezione' continues to be popular with men looking for classic European style. 'Blue Harbour Vintage' performed less well and this more casual look will be gradually absorbed into 'Blue Harbour'. In suiting, deals to provide suits for the England teams for the European football championships and the Rugby World Cup are a great vote of confidence in the quality of our tailoring.

In lingerie, offering more clearly defined brands helped us re-establish our fashion credentials, provide real choice and boost sales. 'Ceriso' and 'per una' are attracting younger customers while 'Adored' continues to offer pretty femininity and 'Truly You', sophisticated glamour. 'Body' remains popular with those looking for simple style, while the introduction of the 'Autograph' has helped to highlight the great quality at the top of our price range. We also remained the place women go to first for

essential items like everyday bras, single knickers and hosiery, thanks to competitive pricing and excellent quality. Clear segmentation and choice enabled us to increase our market share, despite intense competition, from 24.3% to 26.1%, nearly five times the share held by our nearest competitor. Maintaining this dominant position will be the challenge this year.

In children's clothing we reversed the weak performance of recent years and made our first market share improvement for six years, up from 4.2% to 4.5%, introducing better product from baby right through to young teenage girls and boys. Our first television advertising campaign for childrenswear boosted sales, as did a new trial store layout. We are pleased with the progress this year, but we know we have a lot more to do here, both in terms of product and availability.

Our home department is in its second year of strong growth, helped by good demand for furniture and a clearer pricing stretching from 50p glass tumblers and £5 large glass vases to our 'Autograph' extra large pure combed cotton bath towels at £25. There's potential to grow this business significantly. In furniture, our priority is to improve our deliveries to provide even better levels of service.

Value

As the UK's largest clothing retailer, we buy on a vast scale. This means we can give customers a broad spread of prices

to choose from without compromising on quality, innovation or ethical trading.

We have been taking action on prices across clothing and home for two years, with further progress made on improving value across our ranges in 2006/07. Average prices fell by around 3% over the year, while volumes increased by around 14%. Last year, items like women's jogging trousers for £9.50, one of our biggest selling lines; cosy, long fleece dressing gowns at £17.50; our men's £49.50 machine-washable suit; and cooking sets from £9.50, set the pace on value.

But we need to keep providing customers with new, great value products. In the year ahead, there will be more must-have fashion items like leggings and printed jersey dresses in womenswear, while in men's we will continue to introduce better opening prices on popular lines, as we have done with our £5 polo-shirt. In lingerie and home, we're extending the choice of colours in key lines like the £6 bra and in basic towels and bed linens. There'll be more value items in childrenswear, like our £2.50 girls' t-shirts, as we continue our work to improve our offer.

Choice

Our brands are helping us to introduce more clarity at higher price brackets too. 'Autograph' – the brand we use across womenswear, men's, lingerie and home for contemporary products at the top end of our price range – is a good example

VALUE

We offer customers a choice of high quality products at prices that suit them. For us, it's a simple equation: value = price x quality. We're trying to make the choices simpler. Take bed linen. Customers can now choose our opening price pillow cases at £2 each, opt for our 'Supima' 100% soft cotton, non-iron pillow cases at £4, or choose 'Autograph' Egyptian fine cotton ones at £12 each.



AWARDS

We won a number of important awards during the year. These included being named Business in the Community 'Company of the Year' for the second time; Best Fashion Retailer by the RSPCA; and being given Grade A status by Greenpeace for sustainable wood sourcing. Both Prima and Drapers voted us best lingerie retailer.



FAIR PARTNER

We've increased our use of 'Fairtrade' cotton from India and Africa, buying around a third of the world's current supply. In 'Fairtrade' Fortnight in March we offered an outfit for all the family, including socks, t-shirts and jeans. Next year we will sell over 20 million 'Fairtrade' garments, equating to around £100m of sales.



of this, offering affordable luxury from cashmere loungewear to Timothy Everest suits.

We can give 'Autograph' more authority. Already worth £275m across clothing and home, we aim to double its value in the next three years. The launch of 'Autograph Weekend' – smart-casual clothes for women – will help us achieve that.

'Limited Collection', like 'Ceriso' in lingerie, is attracting younger customers. Along with girls' ranges such as 'Girls Boutique', it is bought on an eight-week cycle from Turkey, to keep stores fresh with up-to-the-minute trends. However, we have not always offered new product frequently enough and we're taking action on this with a new three-weekly buying cycle and by backing key trends in more depth.

Our much improved children's ranges include organic cotton babywear, trendier outfits for girls and plenty of popular character t-shirts for boys. The enhanced childrenswear offer is an important part of our efforts to provide great value clothing for all the family.

Greater fashion appeal is very important. But we haven't forgotten our customers who want classic style. We've extended our 'Classic Collection' – which now spans sizes 8 to 24 – and also introduced a new 'Golf' range of sport-styled casual clothes for men and women.

It is vital that our core departments – like women's formal trousers and men's shirts – remain easy to shop with good availability. Our 'Petite' and 'Plus' ranges for women are helping us meet the needs of a diverse customer base. The new wedding range, which we launched in March with outfits for the whole wedding party, and our extended maternity range have both helped fill important gaps in our offer. We are extending this work through our website, providing the widest range of colours, styles and sizes.

We have also added to our home offer. Our technology shops, which we introduced to 12 stores and online in September, and to our Croydon store after the year end, offer a carefully selected range of branded goods from music systems to microwaves, all with easy to follow instructions. Everything comes with a two-year guarantee except for our large televisions, which come with a five-year guarantee and free installation. We intend to add this offer to more stores during 2007/08.

Outlook

It's encouraging to see how customers have responded to the changes we've made across our clothing and home departments. But they have made it clear they expect us to keep improving. With competition intensifying, we will be working closely with our suppliers to do just that.



FAIR PARTNER

We have supported the Breakthrough Breast Cancer Campaign since 2001 and we are now its largest corporate partner. We have raised over £6m in total, including £1.5m in 2006/07, and helped to educate and inform customers. In March, we supported the Prostate Cancer Charity, to raise £90,000 funds and awareness for a disease which kills one man every hour in the UK.



CLIMATE CHANGE

Later this year, we will introduce a new 'green home' department selling products – like energy efficient lightbulbs, hand-charged dynamo torches and household composters – to help people live greener lives as part of our commitments under Plan A. As we add to this exciting range, we'll look to sell bigger items through the website.

CHOICE

We want every one of our customers to find something they love every time they visit, whether that be the perfect 'Autograph' cashmere jumper or a trend-led item from 'Limited Collection' or 'per una'. We also filled gaps with new offers such as our range of bridal and occasionwear with everything from wedding dresses to morning suits, launched in March 2007.





product

INNOVATION

Innovation in food is what sets M&S apart from our competition as we continue to develop new products and new methods of production.

We introduced new, tastier fish and meat products from unique breeds that we developed with our suppliers, such as our 'Lochmuir Salmon'.

Developed using similar principles to our 'Oakham Chicken', the salmon are kept in large saltwater pens with lower stock levels than recommended industry standards.

The farms have been selected for their lower environmental impact and our high standards of fish care are recognised by the RSPCA. Thanks to a specially formulated feed, similar to the

diet of wild salmon, one portion of the salmon provides the Government's recommended weekly allowance of Omega-3.

From September 2006 we replaced all fresh farmed salmon with 'Lochmuir Salmon'. By autumn 2007, all our chilled salmon products will be made with 'Lochmuir Salmon'.

As part of our additive reduction programme we were the first major retailer to remove hydrogenated fats, which have been associated with the risk of higher cholesterol levels, heart disease and diabetes, from all the food we sell.

We also launched a new range of 120 'Nutritionally Balanced' ready meals to help customers maintain a healthy, balanced diet.

Introduced in October 2006, the range already represents 25% of our total ready meal offering. Developed in response to growing customer awareness about health, the range took 18 months to develop and includes dishes inspired by cuisines from around the world.

All of the new dishes are based on Government guidelines for balanced calorie, fat, salt and sugar content and, like all M&S ready meals, the range is free from artificial colours, flavours and hydrogenated fats. All the products in the range are total meal solutions, which means our customers don't need to add any accompaniments which would impact on the nutritional content of the whole meal.

SOURCING AND SUPPLY CHAIN

We have always worked closely with suppliers to produce great food responsibly and sustainably. Because our food is 100% own brand, we can do this with real authority.

We had already improved animal welfare standards with breeds like 'Oakham Chicken' and 'Muir Den Pork' which are less intensively farmed. As part of our Plan A commitments we will convert our fresh, whole turkey, goose and duck to free range within the next 12 months. We have also committed to convert our fresh pork to free range as well. We are also working with the Marine Stewardship Council and other organisations to achieve independent accreditation for the fisheries we source from.

We want to be a fair partner to all our suppliers

and in February 2007, we increased the price we pay for milk under our 'Milk Pledge' scheme, which guarantees farmers a fixed price for their milk, giving them greater security. In 2007/08, we will be consulting with farmers on ways to extend this scheme into other product areas.

Under Plan A we will reduce the proportion of food we air freight. Additionally, we have started to introduce an aeroplane symbol onto packs of products that we do air freight.

To help our suppliers to make changes in their own businesses, we are introducing a web-based Supplier Exchange. Together we aim to share best practice, stimulate innovation and help suppliers secure funds for investment.

We continue to provide customers with delicious, high quality, innovative food sourced both responsibly and sustainably.

It is a credit to our food team and suppliers that we've produced our best ever period of sustained growth in recent history. In 2006/07, total food sales grew at twice the market rate at 9.7% to £3.97bn. Sales from existing stores grew by 4.2% on a like-for-like basis and we reached more customers through new stores and formats, particularly Simply Food stores. Total market share grew to 4.3%, its highest ever level.

Although competition is fierce and food trends are changing faster than ever, we are confident we can continue to make gains.

New trends in eating

Around seven million people buy food from M&S each week. Given our relatively small share of the UK market, we are already reaching a wide audience, attracted by our outstanding quality offer, convenient locations and mouth-watering advertising.

People shop with us for a wide range of reasons. For some customers, M&S simply stands for high quality food from trusted sources. Some just love food and like the way we interpret new eating trends in our prepared meals. Others want high quality traditional ingredients to make their own dishes. For many people, M&S is a place to come at special times of the year and for indulgent treats; and for others M&S stands for great food on the go. For all of these customers, different food trends are important and we must stay a step ahead of them, using great innovation to meet their changing preferences.

The trend in healthy eating shows no signs of easing. Demand for fresh, natural food as well as the healthy prepared meals, at which we excel, is rising fast. But indulgent products are also in high demand such as our 'Gastropub' range and special desserts, like the recently advertised lemon soufflé, which has been very successful.

Provenance is important. Increasingly, customers want to know precisely where their food comes from – right down to individual farms and growers. Customers want assurance that their food has been sourced ethically – with proper care taken over nutrition, fair trading, the environment and animal welfare. And they want it to be labelled clearly and packaged responsibly.

Fresh, natural and healthy

Healthy eating is a priority for us and our customers. Facilitated by our 100% own-brand offer, our work to remove unnecessary ingredients from our products is industry leading. In 2006, M&S became the only major retailer to have removed hydrogenated fats from all our food and we remain ahead of the industry in reducing salt.

We are also continuing to meet the growing demand for fresh food which has had the minimum of processing. Our 'Marks & Spencer Cook!' range, our ready meals and all of our 'Eat Well' children's prepared meals are now free of artificial colours, flavourings, sweeteners and have no added preservatives. All of



WASTE

We are trialling 'Closed Loop Recycling' in five of our Café Revive coffee shops in London. Teams sort used café product packaging into recyclable and non-recyclable materials in store. The recyclable material is collected and turned back into raw materials for use in more packaging.



HEALTH

As part of our additive reduction programme, none of our products contain hydrogenated fats. All of our 'Nutritionally Balanced' ready meals are based on Government guidelines for calorie, fat, salt and sugar content and, like our 'Marks & Spencer Cook!' products and 'Eat Well' children's prepared meals, they are free from artificial colours, flavourings, sweeteners and preservatives.



FAIR PARTNER

The M&S Milk Pledge, which we launched with our dairy farmers in 2003, agrees prices for six month periods and pays one of the best rates in the industry. It also supports our regional sourcing work, with milk sold in the region in which it is produced.

our 'Nutritionally Balanced' meals are based on Government guidelines for calorie, fat, salt and sugar content.

We have also adopted what we think is a leading position in food labelling. Starting with selected ranges we are combining both the Government's traffic light system and Guideline Daily Amount (GDA) percentages to help our customers make healthy choices about the amount of fat, sugar and salt they eat. This will be extended to all relevant ranges by end of the 2007/08 financial year.

Our 'Eat Well' sunflower logo identifies food which is either naturally healthy or nutritionally balanced, as endorsed by the British Nutrition Foundation. Some 1,300 food products (as of January 2007), or around 30% of our food sales, come under the 'Eat Well' banner. Our target, under Plan A, is to make that 50% in five years.

Our organic food offer now stretches to 350 lines. Under Plan A, we aim to triple our sales of organic food within five years. Prepared meals made with organic ingredients have become more popular and, in February, we launched Organic 'Food to Go', with over 20 products from sandwiches to smoothies.

Indulgence and celebrations

While healthy eating is increasingly important to customers, we have to remember that many people come to M&S for a treat. Some of the products we are most famous for are

seeing superb growth. Last year we enjoyed 12% of the UK champagne market, 22% of the pre-packed shellfish market, and 10% of the boxed chocolate market.

Our indulgent food remains distinctive and is often unique. At Easter, for instance, all our children's chocolate was organic and nut-free. We are now working towards making sure all our children's cakes are made using only naturally-occurring colours and flavours. Increasingly, these products are helping us stand out at key times like Christmas and Easter.

Authenticity and provenance

Our customers want exciting new dishes, but they are also increasingly interested in real food, simply prepared, from known sources.

M&S has always been known for the provenance of its food and the 'Speciality' range, launched in April 2006, taps into this demand. Carefully selected foods, many from smaller specialist producers in the UK and overseas, are what this range is all about.

Already over 300 products strong and accounting for a significant proportion of food sales, the range includes Brecknock lamb from Wales, Scottish langoustines from fisherman Sandy West and Giuliano Baroni's exclusive 24-month matured parmigiano reggiano. We will increase this range to 400 products next year.

FAIR PARTNER

We now have over 70 'Fairtrade' certified food products on our shelves. During 2006/07, we launched 'Fairtrade' wine; expanded our range of fresh 'Fairtrade' produce to include whole and prepared pineapples as well as grapes; and in February we converted all of our preserves and jams to 'Fairtrade'. And we are still the only major retailer to sell only 'Fairtrade' tea and coffee.

SUSTAINABLE RAW MATERIALS

In February 2007, we launched our first organic fruit and vegetable box. Available in two sizes and presented in a 100% recycled cardboard box, each comes with information on the origin of the products, shelf life and details on the environmental benefits of organic produce. The boxes also allow us to offer a wider range of produce to customers in our smaller stores.



AWARDS

In 2006, we won a number of awards for our excellence in food. We are particularly proud of the awards we have won for our fish. Greenpeace, the Marine Conservation Society, the Seafood Choices Alliance and Fish Farmer Magazine have all recognised our commitment to sustainable fish sourcing.



New stores and food hospitality

We see scope for growth in our food business by opening food halls in new main chain stores and new Simply Food stores, which you can read about on page 23. But expanding space is not the only way to grow. The eating-out market is worth around £28.4bn (source: TNS Outlet tracker) – we think we can take a bigger share of this market. We are concentrating on five different formats.

Café Revive, with 217 in-store cafés and around 40 more planned this year, is the third largest UK chain of coffee shops. In 2007/08, we will introduce a stronger food offer, including more choice for children, and more bakery and hot food. 'Hot Food To Go' counters have been successfully trialled in 15 stores and will go to a further 21 stores this year, leading to an eventual roll-out further down the chain.

Our four 'Deli Bars' provide a sophisticated place to relax over freshly prepared dishes with a glass of wine or fruit juice. Another four will open this year. 'M&S Restaurant' in Newcastle is our first in-store restaurant, with 130 covers, table service and classic M&S dishes made to order. It's one of the best examples of how we are reaching new customers and four more are planned this year.

'M&S Kitchen', currently a one-store pilot attached to our Canterbury store, has a strong hot and cold food and alcoholic

beverage offer to eat-in or take-away. It targets customers who want to enjoy lunch, brunch or supper in a more sophisticated setting.

Trust

Trust is one of the cornerstones of our business and our customers expect us to take the lead on ethical trading and the environment. Through Plan A we will continue to improve our already high standards.

One of the big issues we are tackling is packaging. We currently use around 79,000 tonnes of food packaging annually. Of this, about 25,000 tonnes is glass, mainly wine bottles, for which recycling schemes already exist. We are committed to reducing non-glass packaging by 25% by 2012 – this applies to all our packaging, not just food.

To reach this target we will unpack some less fragile produce, remove unnecessary layers, replace cardboard sleeves with labels and make packaging lighter. We will also make packaging from sustainable or recycled sources and clearly label it recyclable or compostable. We have already labelled some 12% of our food products with this information.

As we grow our food business we expect trust to be increasingly important to our customers. Independent research shows we are one of the UK's most trusted retailers, but to maintain this position we must continue to tackle the big issues.

OUR CUSTOMERS

Our core customers continue to be those aged 45 plus. In fact, some 75% of turnover comes from this group. However, we continue to appeal to a broad church of customers and are growing customer numbers and sales across every age group. Listening to all these customers is crucial to ensure we get our offer right.

During the year, we conducted around 200 customer focus groups on some 40 topics. These sessions cover everything from what our customers think of the quality and value of our clothing to our new website and Plan A. As a result of these sessions some products might not make it onto the shop floor while others will be changed or bought in greater number.

Customers' views about our products have improved. However, those aged between 45 and 54 told us that they wanted more evidence that we will continue to make our products better, increase choice and continue to be competitive on price.

Attitudes were most favourable among our core customers but we saw gains across all age groups.

Scores on the style of our clothes went up 16% and 9% more customers said they were finding products that appealed to them. But the feedback also highlighted that there is much more to do, such as improving the consistency of sizing and fit.

We have more Simply Food stores in more convenient locations and this is helping us to attract new and younger customers. The drive for fresh, healthy food cooked from scratch at home or partially prepared also means that customers are buying from us more regularly, across different stores and in more than one location.

As well as shopping more frequently across different store formats, customers are increasingly looking for the convenience and flexibility offered by other channels such as online. In March, we re-launched our website to better meet this growing demand.

service

OUR PEOPLE

We've made important changes in people management in the last two years. In 2005/06, we provided staff with more opportunities to progress within the Career Path structure introducing additional responsibility steps coupled with more competitive pay rates. We continue to offer among the top rates of pay in retail.

In 2006/07, we extended the Career Path approach to store management. As well as defining Management Career Paths we carried out a skills audit across all our store management teams. This allows employees to easily map their own competencies against those required for development. We have also developed more tailored training programmes to help management enhance their skills.

In 2007/08, we will complete the career development structure, with improved training for our 4,000 section managers.

In head office, following the successful introduction of our general merchandise Buying Academy in 2005, we launched a Culinary Academy for our Food Group, designed to improve individuals' sensory, ingredient and culinary knowledge. The first phase covering all categories was completed during the year and phase two which will cover

future food trends started in May 2007. We have built elements of the training into our induction programme for new starters.

Our graduate scheme is one of the most popular in the sector. Last year we received over 6,500 applications for 135 positions. Most graduates spend an intensive year working in a number of stores across food, general merchandise, human resources and store operations. In April 2007, we won three awards for our programme and moved up to number 17 in The Times Top 100 Graduate Employers list.

Some 3,500 people, both in stores and head office, act as elected representatives on our Business Involvement Groups (BIGs). They play a crucial role in maintaining an open dialogue between senior management and their colleagues. The BIG is

consulted on all important changes in the business.

One important issue we consulted with them on during the year was the Final Salary Pension Scheme. We needed to put the Scheme on a more secure footing and to do this we had to make changes. The Company agreed to reduce the deficit by £500m using an M&S property-backed structure and we asked members to consider three options about how their pension builds up in the future. As a result of the consultation we have made changes to the choices we are offering our members, one of which involves making contributions. The changes will come into effect in October 2007.

For the second year running we have also completed our 'Your M&S, your say' survey which helps us to understand our employees concerns and priorities better.

Our customers expect consistently great service, no matter when or where they visit us. We were clear when we developed our plan to return M&S to growth that improving service should be one of our three top priorities, alongside improving products and modernising stores. While there's more we need to do here, I believe we have made progress.

This has been driven in large part by our service training programme, which involved over 60,000 store staff and was completed in June 2006. This 'Our Service Style' training is now incorporated into all store induction programmes with our 8,000 specially trained coaches taking on the responsibility for continuous service training.

Mystery shopping

We wanted to make sure this training was translating into improvements in-store. In May, we introduced a mystery shopping programme to measure the quality of our customer service.

Stores are visited by mystery shoppers once a month, with our biggest stores checked twice a month, in total around 6,500 visits a year. Each is scored on a range of measures chosen by customers, from product knowledge to tidiness and respect.

Our overall scores showed steady improvement during the year, rising from 70% in May 2006 to a progressive average of 79% for 2006/07. This is a good result not least because we recruited 19,000 extra staff at Christmas and faced a big challenge in bringing them up to speed at a very busy time. However, some stores are still not performing as they should and we have work to do to make sure improvements continue.

In addition, the senior management team, myself included, visit stores frequently. We spend a lot of time talking directly to our customers and employees. Our customer services team talks to 12,000 customers a week. This feedback is invaluable. We also conduct regular customer focus groups, which you can read about on the page opposite.

We know we are not perfect and need to make further improvements. In order to help facilitate this in 2007/08 we will link the bonus payments of our store teams to their mystery shop scores. We've set our sights high where service is concerned. We are looking for excellence – getting by won't do.

Productivity

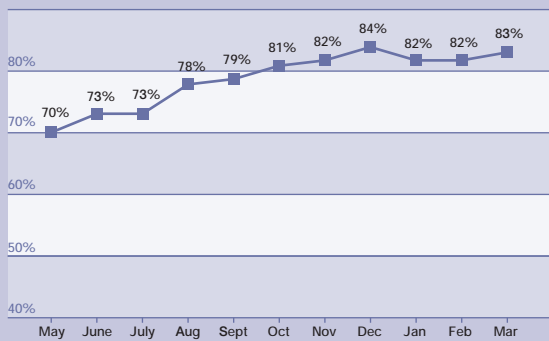
As more and more people come into our stores, it is more important than ever that our customer service is effectively managed. Getting the right number of people with the right skills on the sales floor at the right time is the key. It sounds simple, but in the past we have found it difficult with staff often distracted by store processes and bureaucracy.

So, on top of continued service training we have worked hard to improve efficiency and to ensure that we maximise the number of customer-facing staff. We have also worked to define and clarify store standards.

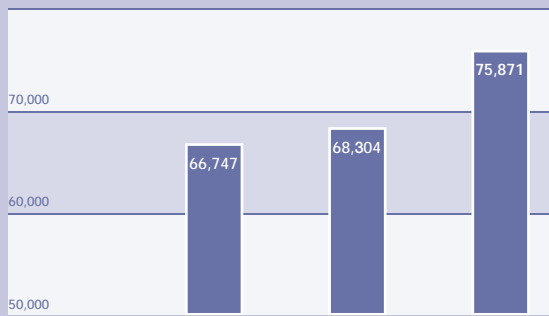
Following this action, we saw productivity, the number of individual items sold per full-time member of staff in clothing and home, increase by 12.2% during the year.



Mystery shopping



Average number of employees



	2004/05	2005/06	2006/07
UK Stores	61,132	62,288	69,309
Head office	3,505	3,057	3,246
Other	2,110	2,959	3,316
Total	66,747	68,304	75,871

MODERNISATION PROGRAMME

Our store modernisation programme is well under way. Around 40% of our portfolio is now in the new format and we are currently on site in over 60 stores.

The programme often involves radical changes, going beyond changes to fixtures and fittings. Alongside major construction work, new flooring and refrigeration, we are also making changes to how we lay out our stores and guide customers through departments. We are also starting to look at new ways of allocating which products go into which stores, and how we display them.

Managing a programme of this scale, while keeping the stores open, is very challenging. One of

our priorities is keeping disruption to a minimum both for our customers and for the business. We have increased the amount of night-time working we do and we have improved the way we separate the building works from the store during opening hours.

It is important that our stores are in the best state for the Christmas trading period and we will continue to deliver the bulk of our programme before the 2007 October half-term. However, where some of our larger stores are undergoing major redevelopment work this will not always be possible.

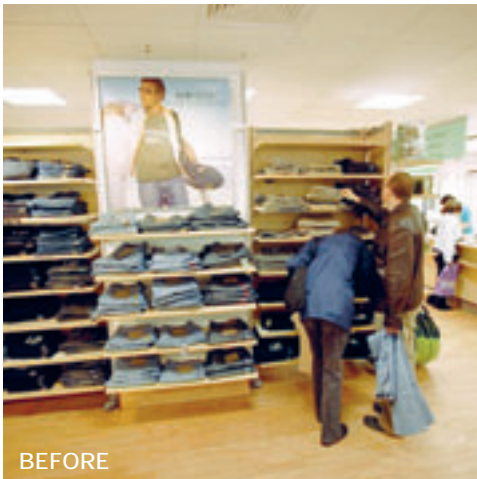
We are also meeting Plan A objectives in our stores and offices, particularly on sourcing

renewable energy and sustainable materials and dealing with waste.

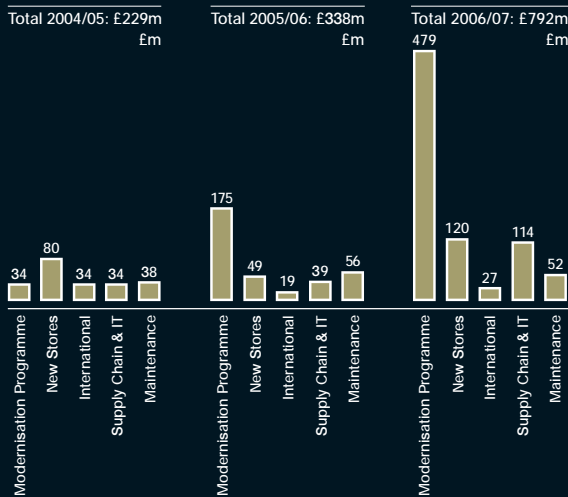
By April 2007, we had secured 175 GWh of renewable energy to power all our stores in Scotland, all our Simply Food stores in England and Wales and our London head office, saving 55,000 tonnes of CO₂.

This year, the first of a new breed of 'green' stores will open. Bournemouth will use 25% less energy and emit 50% less CO₂ every year or the equivalent of the emissions of 244 return flights from London to New York. Two other 'green' stores are in the pipeline at Pollok and Galashiels.

environment



CAPITAL EXPENDITURE



OUR STORE PORTFOLIO

STORE TYPE	Number of stores
Flagship stores	43
High Street stores	221
Simply Food stores	144
Simply Food franchise stores	61
Retail Park stores	20
Outlet stores	30
M&S Kitchen	1
Total	520

SIMPLY FOOD

We opened more Simply Food stores in 2006/07 than in any other year.

At the year end we had 205 stores including 61 run by our franchise partners, SSP and Moto, at airports, stations and motorway services and BP in their BP Connect forecourts. We opened 63 new stores during the year and closed two. Our trial with BP has been successful and we will open around 60 stores during 2007/08, adding to the 11 trial stores.

The Simply Food opening programme, together with some new main chain stores and franchise stores, has increased our total food space by around 30% in the last six years.

Initially our Simply Food expansion programme was focused on convenience-

sized units of 3,000 to 5,000 sq ft but increasingly we are targeting bigger sites of 6,000 to 12,000 sq ft to make the most of our food offer.

In March 2006, we bought 28 Iceland stores, which we converted into Simply Food stores and reopened in summer 2006. We also bought an additional 12 stores from Somerfield, six of which, including Westhill in Aberdeen and Blackheath in London re-opened during the year. The remaining six will open during summer 2007. We want more stores in more convenient locations and intend to open 20-25% more food space in the next five years.

The UK retail property market has undergone radical change in recent years, with many of our competitors moving aggressively into new space in new areas. We have added more than 200 stores since 2002, but we need to make sure we are in the right place in the right space. In particular, we missed the move to develop out-of-town stores and to open on Retail Parks.

In November, we announced a far-reaching property strategy that will see us increase our current space of around 13.2 million sq ft by 15-20% in the next five years. We have five priorities here:

- Enhancing our major city centre stores, mainly through expansion and major redevelopment;
- Finding more out-of-town stores of around 100,000 sq ft and expanding our space where we already trade through mezzanines and extensions;
- Opening more stores of between 40,000 and 60,000 sq ft on Retail Parks;
- Examining our portfolio of high street stores to make sure they are the right size and in the right place. There could be some closures, but mostly we will relocate to better sites that suit our customers; and
- Doubling the number of Simply Food stores to more than 400, including franchise stores at stations, airports and motorway services. We will also extend our partnership with BP, adding Simply Food stores at up to 200 BP Connect sites within five years.

The way our stores look has been another big issue for us to address and we now have a programme to modernise virtually all of our stores by the end of 2008/09.

In the year under review, we spent £479m modernising and redeveloping our stores as well as some £120m on new space. In total, capital expenditure for the year was £792m.

This is an increase of around £250m on the guidance we gave you last year and is because we have brought forward a number of modernisation projects originally scheduled to start in 2007/08 into the 2006/07 financial year. By Christmas 2006 we had over 220 stores in the new format, including almost all of our Simply Food stores. By Christmas 2007 we will have completed around another 130, equating to approximately 70% of our total space. You can read more about our store remodel programme in the box on the opposite page.

With both our store modernisation programme and our property strategy, we are testing out ideas carefully, and then rolling out successful formats at pace.

Moving with speed and consistency is essential. The market is and will remain highly competitive, good space is at a premium and getting planning permission can be slow. We are constantly looking for appropriate sites, so we can reach a wider customer-base in more easily accessible, convenient locations.

Marks & Spencer is a well-recognised and increasingly popular brand around the world. We see scope to open many more stores in selected markets.

In a busy year we opened 36 new stores, most of which were in territories where we already have a presence. We also opened stores in new territories including Switzerland, Latvia, Slovakia and Bulgaria as well as our biggest overseas franchise store in Dubai.

We continue to actively manage the franchise operation and closed a number of poorly performing stores, often moving to larger, more profitable sites.

At the end of March 2007, we had 219 franchise stores in 34 territories and had grown our total space by over 315,000 sq ft to nearly 1.8 million sq ft.

In the year ahead, our franchise operation will grow at a faster pace, with around 40 more stores opening across Russia, Eastern Europe, the Middle East and Asia. We have already opened six new stores since April, including our first store in Lithuania. In May, we also opened our first store in Taiwan, which is being run as a joint venture.

We continue to own eight stores in Hong Kong – a mature but, for us, successful market. We also see a lot of potential in the Republic of Ireland and by the end of the year we owned 13 stores. In May 2007, we opened a store in

Letterkenny and we will open another store in Tallaght later in the year. By reinforcing our position in key cities, particularly Dublin and Cork, and by moving into new areas, we will grow the business here significantly in the next three years.

During the year, our international business recorded a 16.8% increase in sales to £610.6m (last year £522.7m) and a 33.2% increase in operating profit to £87.5m (last year £65.7m).

Operating profits from our franchises grew by 40.8% to £42.1m, with sales up 21.5%. Our two wholly-owned businesses in Hong Kong and the Republic of Ireland recorded a 14.0% increase in sales and a 26.8% increase in operating profit, to £45.4m.

These are good results. We believe the time is right to pick up the pace of growth overseas. Our strategy is to focus on markets where there's a strong demand for our products from a growing middle class.

Russia is a good example of this. We opened our first store in late 2005 and now have nine stores in Moscow and St Petersburg, with four new openings planned during 2007/08.

Where possible, we work with existing franchisees with local knowledge and will often go into a new territory with a trusted company we've worked with elsewhere. Our partner in Turkey, for example, took us into Russia and we opened another store with them in the Ukraine in May 2007.



Dubai

International Retail

	2004/05	2005/06	2006/07
Revenue (£m)	455.8	522.7	610.6
Operating profit (£m)	60.7	65.7	87.5
Number of stores at year end			
– Owned	18	19	21
– Franchises	191	198	219
Selling space at year end (k sq ft)			
– Owned	586	586	632
– Franchises	1,317	1,433	1,762



The explosion of internet shopping provides another big opportunity for us.

Our customers already like shopping with us on the net. In 2006/07, online sales grew by more than 60%, well ahead of the market, albeit from a fairly low base, reaching over £100m for the first time. This was driven by over 55 million visits (last year 30 million).

If you consider that we have an 11.1% share of UK clothing sales, but just 4.2% of online clothing sales, it's clear that there's a lot more we can go for.

We have set a target to increase online sales to £500m in five years. To reflect the size of the opportunity, e-commerce is now a separate business unit reporting to me.

In March 2007, we launched our new website, developed with Amazon, which has the widest selections of online clothing in the UK – over 15,000 items – as well as 10,000 homeware and technology products, flowers, wines and exclusive online ranges, including jewellery.

As well as looking fresh and modern, the website includes a range of new features, including a sophisticated, fast-search facility which lets you search by size, colour, style and price, or choose from over 50 departments.

The photography is sharper, you can look at the item in all available colours, and a zoom function means you can home in on stitching and fabric detail.

The site also offers tips and recommendations tailored to customers' shopping preferences.

We are also improving service levels, with standard delivery times shortened from seven days to three, in addition to our free standard delivery on all orders over £30. We also offer next day and nominated day deliveries for a small premium.

Later in the year, web, phone and in-store ordering will be linked together for the first time, providing more delivery choices, something customers have said is important to them, including collecting online orders from a store of your choice.

In line with Plan A, we are playing our part in making our operations more sustainable, with over 90% of our online delivery packaging now made from recycled, recyclable materials.

I believe we are now set up to offer one of the best e-commerce sites in the UK for clothing, homeware, gifts and selected food products with potential for further development.

Chairman's Foreword

Executive Team

Chief Executive's Business Review

Your Board

Financial Review

Governance

Financials

Shareholder Information



£500m
We intend to grow our online sales from just over £100m in 2006/07 to £500m within five years.

THE ONLINE OPPORTUNITY
Online shopping is growing at a rapid rate in the UK. This is supported by the spread of broadband technology. Industry forecasts for the UK online clothing and footwear market predict an increase in sales this year of 42% to £3.5bn (source IMRG).

Looking ahead

I said when I rejoined the business in 2004 that M&S was a great business with significant strengths, but one that needed radical change to become world-class again.

Three years on, this review of our operations in 2006/07 aims to give you an insight into the scale of the changes we have made and a sense of the ambitions we have for the business in the years to come.

The year ahead will, as I said at the beginning of this review, be critical in creating a sustainable future for the Company.

We believe that we can carve out a unique position for M&S through our commitment to a simple, rigorous plan and to our core values of quality, value, service, innovation and trust.

This, coupled with our scale, provides us with an authoritative and well-differentiated position in the markets in which we trade and sets us up well to continue to earn people's trust and to deliver consistent, profitable growth.

The management changes that we have made over the past 12 months will be crucial to our ability to deliver on this simple plan.

The immediate economic outlook is undoubtedly more difficult. We expect costs to rise ahead of overall growth in the market-place, which means that we must find new ways to increase our sales.

In the coming 12 months, we will remain relentlessly focused on our plan of offering great products, in great stores with great customer service.

We will also pursue new opportunities through new space at home and abroad, new product and service offers, and our re-launched website.

We will continue to improve our product offer, both within our existing ranges and by filling gaps with new products we haven't offered before.

Our major brands, from 'Autograph' and 'per una' to 'Limited Collection' and 'Blue Harbour', will be key in segmenting this offer and making it easy to shop.

Great prices and excellent quality, combining to provide outstanding value for our customers, will remain key to our competitiveness in the year ahead.

Our property strategy will increase our reach significantly, as will our direct business, starting with our new website. This, coupled with our store modernisation programme, will help to ensure we have the right offer, in the right space, in the right place.

However, we won't see the full benefit of this work unless we offer first-class service. We know we need to make further improvements here, despite the great strides we have made already.

We also still have a great deal of work to do to modernise our infrastructure so that everything from our warehouses to the technology behind our tills and financial systems is fit for the growth we are aiming to achieve in the years ahead.

Through all of this, we will keep listening to our customers. Their views and demands have moulded M&S in recent years and I want this to continue.

This is crucial in areas such as customer service and product, but also just as important in terms of how we are dealing with social, ethical and environmental challenges through Plan A.

Our customers want us to succeed, but they want proof that success does not come at a cost to society or the environment.

The progress we have made has only been achieved through team effort which, for us, means all our 75,000 staff. I am grateful for their commitment and support and delighted that we were able to pay everyone in the Company a bonus, at a total cost of £91m, for the second year running.

In future we will be linking all bonus payments more closely to performance and improving service standards. We are geared up to reward people well for great work.

Our suppliers play a crucial role in ensuring that we offer great value, innovative products. Their continued dedication to M&S and our customers is highly valued.

Lastly, I'd like to thank shareholders for their continuing support, which has been vital in allowing us to take a long-term view and prepare the Company for future growth.

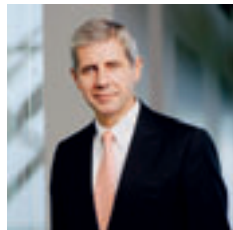


Stuart Rose
Chief Executive

Your Board



Lord Burns Chairman ▲ (Chairman)
Appointed as Deputy Chairman in October 2005 and as Chairman in July 2006. Age 63. He is Chairman of Abbey National plc and Glas Cymru Ltd (Welsh Water) and a non-executive director of Banco Santander Central Hispano SA and Pearson Group plc. He is a former non-executive director of Legal & General Group Plc and The British Land Company PLC and a former Chairman of the National Lottery Commission. He was Permanent Secretary to HM Treasury from 1991 to 1998 and Chief Economic Advisor from 1980 to 1991. He was appointed a Life Peer in 1998.



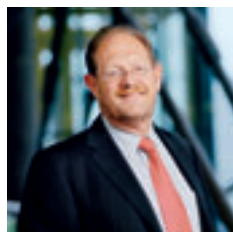
Stuart Rose Chief Executive ▲
Appointed in May 2004. Age 58. Stuart is a non-executive director of Land Securities plc and Chairman of the British Fashion Council. He began his career in retail at Marks & Spencer in 1972 before going on to the Burton Group in 1989, becoming Chief Executive of the Multiples Division in 1994. He left the Group following the demerger in 1997. Stuart was Chief Executive of Argos plc in 1998 and later became Chief Executive of Booker plc. Before re-joining Marks & Spencer as Chief Executive in 2004, he was Chief Executive of Arcadia Group plc from 2000 until 2002.



Ian Dyson Group Finance Director
Appointed in June 2005. Age 44. Ian was formerly Finance Director of The Rank Group plc. Prior to this he was Group Financial Controller of Hilton Group plc. He joined Hilton from Le Meridien, a division of Forte plc, where he had been Finance Director. His early career was spent with Arthur Andersen, where he qualified as a Chartered Accountant in 1986 and was promoted to a Partner of the firm in 1994. Ian was a non-executive director of Misy plc until September 2005.



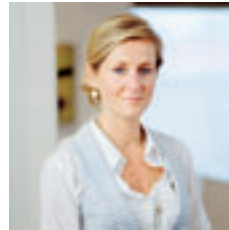
Steven Sharp Executive Director, Marketing
Appointed in November 2005 having joined the Company in May 2004. Age 56. He started his career with Bejam in 1978, progressing to the Argyll Group and became Marketing Director of Asda in 1987. He joined the Board of Debenhams in 1989. He later became Marketing Director of the Burton Group, Booker plc and Arcadia Group plc. Steven is a Fellow of the Chartered Institute of Marketing and visiting professor of Glasgow Caledonian University.



Sir David Michels Senior Independent Director * ● ■ ▲
Appointed in March 2006. Age 60. David was appointed Senior Independent Director in September 2006. He is a non-executive director of The British Land Company plc, easyJet plc, Strategic Hotels & Resorts and RAB Capital Plc. He previously worked with Grand Metropolitan, Hilton International and Stakis before rejoining Hilton International in 1999 as Chief Executive, becoming Chief Executive of Hilton Group plc from 2000 to 2006. He was formerly a non-executive director of Arcadia Group. David was knighted in June 2006.



Jeremy Darroch Non-Executive Director * ▲ ● (Chairman)
Appointed in February 2006. Age 44. Jeremy was appointed Chairman of the Audit Committee in September 2006. He is the Chief Financial Officer at British Sky Broadcasting Plc. He was previously Retail Finance Director at Dixons Group plc, where he became Group Finance Director in 2002. He spent 12 years at Procter & Gamble in a variety of roles. He qualified as a Chartered Accountant with Deloitte Haskins and Sells.



Martha Lane Fox Non-Executive Director * ● ■ ▲
To be appointed on 1 June 2007. Age 34. Martha is a non-executive director of Channel 4 Television and Trustee of the charity Reprieve. She is founder of a chain of private room karaoke clubs, Lucky Voice, and of her own charity foundation, Antigone. Martha co-founded lastminute.com in 1998, taking the company public in March 2000, she remained on the Board until the company was purchased by Sabre Holdings in 2005. Martha is also a Patron of CAMFED.



Steven Holliday Non-Executive Director * ● ■ ▲
Appointed in July 2004. Age 50. Steve was appointed Group CEO of National Grid plc at the end of 2006, having at different times been responsible for the UK Electricity and Gas businesses. He was formerly an executive director of British Borneo Oil and Gas. Previously, he spent 19 years with the Exxon Group where he held numerous senior positions. His international business experience includes the US, China, Australia, Japan and Brazil.



Jack Keenan Non-Executive Director * ● ■ ▲
Appointed in September 2001. Age 70. Jack will retire as a non-executive director at this year's AGM. He is CEO of Grand Cru Consulting Ltd and will retire as a non-executive director of Tomkins plc following their AGM on 13 June 2007. Jack was previously Deputy CEO of Guinness UDV, a board member of Diageo plc until 2001 and senior non-executive director of The Body Shop International plc. Jack is Patron of Cambridge University's Centre for International Business and Management.



Louise Patten Non-Executive Director * ▲ ■ (Chairman)
Appointed in February 2006. Age 53. Louise was appointed Chairman of the Remuneration Committee in January 2007. She is non-executive Chairman of Brixton plc, a non-executive director of Bradford & Bingley plc and a senior adviser to Bain & Co. She was formerly a non-executive director of Hilton Group plc, GUS plc, Somerfield plc and Harveys Furnishings plc.



Graham Oakley Group Secretary and Head of Corporate Governance
Appointed in August 1997. Age 50. Graham is Secretary of the Audit, Remuneration and Nomination Committees. In 1985, he joined Marks & Spencer's Legal Department. He was appointed Head of Legal in 1990, Company Secretary and Chief Legal Adviser in 1997 and Head of the Corporate Governance Group in June 2002.

- * Independent
- Audit Committee
- Remuneration Committee
- ▲ Nomination Committee

Financial review

Revenue

	UK Retail	International Retail
2007	£7,977.5m	£610.6m
2006	£7,275.0m	£522.7m

Total	+9.7%	+16.8%
Like-for-like	+6.1%	+8.3%

Revenue

Total revenues were up 10.1% with strong performances in both the UK and international businesses.

UK revenues were up 9.7% with like-for-like growth at 6.1% despite much tougher comparatives in the second half of the financial year and disruption to our stores as we continued the store modernisation programme. During the year, we added 2.7% of space (on a weighted average basis), 4.5% in food and 1.8% in general merchandise.

International revenues were up 16.8% with strong performances in both owned and franchised stores, up 14.0% and 21.5% respectively. This was driven by strong like-for-like performance and 23 new store openings.

Operating profit

	UK Retail	International Retail
2007	£956.5m	£87.5m
2006	£790.1m	£65.7m

Total	+21.1%	+33.2%
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Operating profit

Operating profit before property disposals was £1,044.0m, up 22.0%.

In the UK, operating profit before property disposals was up 21.1% at £956.5m, reflecting strong revenue growth and further gross margin gains. UK gross margin was 43.4%, an increase of 60 basis points on the previous year. Although this was less than we had indicated at the half year end, it reflects our decision to keep inventory clean at the end of the fourth quarter. At the same time we managed our operating costs tightly.

General merchandise gross margin was up 120 basis points to 52.6% driven by better buying. Food gross margin at 34.0% was level on the year.

UK operating costs, before bonus, were up 7.7% to £2,431.7m (last year £2,257.4m). This reflected the ongoing investment in the growth of the business through our staff, stores and marketing. Increasing underlying cost pressures in areas such as energy, fuel, rent and rates have been well managed.

Summary of results

Group Summary

	2005 £m	2006 £m	2007 £m
Continuing operations before property disposals and exceptional items			
Revenue	7,490.5	7,797.7	8,588.1
Operating profit	649.1	855.8	1,044.0
Net finance costs	(93.0)	(104.4)	(78.8)
Adjusted profit before tax	556.1	751.4	965.2
Profit/(loss) on property disposals	(0.4)	(5.7)	1.9
Exceptional items	(50.6)	-	(30.4)
Group profit before tax from continuing operations	505.1	745.7	936.7
Revenue year on year	(1.2%)	+4.1%	+10.1%
Operating profit year on year	n/a	+31.8%	+22.0%
Interest cover	6.2x	7.0x	10.5x
Dividend per share	12.1p	14.0p	18.3p
Earnings per share from continuing operations			
Basic	17.6p	31.3p	39.1p
Adjusted	19.2p	31.4p	40.4p

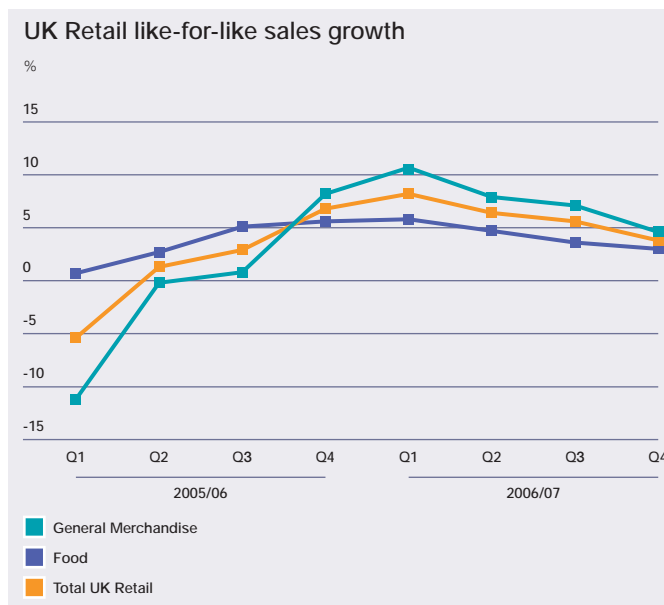
A breakdown of UK operating costs for the year is shown below:

	52 weeks ended		Increase %
	1 April 2006 £m	31 March 2007 £m	
Retail staffing	741.0	810.1	+9.3
Retail occupancy	682.1	717.3	+5.2
Distribution	306.2	321.6	+5.0
Marketing and related	113.8	144.7	+27.2
Support	414.3	438.0	+5.7
Total before bonus	2,257.4	2,431.7	+7.7
Bonus	73.0	91.0	+24.7
Total after bonus	2,330.4	2,522.7	+8.3

The increase in retail staffing costs reflects the impact of the changes made to pay structures last year, as well as space growth and investment in additional staffing in our stores to improve service for our customers. The increase in retail occupancy costs reflects space growth and higher energy costs. Distribution costs increased at a rate well below volume growth. Further investment in marketing has contributed towards our top line sales growth. Support costs, which include non-store related overheads, were impacted by increased pension contributions. We will be paying a record bonus of £91.0m (last year £73.0m), which includes a £26m reward for our store staff and reflects the very strong performance of the business in 2006/07.

The UK operating profit includes a contribution of £19.5m (last year £9.6m) from the Group's continuing economic interest in M&S Money. This strong growth came from additional account holders and lower costs.

International operating profit before property disposals was £87.5m, up 33.2%, reflecting the strong sales performance of the business. Franchised operating profits grew by 40.8% to £42.1m. Owned store operating profits (Ireland and Hong Kong), increased by 26.8% to £45.4m.



Net finance costs

Net finance costs for the year, before exceptional items and pension finance income, were down 18.3% at £99.6m reflecting the reduction in average net debt. The average interest rate for the year was 5.9% (last year 5.8%). Fixed charge cover was 5.9x (last year 4.9x). Pension finance income, which reflects the difference between the expected return on pension scheme assets and the interest on scheme liabilities, was £20.8m.

The exceptional finance costs of £30.4m represent a one-off make-whole premium arising on the redemption of £317.2m of secured bonds, together with the write-off of unamortised transaction costs. This redemption enabled us to release the secured properties for their transfer into a limited partnership with the UK Pension Scheme (see Pensions on page 30).

Taxation

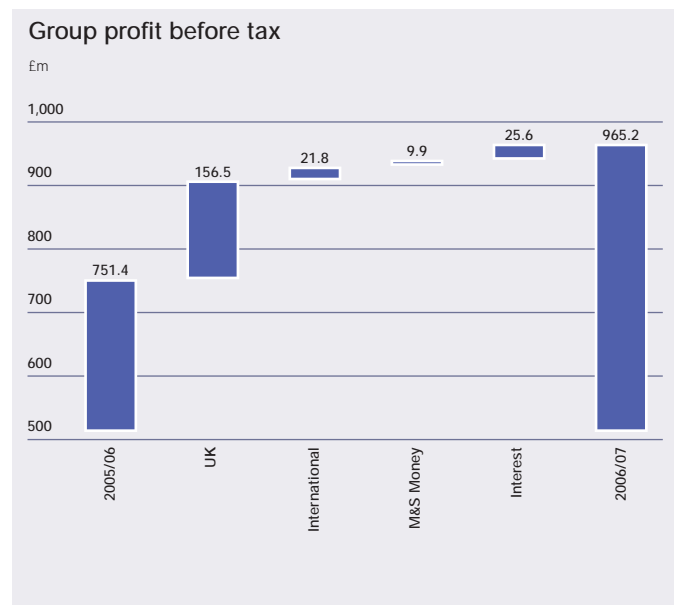
The tax charge reflects a pre-exceptional effective tax rate for the year of 29.4% (last year 30.2%). This reflects the refund of prior year tax.

Earnings per share

Adjusted earnings per share from continuing operations, which excludes the effect of property disposals and exceptional items, has increased by 28.7% to 40.4p per share. The weighted average number of shares in issue during the period was 1,688.6m (last year 1,667.0m).

Dividend per share

The Board is recommending a final dividend of 12.0p per share. This will result in a total dividend of 18.3p per share (last year 14.0p per share), an increase of 30.7%. This is in line with the dividend policy announced in May 2006, to grow each half year dividend in line with adjusted EPS growth.



Financial review continued

Capital expenditure

Investing in the business is a key part of our strategy. Capital expenditure for the year was £792.4m compared with £337.7m last year.

The increase in spend on the modernisation programme reflects the investment in our 2006 programme, with some 40% of our space now under new format, as well as an earlier start to the 2007 programme in order to complete the work by our peak Christmas trading period. In addition, we commenced development work on major city centre stores such as London Pantheon, Edinburgh and Belfast, as well as extensions to some of our major out of town stores such as London Colney, Braehead and Cheshunt. Capital expenditure on new stores was up £71m, reflecting the Simply Food opening programme and three new retail parks.

Supply chain capital expenditure reflects investment made in new distribution centres in food and general merchandise. Technology capital expenditure reflects investment in information technology with the implementation of new financial systems as well as a major project to start replacing our tills and point of sale system.

Cash flow and net debt

The Group generated a net cash inflow of £231.1m (last year £550.5m), reflecting the strong cash generation of the business. Cash inflow from continuing operating activities increased by £259.0m. Working capital increased to £114.1m reflecting the additional bonus provision and a reduction in cash outflow on leasehold prepayments. Cash outflow on capital expenditure, net of disposals, was £710.5m (last year £264.3m) reflecting a step up in the modernisation programme and major store developments in several of our major city centre stores.

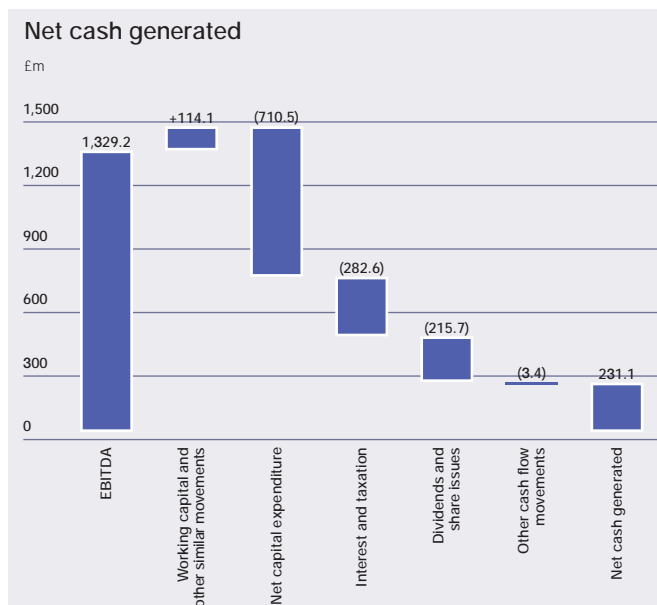
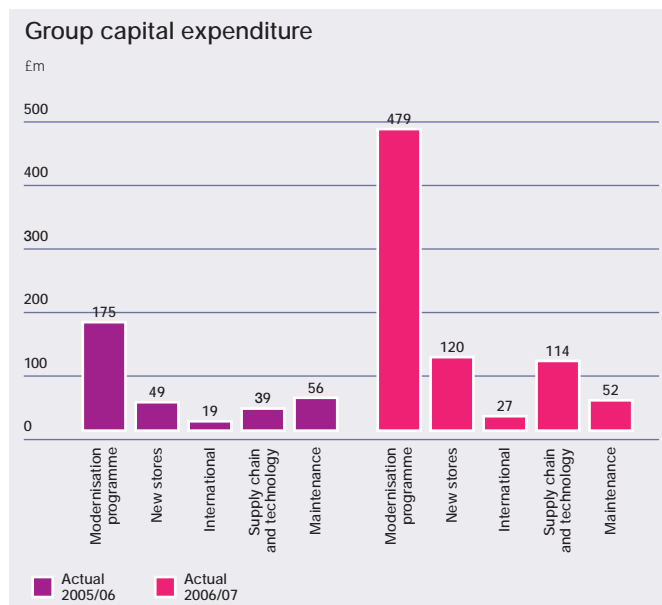
The Group made a one-off, property-backed contribution of £500.1m to secure the future of the Group's defined benefit pension scheme. This is accrued for as a liability of £496.9m at year end. As a result, net debt at the end of the year increased to £1,949.5m, compared with £1,729.3m last year.

Pensions

A triennial valuation of the UK defined benefit scheme was carried out as at 31 March 2006 resulting in an actuarial deficit of £704m.

The Group has agreed a plan with the Pension Scheme Trustee to address the deficit by transferring properties with a current market value of £1.1bn into a partnership established by the Group. A limited interest in this partnership was contributed to the Pension Scheme on 13 March 2007. The Group retains control over these properties, including the flexibility to substitute alternative properties. The properties held in the partnership have been leased back to Marks and Spencer plc. The Pension Scheme is entitled to a distribution from the profits of the partnership of £50m per annum for 15 years. The value of this partnership interest on the date of contribution was £500m and this is recognised as an asset by the Pension Scheme.

The impact of this transaction on the Group's balance sheet is a reduction in the pension deficit of £500m and the recognition of an amortising liability in respect of the obligations of the partnership to the Pension Scheme. At 31 March 2007 the IAS 19 retirement benefit deficit was £283m (last year £795m) and the amortising liability had a value of £497m (last year £nil).



Group Directors' report

Business review

The Companies Act 1985 requires the Company to set out in this report a fair review of the business of the Group during the financial year ended 31 March 2007 including an analysis of the position of the Group at the end of the financial year, and a description of the principal risks and uncertainties facing the Group (known as a 'Business review').

The information that fulfils the Business review requirements can be found in the following sections of the Annual report which are incorporated into this report by reference:

- Chairman's foreword on page 3
 - Chief Executive's business review on pages 6-26
 - Financial review on pages 28-30
 - Principal risks and uncertainties on pages 40-41
 - Environmental, Social and Community matters on pages 10-11 and Employees on pages 20-21.
- Also within the How we do business report available on our website at www.marksandspencer.com/howwedobusinessreport2007

Pages 31-34 inclusive (together with the sections of the Annual report incorporated by reference) consist of a Group directors' report that has been drawn up and presented in accordance with and in reliance upon applicable English company law and the liabilities of the directors in connection with that report shall be subject to the limitations and restrictions provided by such law.

Principal activities

Marks and Spencer Group plc is the holding company of the Marks & Spencer Group of companies (the 'Group'). We are one of the UK's leading retailers of clothing, food and home products with over 15.8m people visiting our stores each week. We employ over 75,000 people and have around 520 UK stores including Simply Food franchise stores, as well as an expanding international business.

Profit and dividends

The profit for the financial year, after taxation, amounts to £659.9m (last year £523.1m). The directors have declared dividends as follows:

Ordinary shares	£m
Paid interim dividend of 6.3p per share (last year 4.8p per share)	106.0
Proposed final dividend of 12.0p per share (last year 9.2p per share)	204.0
Total ordinary dividend, 18.3p per share (last year 14.0p per share)	310.0

The final ordinary dividend will be paid on 13 July 2007 to shareholders whose names are on the Register of Members at the close of business on 1 June 2007.

Changes in share capital

(i) Issue of new ordinary shares

During the period, 17,336,086 ordinary shares in the Company were issued as follows:

- 6,550 shares under the terms of the 1984 Executive Share Option Scheme at a price of 458p;
- 328,531 shares under the terms of the 1997 Executive Share Option Scheme at prices between 358p and 557p;
- 201,694 shares under the terms of the 2000 Executive Share Option Scheme at prices between 215p and 350p;
- 4,985,243 shares under the terms of the 2002 Executive Share Option Scheme at prices between 270p and 353p; and
- 11,814,068 shares under the terms of the United Kingdom Employees' Save As You Earn Share Option Scheme at prices between 156p and 349p.

(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 buy-backs to create value for the shareholders, when cash flow permits and there is not an immediate alternative investment use for the funds. During the year, no shares were bought back under this authority. This authority is renewable annually and approval will be sought from shareholders at the Annual General Meeting in 2007 to renew the authority for a further year. It is the Company's present intention to cancel any shares it buys back, rather than hold them in treasury.

Group Directors' report continued

Major shareholders

Until 19 January 2007 the Company was required to keep a register of substantial shareholders recording notifiable interests disclosed under sections 198 to 208 of the Companies Act 1985. As at 19 January 2007 the register of substantial shareholders showed the following interests in 3% or more of the Company's shares:

	ordinary shares	% of share capital
Brandes Investment Partners, L.P	132,568,293	7.81%
Fidelity Intl, FMR Corp (and their direct and indirect subsidiaries)	83,373,170	4.94%
Legal & General Group plc	55,032,628	3.20%

On 20 January 2007 the Companies Act 1985 provisions in respect of substantial shareholders were repealed and the Disclosure and Transparency Rules of the FSA (the 'DTR') came into force.

As at 10 May 2007, the Company had been notified under DTR5 of the following significant holdings of voting rights in its shares:

	ordinary shares	% of share capital	nature of holding
Brandes Investment Partners, L.P (21.3.07)	111,595,173	6.57%	Indirect Interest
Legal & General Group plc (23.2.07)	59,701,580	3.51%	Direct Interest
Deutsche Bank AG (30.3.07)	44,868,790	2.64%	Direct Interest
Deutsche Bank AG (30.3.07)	6,429,000	0.38%	Financial Instruments

(Under DTR5 Fidelity Intl, FMR Corp (and their direct and indirect subsidiaries) are no longer considered to have a significant holding of voting rights in the share capital of the Company)

Board of directors

The membership of the Board and biographical details of the directors are given on page 27.

Lord Burns was appointed as Chairman at the conclusion of the 2006 AGM on 11 July 2006, when Paul Myners retired from the Board. Kevin Lomax retired from the Board as a non-executive director on 31 August 2006.

Martha Lane Fox will join the Board as a non-executive director on 1 June 2007.

Jack Keenan will retire from the Board following the 2007 AGM on 10 July 2007, when he will have completed two three-year terms as a non-executive director.

Directors' indemnities

The Company maintains directors' and officers' liability insurance which gives appropriate cover for any legal action brought against its directors. The Company has also provided an indemnity for its directors and the Group Secretary, which is a qualifying third party indemnity provision for the purposes of section 309B of the Companies Act 1985.

Directors' interests

The beneficial and non-beneficial interests of the directors and connected persons in the shares of the Company are shown on page 47. Options granted under the Save As You Earn (SAYE) Share Option and Executive Share Option Schemes are shown on page 49. Further information regarding employee share option schemes is given in note 12 to the financial statements.

Directors' responsibilities

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 ensure the maintenance and integrity of the Company's website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 in the Corporate Governance statement on page 42.

Audit information

The directors confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware and that each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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, electronic communications and Chief Executive broadcasts at key points in the year to all head office employees and store management. These are supplemented by our employee publications including, 'Your M&S' magazine, and DVD presentations. More than 3,500 employees elected onto Business Involvement Groups across every store and head office location represent their colleagues in two-way communication and consultation with the Company. They have continued to play a key role in a wide variety of business changes including proposals in January 2007 to put our final salary pension scheme on a more secure footing for the future.

The twelfth meeting of the European Council took place last July. This council provides an additional forum for informing, consulting and involving 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.

Share schemes are a long-established part of our total reward package, encouraging and supporting employee share ownership. In particular, over 21,000 employees currently participate in the Company's All Employee Sharesave Scheme. Full details of all schemes are given on pages 45-46.

We maintain contact with retired staff through communications from the Company and the Pension Trust. Member-nominated Trustees have been elected to the Pension Trust Board, including employees and pensioners. We continue to produce a regular Pensions Update newsletter for members of our final salary pension scheme and our M&S Retirement Plan.

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 endeavours to use 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 ticks' 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 through our innovative 'Marks & Start' scheme and by working closely with jobcentreplus.

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, Marks and Spencer plc, has a policy concerning the payment of trade creditors 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 31 March 2007 were 14.7 days, or 9.8 working days (last year 13.1 days, or 8.8 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.

Market value of properties

The last formal valuation of the Group's properties was carried out as at 30 September 2006. Taking into account movements in the Group's property portfolio since that date, the directors are of the opinion that the market value of the Group's properties, at 31 March 2007 exceeded their net book value (including prepayments in respect of leasehold land) of the fixed asset and leasehold properties by approximately £1.1bn.

Charitable donations

During the year, the Group made charitable donations to support the community of £13.9m (last year £9.3m). These principally consisted of cash donations of £3.8m (last year £3.4m) which includes the cost of our flagship community programme 'Marks & Start', Breakthrough Breast Cancer, Prostate Cancer Awareness and other charitable donations, £3.0m (last year £1.3m) of employee time principally for the 'Marks & Start' programme and local community projects, and stock donations of £6.6m (last year £4.2m) to a variety of charities including Shelter, Fareshare, Birth Defects Foundation

Group Directors' report continued

as well as to the local community. Following the collapse of the Farepak Christmas savings scheme at the end of 2006, we replaced the lost savings of around 420 employees in full with M&S gift vouchers. We also donated £250,000 to the Farepak Response Fund set up to provide some compensation for savers.

Political donations

It is our policy not to make donations for political purposes in the UK, to donate to EU Political parties or incur EU Political Expenditure. Accordingly neither the Company nor its subsidiaries made any Political Donations or incurred Political Expenditure in the financial year under review.

Under the provisions of the Political Parties, Elections and Referendums Act 2000, shareholder authority is required for Political Donations to be made or Political Expenditure to be incurred by the Company or any of its subsidiaries in the EU and disclose any such payments in the Annual report. The legislation gives a wide definition of what constitutes Political Donations and Political Expenditure including sponsorship, subscriptions, payment of expenses, paid leave for employees fulfilling public duties and support for bodies representing the business community in policy review or reform. The Company has therefore obtained limited authority from shareholders as a precautionary measure to allow the Company to continue supporting the community and such organisations without inadvertently breaching the legislation.

At the 2006 AGM the Board obtained authority to make Political Donations or to incur Political Expenditure in the EU (which would not ordinarily be regarded as political donations) up to an aggregate annual limit of £100,000 for each of the six principal employing companies. This authority will expire in 2010.

Going concern

After making enquires, 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.

Auditors

Resolutions to reappoint PricewaterhouseCoopers LLP as auditors of the Company and to authorise the Audit Committee to determine their remuneration will be proposed at the 2007 AGM.

Annual general meeting

The Notice of the AGM to be held on 10 July 2007 is given, together with explanatory notes, in the booklet which accompanies this report.

By order of the Board

Graham Oakley, Group Secretary

London

21 May 2007

Corporate governance statement

The Board is committed to achieving long term success for the Company by building a sustainable business for the long term, generating shareholder value through consistent, profitable growth whilst making sure that our customers can always trust us to do the right thing. This statement explains our governance policies and practices and provides insight into how the Board and management run the business for the benefit of shareholders. The governance rules which apply to all UK companies listed on the London Stock Exchange are found in the Combined Code on Corporate Governance which was updated by the Financial Reporting Council in June 2006 (the 'Code'). A detailed account of how we comply with the Code's principles can be found at www.marksandspencer.com/investorrelations, together with the matters reserved to the Board and terms of reference of the Audit, Remuneration and Nomination Committees.

The Board Membership

On 1 April 2007 the Board comprised nine directors: the Chairman, Chief Executive, two executive directors and five non-executive directors. The five non-executive directors are all considered by the Board to be independent of management. Collectively the Board is responsible for the success of the Company. A full list of the directors, with details of their biographies and committee membership, is given on page 27. On 24 January 2007 we announced that Jack Keenan, non-executive director, will be retiring from the Board following the AGM to be held on Tuesday 10 July 2007, when he will have completed two three-year terms as a non-executive director. On 22 May 2007 we announced the appointment of Martha Lane Fox as a non-executive director with effect from 1 June 2007. On 25 April 2007 we announced a number of senior management changes (described on page 10) to position the Company for the next phase of its growth. Following these changes, the responsibilities of the executive directors was re-aligned. Stuart Rose will continue to manage the trading functions and will add International to his direct reports. With the store modernisation programme well under way, Ian Dyson will now be responsible for Store Design and Development and Procurement, alongside his current responsibilities for Finance, Property and IT. Steven Sharp remains responsible for Marketing and the M&S Money relationship with HSBC and will also focus on the next generation of store design.

Chairman

Lord Burns was appointed Chairman on 11 July 2006, having joined the Board as Deputy Chairman on 1 October 2005. As Chairman he leads the Board and is responsible for ensuring its proper functioning, the balance and mix of its membership, subject to Board and shareholder approval, and for encouraging all directors to play their full part in debating matters to deliver value to shareholders. He ensures effective communication with shareholders and that Board members have a sound understanding of the views of all investors. The Chairman also leads the formal assessment of Board and individual director performance.

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, on-going participation at Board and committee meetings, and through meeting our people at store locations and elsewhere. Views of customers and shareholders are also shared through Board presentations. The Board is regularly updated on governance and regulatory matters. There is an established procedure whereby the Board or any of its committees may take independent professional advice when appropriate. Any individual director, wishing to do so in the furtherance of their duties, may take independent professional advice through the secretary at the Company's expense. The Company maintains liability insurance for its directors and officers. In addition, the directors and secretary have been granted qualifying third party indemnities.

Chief Executive

Stuart Rose as Chief Executive has delegated authority from the Board for all aspects of the management of the Group and its business, which includes developing the appropriate business strategies for Board approval and achieving timely and effective implementation. He ensures that, within the strategies agreed by the Board, appropriate objectives and policies are adopted for each area of the business, that appropriate budgets are set and that their performance is effectively managed in keeping with the Group's values and business principles. The principal business unit directors report directly to the Chief Executive and give regular presentations to the Board on strategies and performance in their relevant areas of the business.

Senior Independent Director

Sir David Michels succeeded Kevin Lomax as Senior Independent Director on 1 September 2006. He provides a communication channel between the Chairman and the non-executive directors and ensures that the views of each non-executive director are given due consideration. He is an additional contact point for shareholders if they have reason for concern that cannot be addressed through the normal channels of Chairman, Chief Executive or Finance Director or for which such contact is inappropriate. He also reviews the Chairman's performance on behalf of the Board.

The Non-Executive Directors

The non-executive directors provide a varied 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 Chairman concludes that each non-executive director is independent in character and judgement and that each makes an effective and valuable contribution to the Board and demonstrates commitment to the role. Any term beyond six years (ie two three-year terms) for a non-executive director is subject to rigorous review.

Following the appointment of new non-executive directors in February and March 2006 and June 2007, the Board has reviewed committee membership to refresh the skills, knowledge and experience of the Audit, Remuneration and Nomination Committees.

Corporate governance statement continued

Graham Oakley, Group Secretary, acts as a sounding board to the Chairman and individual directors. He supports the Chairman in ensuring the Board functions effectively and fulfils its role. He is secretary of the Audit, Remuneration and Nomination Committees and also heads the Corporate Governance Group, which supports the Board and its committees, as well as providing advice on a range of issues to commercial colleagues.

The Board has a formal schedule of matters reserved for its decision and delegates certain matters to committees as set out below. The Board 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 and Board structure, composition and succession. The full schedule of matters reserved for the Board can be found at www.marksandspencer.com/investorrelations

We are committed to our principles of Quality, Value, Service, Innovation and Trust. Trust is earned from others as a result of our commitment to long-held values and the way we behave. Our Code of Ethics outlines the behaviours that M&S expects from employees whether they are dealing with our customers, suppliers, shareholders or colleagues. It also includes guidelines on the environment, fraud and financial reporting and the management of conflicts of interest. It is circulated to employees on an annual basis and senior managers are required to sign their annual acceptance of the Code of Ethics.

In addition, in January 2007 we announced Plan A, our business wide 'eco plan' setting out our ambition to change the way we operate over the next five years. Plan A is overseen by the How we do business Committee whose role is described on page 37.

Committees of the Board

The principal committees of the Board are the Audit, Remuneration and Nomination Committees. The written terms of reference of each committee can be found at www.marksandspencer.com/investorrelations

Audit Committee

The Audit Committee comprises four independent non-executive directors. Jeremy Darroch who is the Chief Financial Officer of British Sky Broadcasting plc, took over the Chair of the Committee on 1 September 2006. The other members are Steven Holliday, Jack Keenan and Sir David Michels. Jack Keenan will retire as a member when he retires from the Board following the AGM on 10 July 2007. Kevin Lomax was Chairman of the Committee until he retired from the Board on 31 August 2006. Sir David Michels joined the Committee on 26 May 2006. Martha Lane Fox will join the Committee on 1 June 2007.

The Committee assists the Board in fulfilling its oversight responsibilities. Its primary functions are:

- to monitor the integrity of the financial statements and other information to shareholders;
- to review the systems of internal control and risk management; and
- to maintain an appropriate relationship with the Company's external auditors and to review the effectiveness and objectivity of the audit process.

It met four times during the year and items reviewed include: General Merchandise direct buying processes; General Merchandise distribution centre operations; e-commerce; Food buying; Food stock management; Food primary logistics; and financial controls over sales, stock and cash. The Committee received updates for Business Continuity Planning and Finance systems implementation and reviewed the effectiveness of the Group's whistleblowing process. Private meetings have 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 LLP ('PwC'), including the review of audit fee proposals and non-audit fees. An engagement and fee approvals process is in place which requires prior approval from the Committee for some engagements and excludes others. In some cases, the nature of the non-audit 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. As authorised by shareholders at the AGM in July 2006, the Audit Committee determines the level of remuneration for the external auditors on behalf of the Board. Details of this year's fees are given in note 4 to the financial statements.

The Board has satisfied itself that at least one member of the Audit Committee has recent and relevant financial experience and is confident that the collective experience of the members enables them 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.

Remuneration Committee

The Remuneration Committee comprises four independent non-executive directors. Louise Patten took over the Chair of the Committee on 1 January 2007. The other members are Steven Holliday, Jack Keenan and Sir David Michels. Jack Keenan was Committee Chairman until 31 December 2006 and will remain a member of the Committee until he retires from the Board following the AGM on 10 July 2007. Sir David Michels was appointed to the Committee on 26 May 2006 and Kevin Lomax was a member of the Committee until he retired from the Board on 31 August 2006. Martha Lane Fox will join the Committee on 1 June 2007.

It met eight times during the year and its primary role is to recommend to the Board the remuneration strategy and framework, giving due regard to the financial and commercial health of the Company and to ensure the executive directors and senior management are fairly rewarded for their individual contributions to the Company's overall performance. The remuneration of the non-executive directors is determined by the Chairman and the executive directors.

The Remuneration Report is set out on pages 44-50 as required by the Directors' Remuneration Report Regulations 2002.

Nomination Committee

The Nomination Committee comprises the Chairman, the Chief Executive and five independent non-executive directors, Lord Burns is Committee Chairman. The other members are Jeremy Darroch, Steven Holliday, Jack Keenan, Sir David Michels, Louise Patten and Stuart Rose. Kevin Lomax was a member of the Committee until he retired from the Board on 31 August 2006. Stuart Rose joined the Committee on 24 January 2007. Jack Keenan will retire as a Committee member when he retires from the Board following the AGM on 10 July 2007. Martha Lane Fox will join the Committee on 1 June 2007.

It met once during the year as the review of senior succession was conducted by the full Board in June 2006, rather than the Committee. Its role is to ensure that appropriate procedures are in place for the nomination, selection, training and evaluation of directors and for successional plans. The Committee reviews the Company's Board structure, size, composition and successional needs, thereby keeping under consideration the balance of membership and the required blend of skills, knowledge and experience of the Board. Appointments are made on merit and against objective criteria to ensure that the Board maintains an appropriate balance of skills and experience.

On 22 May 2007 we announced the appointment of a new non-executive, Martha Lane Fox, with effect from 1 June 2007. This followed a search by an external search consultancy commissioned by the Nomination Committee. The candidates were shortlisted by the Chairman and Chief Executive and the preferred candidate then seen by a wider group of directors.

Under the Company's Articles of Association, all directors seek election at their first Annual General Meeting following appointment and all directors are required to offer themselves for re-election at least every three years. Following the introduction of The Employment Equality (Age) Regulations 2006 and the repeal of a provision in the Companies Act 1985, it is proposed that the requirement in our Articles for directors reaching the age of 70 or more to retire and seek re-election annually, be removed. An amendment to the Company's Articles is to be proposed at the 2007 AGM.

How we do business Committee

The Corporate Social Responsibility Committee, was reconstituted in November 2006 as an Executive Committee, called the How we do business ('HWDB') Committee, to ensure that the 'way we do business' is integral to the way the business operates. It comprises Stuart Rose (Chairman), Steven Sharp and 10 members of senior management who hold responsibilities for key aspects of our social, environmental and ethical performance. Paul Myners was Committee Chairman until he retired from the Board on 11 July 2006. Lord Burns was a Committee member becoming Committee Chairman on 12 July 2006. Both Lord Burns and Jack Keenan left the Committee when it was reconstituted in November 2006.

The Committee's primary aim is to oversee the implementation of Plan A, a business-wide 'eco plan' impacting on every part of the Company's operations over the next five years, whilst providing the Board with an overview of the social, environmental and ethical impacts of the Group's activities and how they are being managed. The key commitments set out in Plan A, on climate change, waste, raw materials, fair trade and healthy eating are reviewed and their implementation overseen by the Committee.

Further information is given on pages 10-11 and in our HWDB report, available on the Company's website at www.marksandspencer.com/howwedobusinessreport2007, which details our commitments and performance to date, including references to the United Nations Global Reporting Index.

Corporate governance statement continued

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

Name of Director	Group Board		Audit Committee		Remuneration Committee		Nomination Committee	
	A	B	A	B	A	B	A	B
Lord Burns, Chairman (Deputy until 11 July 2006)	10	10	–	–	–	–	1	1
Paul Myners, Chairman (retired 11 July 2006)	4	4	–	–	–	–	–	–
Stuart Rose, Chief Executive	10	10	–	–	–	–	1	1
Executive Directors								
Ian Dyson	10	10	–	–	–	–	–	–
Steven Sharp	10	10	–	–	–	–	–	–
Non-Executive Directors								
Jeremy Darroch	10	10	4	4	–	–	1	1
Steven Holliday ¹	10	8	4	3	8	7	1	0
Jack Keenan	10	10	4	4	8	8	1	1
Kevin Lomax (retired 31 August 2006)	4	4	1	1	3	3	–	–
Sir David Michels ²	10	10	3	1	7	7	1	1
Louise Patten ³	10	10	–	–	8	7	1	1

A = Maximum number of meetings the director could have attended

B = Number of meetings the director actually attended

¹ Steven Holliday was unable to attend the Audit Committee meeting on 16 May 2006, the Board meeting on 6 November 2006, the Nomination Committee meeting on 23 January 2007 and the Board and Remuneration Committee meetings on 24 January 2007 due to overseas commitments with National Grid plc.

² Sir David Michels was unable to attend the Audit Committee meetings on 4 September and 1 November 2006 as the meeting dates had been set prior to his appointment to the Committee.

³ Louise Patten was unable to attend the Remuneration Committee meeting on 10 May 2006 due to her attendance as Chairman at the AGM of Brixton plc.

Board performance evaluation

The approach taken during 2006/07 was to further develop the thorough and robust process adopted in 2005/06 and to evolve this to the next stage. The Board was keen to ensure that the evaluation was a continuous process building on the previous year's evaluation.

In September 2006, the Chairman agreed with the Board that a thorough review would be conducted combining the use of a questionnaire and one-to-one interviews led by the Chairman. The questionnaire focused on four key areas and also allowed opportunity for the Directors to give additional constructive feedback via a free text box. All results were collated electronically. A non-attributable executive summary focusing on the key themes was prepared and used as the start of the one-to-one discussions for the Chairman and the Directors and the Chairman gave initial feedback to the Board on the key findings and how the subsequent action plan should be managed and reviewed.

The success of this year's approach has been due to a number of key factors:

- evolving and building on the process used in 2005/06 and using this as a starting point for the design of the 2006/07 review. This ensured that we built on the lessons learnt, were not starting afresh, and focused on any areas that had been identified previously;
- the approach was vigorous but simple and for the first time the questionnaire was conducted electronically;
- ensuring that the Chairman gained buy-in from all Board members as to how the process should be conducted and the need to ensure that this is an integral part of how they work during 2007/08.

Committees Performance Evaluation

The process for reviewing the Committees in 2006/07 has been to combine on-going reviews with a simple questionnaire led by each of the respective chairmen.

The Audit and Remuneration Committees undertook a review looking at their method of operation and processes and combined this with the use of a questionnaire which was conducted in March 2007. This proved particularly valuable given the change of Chairmanship of both of these committees (Audit – Jeremy Darroch and Remuneration – Louise Patten) during the year. An executive summary was produced for the Chairmen of both Committees which they discussed with their respective Committee members.

The Nomination Committee reviewed its membership during the year appointing Stuart Rose as a member, prior to its dedicated session in January 2007 on succession planning.

Succession Planning and Senior Leadership Development

The Board Performance Evaluation in 2005/06 identified that this was an area the Board wished to give a greater focus to in the future. Significant progress has been made in this area during the year including:

- twice-yearly reviews of individuals of the two levels beneath the Board (full Board – June 2006 and Nomination Committee – January 2007);
- regular risk assessment of Succession Planning with mitigating action identified;
- a development programme established for high potential individuals.

On 25 April 2007 we announced a number of senior management changes to position the Company for the next phase of its growth. We recruited two new people for positions just below Board level as Director of Food and Director of International Business. We also made further changes to our top 30 senior management, including three new director roles within the Food Division, building on the appointments made in October 2006.

Accountability and audit

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 to provide assurance on 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 on-going 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;
- evaluate the risks using likelihood and impact; and
- document the actions being taken to manage those risks.

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 Code produced by the Financial Reporting Council.

Corporate governance statement continued

Principal Risks and Uncertainties

There are risks and uncertainties which could impact the Group's long-term performance. The risk assessment process is designed to identify, manage and mitigate business risk. The table below gives examples of activities across Group functions to mitigate against risks and uncertainties identified. The Board considers that these are the most significant risks to achieving business goals. The risks listed do not comprise all those associated with Marks & Spencer and are not set out in any order of priority. Additional risks and uncertainties not presently known to management, or currently deemed to be less material, may also have an adverse effect on the business.

Risk	Impact	Examples of Mitigating Activities
PRODUCT: We aim to provide a wide choice of great value, quality food, clothing and home products, which are all sourced and made responsibly.		
Clothing and Home		
We fail to achieve further sales growth in an increasingly competitive environment with potentially weaker economic conditions.	Adverse effect on financial results Lost market share and customer loyalty	<ul style="list-style-type: none"> • New and better product, better styling and better value with particular focus on key departments • Shorter buying lead times to accommodate fast sellers and new fashion • Re-alignment of product footage by size of store • Tracking of customer perceptions of product • Review of supply chain capacity, sourcing and planning to manage volume growth • Growth of international business through our owned and franchised stores • Improved e-commerce capability focusing on functionality, availability and fulfilment • Plan A initiatives, eg ethical sourcing
See pp 12-15 and 24-25		
Food		
We fail to deliver profitable sales growth while maintaining an innovation gap over competitors.	Adverse effect on financial results Lost market share and customer loyalty	<ul style="list-style-type: none"> • Increase of Simply Food footage and development of e-commerce as new routes to market • Continual product and technical innovation to maintain competitive advantage • Response to new trends in eating and customer demand for fresh, natural and healthy food • Independent quality assessment of key food lines • Tracking of customer perceptions of product • Plan A initiatives, eg differentiated raw materials
See pp 16-19		
SERVICE: We have been investing in our people to ensure that we meet our customers' expectations of consistently great service, no matter when or where they visit us.		
People		
We fail to attract, develop and retain talent with the correct skills and capability for succession.	Inability to develop and execute business plans Competitive disadvantage	<ul style="list-style-type: none"> • Competitive reward packages • Personal performance reviews, development plans and career paths • Buying Academies in head office and coaches in stores • Internal and external talent reviews resulting in promotions and external appointments • Graduate recruitment and development • Employee communication • Tracking of employee satisfaction surveys • Tracking of customer perceptions of service
See page 10 and pp 20-21		
Business Interruption		
We fail to respond to or recover from a major incident.	Inability to operate effectively	<ul style="list-style-type: none"> • Business continuity and recovery plans in place and regularly tested • Recoverability of critical IT operations • Alternative workplace solutions for head office • Remote working capabilities in place

Principal Risks and Uncertainties

Risk	Impact	Examples of Mitigating Activities
<p>ENVIRONMENT: We are opening new stores and modernising our existing portfolio to ensure we provide an exciting shopping experience in the right place, in the right space.</p>		
<p>Stores</p>		
<p>We fail to deliver new real estate, extensions and modernisations safely, on time and to budget.</p> <p>See pp 22-23</p>	<p>Unacceptable return on investment</p> <p>Damage to reputation</p>	<ul style="list-style-type: none"> Property strategy developed to ensure good representation through our store portfolio Governance and resource in place to achieve timelines, budgets and safety controls Modernisation programme under way to provide more convenient, exciting and modern shopping Tracking of customer perceptions of shopping environment
<p>PLAN A: Our five-year 'eco plan', launched in January 2007, to tackle challenges across five areas: climate change, waste, sustainable raw materials, fair partner and health.</p>		
<p>Plan A</p>		
<p>We fail to manage, measure and communicate progress against our Plan A commitments.</p> <p>See pp 9-11</p>	<p>Lost stakeholder trust and confidence</p> <p>Damage to reputation</p>	<ul style="list-style-type: none"> 100 point plan announced and monitored Governance in place to achieve our commitments Baselines, KPIs and accountabilities identified Plan A integrated into day-to-day operation including Plan A champions throughout head office and stores Open dialogue with stakeholders to develop our mutual understanding of the challenges we face

Corporate governance statement continued

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:

Plans and policies

- communication of the Group's strategy, objectives and targets;
- annual operating and capital plans and future projections;
- operating policies and procedures;
- clearly defined capital investment control guidelines;
- review of treasury policies by the Board; and
- review of social, environmental and ethical matters by the How we do business 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 process undertaken;
- systems of internal control, primarily through approving the internal audit plan and reviewing its findings, reviews of the annual and interim financial statements and a review of the nature, scope and reports of the external audit;
- action plans taken, or to be taken, to remedy any significant failings or weaknesses identified; and
- action plans in place to manage significant risks.

The Audit Committee has completed its review of the effectiveness of the Group's systems of internal control during the year, which are in compliance with the Turnbull Guidance 2005. It confirms the necessary action plans to remedy identified weaknesses in internal control are in place and have been throughout 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 Audit Committee monitors and assesses the role and effectiveness of the internal audit function on behalf of the Board.

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

Relations with shareholders

We continue to be committed to on-going engagement with shareholders and have a well established cycle of communication based on the Group's financial reporting calendar. This includes our preliminary results in May, Annual report in June, half year results in November and trading updates, now called interim management statements, in July and January. We promote the use of electronic communication - all Company announcements and presentations are made available simultaneously on our website, together with webcasts of our financial results and AGM presentations. Our website also contains up to date corporate and customer information including the full response to the Code, matters reserved to the Board and terms of reference for the principal Board Committees.

For improved accessibility we make Audio and large print versions of the text from our Annual review available on our website. In 2006 we advertised our half year results in two national newspapers and made the full statement available on our website. All of these can also be provided in hard copy by writing to the Group Secretary.

Our registrars continue to enhance their electronic communication service for our shareholders through www.shareview.co.uk. This offers a number of capabilities ranging from electing to receive communications electronically to checking shareholdings and dividend information online.

Private investors continue to own a particularly high percentage of M&S shares in comparison to other large UK companies. We make a special effort to ensure communications and policies are appropriate to the needs of the private investor. Communication channels are available for all stakeholders to make their views known, by e-mail at chairman@marks-and-spencer.com, or telephone on 0845 609 0810 for shareholder queries or 0845 302 1234 for customer queries.

For institutional investors the focal point for contact is through our Investor Relations department where regular dialogue is maintained throughout the year. In 2006 the team won an award for their communication and management services to the investor community and were also highly commended for the most progress in investor relations in a FTSE 100 company.

Our Chairman, Chief Executive and Group Finance Director play key roles in our relationship with major shareholders and the presentations of full and half year results are attended by all the executive directors. The Senior Independent Director is also available for shareholders as required. The Board is regularly updated on the views of our major shareholders by the Chairman following meetings they have with him, the Chief Executive, the Group Finance Director or Investor Relations.

In June the Board receives a presentation from external advisers summarising the opinions of our principal shareholders, following an extensive survey of their views after the release of our year end results. This assists with the preparation for the AGM, held in July, at which the Board's annual review is given to shareholders and through which the support of shareholders is secured by voting on resolutions, both via Proxy and in person.

Our AGM is an important day in our corporate calendar, and is well attended by shareholders. In 2005 and 2006 the AGM was held at the ICC in Birmingham and in 2007 will return to London, being held at Earls Court 2 on 10 July 2007. Prior to the meeting an exhibition is hosted by our senior retail and business managers, who are available for questions, as are the Chairman, Chief Executive and other members of the Board.

Shareholder topics cards are sent with the Notice of Meeting giving shareholders further opportunity to make their views known to us. The three most frequently raised topics are addressed at the meeting and a summary of all comments passed to the Board and directors of each business unit. Business presentations given on the day by the Chairman and Chief Executive are available on our website after the meeting, as are the questions raised during the meeting and answers provided.

The Board continues to encourage increased shareholder voting, with further focus on the electronic voting systems available. In 2006 87% of the proxy votes received were lodged through the CREST system. We encourage private investors to vote either electronically through www.sharevote.co.uk, by proxy card or at the meeting. Since 2004 voting at the meeting has been conducted by poll, using the electronic Votenow system, rather than a show of hands. This gives a more democratic result as all shares represented at the meeting and those lodged before the meeting are included on a one share one vote basis. All resolutions are voted separately using three way voting, as recommended by the Code. Our Registrar records all Proxy votes received up to 48 hours prior to our AGM and report the votes For, Against or Vote withheld to the Chairman prior to the meeting. These votes are included in the indicative poll result screened at the meeting. The final results are announced via the London Stock Exchange and published on our website following independent verification by our registrars.

In 2006 votes cast represented 52% of the ordinary share capital. All resolutions were passed with votes For resolutions ranging from 86% to 99%. The 2006 AGM was attended by all directors, including the Chairman of the Audit (Kevin Lomax), Remuneration (Jack Keenan) and Nomination Committees (Lord Burns), who were available for questions.

At the 2007 AGM, in addition to the routine resolutions, shareholders will be asked to vote on:

- amendments to the Articles of Association, including electronic communication; and
- renewal of the All Employee share plan.

Many shareholders are also customers and in 2006 we sent Spend and Save vouchers to our shareholders. These again proved very popular. The offer for 2007/08 is being extended to technology products and the convenience of shopping online. Vouchers will be distributed with the January dividend and be valid throughout February and March 2008.

Compliance with the Combined Code 2006

For the year ended 31 March 2007 the Company complied with all the provisions of the Code.

Governance of the Group's pension schemes

The Group operates a defined benefit scheme for all employees with an appointment date prior to 1 April 2002 and a defined contributory scheme open to those joining the Company on or after 1 April 2002. More information is given in note 11 on page 67-70.

The Board of the Pension Trust ('Trustee Board') manages the assets of the pension schemes which are held under trust separately from those of the Group. The Board comprises Tony Watson as independent Chairman and Law Debenture Trust as independent Trustee, together with five company representatives and five member representatives.

In January 2007 the Company announced that the triennial actuarial valuation of the Marks & Spencer UK defined benefit pension scheme at 31 March 2006 resulted in a deficit of £704m. The IAS 19 valuation as at 30 September 2006 was a deficit of £1,031.7m. The Company has agreed with the Trustee to fund the deficit by contributing £500m of value via an interest in a property-backed partnership, with the remainder being met by investment returns on the assets. We consulted with employees on a range of choices about how their pension builds up in the future. There are three options from which members can choose. With one of the options, members would make contributions to the scheme; with the other two, members would not.

Remuneration report

The Remuneration Committee has adopted the principles of good governance relating to directors' remuneration as set out in the Combined Code 2006. This report complies with the Companies Act 1985, amended by the Directors' Remuneration Report Regulations 2002 and the Listing Rules of the Financial Services Authority. These regulations require the Company's auditors to report on the 'audited information' within the report and to state if this section of the report has been properly prepared in accordance with the regulations. This report has therefore, been divided into separate sections for unaudited and audited information. The report has been prepared on behalf of the Board by the Remuneration Committee.

PART 1: UNAUDITED INFORMATION

Remuneration Committee

The Remuneration Committee comprises four independent non-executive directors. Louise Patten took over as Committee Chairman on 1 January 2007. The other members are Steven Holliday, Jack Keenan (Committee Chairman until 31 December 2006), and Sir David Michels, who joined the Committee on 26 May 2006. Kevin Lomax was a member of the Committee until he retired from the Board on 31 August 2006. Martha Lane Fox will join the Committee on 1 June 2007. There were eight meetings of the Remuneration Committee during the period under review and all individuals who were members of the Committee at that time attended the meetings, with the exception of Louise Patten who was absent on 10 May 2006 and Steven Holliday who was absent on 24 January 2007, due to prior commitments.

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 LLP has provided material advice to the Committee on directors' remuneration and share schemes 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.

The Remuneration Committee's remit is set out in the terms of reference which are reviewed annually by the Board. A copy of the terms of reference is available on the Company's website. The primary purposes include:

- to recommend to the Board the senior remuneration strategy and framework, giving due regard to the financial and commercial health of the Company;
- to determine the individual remuneration packages within that framework for the executive directors and one level below the Board ('senior management');
- to approve the design of annual and long-term incentive arrangements and agree the targets and levels of award;
- to determine and agree the general terms and conditions of service contracts for senior management and the specific terms for an individual either on recruitment or termination; and
- to determine the policy for, and scope of, senior management pension arrangements.

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 recruiting and retaining talented individuals and maintaining our market position as an employer of choice.

Remuneration policy

The Committee continually reviews the remuneration strategy to ensure it will enable the recruitment and retention of highly skilled individuals who are key to the long-term growth of Marks & Spencer. The Company is delivering significantly improved performance and generating substantial increases in profit and shareholder value, and to ensure this continuing growth in a highly competitive retail sector, it is essential that the Senior Team is incentivised, motivated and retained. Reviews in 2005 and 2006 resulted in changes to the incentive arrangements to rebalance the package and provide a more effective link between pay and performance for the various levels of executive and to ensure the most senior executives have a high proportion of pay at risk.

Executives are required to achieve demanding targets under the annual and long-term arrangements to receive rewards. The overall package supports the Company's strategy and its commitment to continuous and sustainable enhancement of shareholder value.

Total remuneration for executive directors comprises salary, variable pay, pension and benefits. Salary and benefits are set having regard to market practice and levels paid by similar companies. 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 key components of variable pay: an Annual Bonus Scheme (incorporating a deferred share element) and a Performance Share Plan. The ability to earn variable pay is linked to the delivery of significant Company performance and the expected value of the package both at on-target and maximum is shown below.

Expected value of future annual remuneration package for executive directors

'On-target' performance

Salary 36%	Pension 9%	Annual cash bonus 9%	Long-term incentives 46%
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'Maximum' performance

Salary 10%	Pension 3%	Annual cash bonus 10%	Long-term incentives 77%
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The value placed on long-term incentives comprises the expected cash value to executives after three years, discounted back to its present value, of (i) bonus compulsorily deferred into shares and (ii) performance shares awarded under the Performance Share Plan.

Chairman's Remuneration

The remuneration for the Chairman is determined by the Chief Executive and the other members of the Board. The level of remuneration for the Chairman reflects the commitment and responsibilities of this role and is set having regard to market practice. The fee is reviewed annually and is increased to £450,000 from 1 April 2007. The Chairman has committed to use 25% of his net fees to purchase shares in the Company on a quarterly basis.

Non-executive directors' remuneration

The remuneration for the non-executive directors is determined by the Chairman and executive directors and is designed both to recognise 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-executive directors 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. Non-executive directors do not participate in any of the Company's share schemes nor the Annual Bonus Scheme. The fees shown in the emoluments table reflect the fees paid during the year. The basic fee increases from £50,000 to £55,000 per annum, the additional fees for acting as Committee Chairman increases from £10,000 to £12,000 and for Committee membership from £5,000 to £6,000 per annum. These new fee levels are effective from 1 April 2007. The annual fees for each individual are shown in the contract terms table on page 47.

Executive directors' remuneration

Salaries and benefits

Salaries for executive directors are reviewed annually and any change to salary is normally effective from 1 January. The Remuneration Committee takes into consideration a range of factors when reviewing salaries such as Company performance, level of salaries for large retailers and for other major FTSE 100 companies, market conditions, the level of increase awarded to employees throughout the business and the responsibilities and skills of individual directors. Current annual salaries for executive directors are set out in the contract terms table page 47.

Stuart Rose, Ian Dyson and Steven Sharp received payments of 25% of total salary in lieu of pension and are not members of the Marks & Spencer Pension Scheme. Life Assurance for these individuals is provided through a separate policy and the value of these benefits is shown in the emoluments table, under cash allowance and benefits on page 48.

For executive directors, where applicable, the provision of a car or car allowance, fuel and chauffeur is included in the emoluments table as part of cash allowance and benefits.

Annual Bonus Scheme

The Annual Bonus Scheme is designed to focus and reward executives for specific operational improvements which will drive the Company's performance. The 2006/07 bonus for directors was at 60% of salary for on-target performance rising to a maximum of 250% for exceeding targets.

The targets for the Company are determined annually by the Remuneration Committee and incorporate a mixture of corporate profit before tax and business unit and retail sales and profit as appropriate. For 2006/07, the targets for the executive directors were entirely based on the delivery of corporate profit before tax. The Committee assesses the achievement of targets for all executive directors and senior management prior to any bonus awards being made.

This year, the corporate profit before tax targets have been delivered in full and represent a significant improvement both on the reported profits for 2005/06 and against market expectations at the beginning of the financial year. As a result, maximum awards under the scheme of 250% of salary have been made to Stuart Rose, Ian Dyson and Steven Sharp.

From the 2006/07 bonus payment, the executive directors are required to defer 60% of any bonus paid into shares which will be held for three years. The value of any dividends accrued either in the form of dividend equivalents or through a Dividend Reinvestment Plan will be paid at the end of the period. The emoluments table and notes on page 48 give the level of cash payments and the value of deferred shares to be awarded at the beginning of June 2007, which will be based on the average share price over the preceding five trading days.

For 2007/08, the bonus scheme remains unchanged for executive directors i.e. 60% of salary for on-target performance rising to a maximum of 250% for exceeding targets, with 60% paid in deferred shares. The performance measure will continue to be corporate profit before tax.

Long-term Incentive Schemes

Performance Share Plan

The Performance Share Plan is the primary form of long-term incentive for the top 100 management. Under the plan, annual awards of up to 200% of salary may be offered, based on performance and potential, up to a maximum of 400% in exceptional circumstances, including those for recruitment and retention.

Awards in excess of 200% of salary, up to a maximum of 400% were made to a small number of senior management this year including the executive directors. The Committee considers that it is necessary to make further awards in excess of 200% of salary in 2007/08 to a few key individuals, including directors, in order to ensure that the incentives provided by the Company are sufficient to retain them over the coming years and to reward them appropriately for achieving excellent results.

Remuneration report continued

Performance targets are based on Adjusted Earnings per Share (EPS) growth measured over a single three-year period which the Remuneration Committee considers to be the key measure of management performance to generate significant increases in profits and enhance shareholder value. The Committee reviews both the choice of measure and the level set each year to ensure it is appropriate in light of the business strategy and the levels are demanding in the context of the Company's circumstances.

The targets for the 2007 award have been set by the Committee following consultation with leading investors. There will be two different targets. The first for any award up to 200% and a more stretching target for the exceptional awards above 200%. The Committee considers that this range of growth targets is as least as challenging as target ranges were for previous awards when they were chosen. In coming to this conclusion, the Committee took into account the significantly higher 'base' point for this award (from which growth is measured) as a result of the much improved result for 2006/07, the future business outlook for the Company and EPS targets and trends in other retailers and FTSE 100 companies. The targets are as follows:

Award	Average Annual EPS Growth in excess of inflation (RPI)		Adjusted EPS for start of scheme ¹	
	20% vesting	100% vesting	Original	Restated
2005	8%	15%	23.5p	22.2p
2006	5%	12%	31.4p	31.4p
2007 ²	4%	10%	40.4p	40.4p
2007 ³	4%	12%	40.4p	40.4p

¹ The base EPS figure was 23.5p, which was the adjusted EPS figure for 2004/05 on a pro forma basis. The figure has been restated to 22.2p as the Group is now reporting under IFRS. Full details of EPS are described in Note 8 to the financial statements on page 65 of the Annual Report.

² Awards up to 200% of salary.

³ Awards between 200% – 400% of salary.

Executive Share Option Scheme

Executive Share Option Schemes have operated for over 20 years and in recent years have been open to approximately 400 members of management. Although a new Executive Share Option Scheme was adopted at the 2005 AGM, the Committee does not intend to use this Scheme on a regular basis. However, it does wish to have the flexibility to make grants from time to time if it considers it appropriate to do so in the future. No grants have been made under this Scheme in the year under review.

There are options outstanding for management under a number of previous schemes which will vest, subject to the delivery of the performance conditions, in 2007 and 2008. Executive directors have options outstanding under the 2002 Scheme only, details of which are shown in the Directors' share option schemes table on page 49. The performance targets for the 2002 Scheme are Adjusted EPS growth measured from the most recent financial year ending prior to grant of at least:

- RPI plus an average of 3% per annum for 50% of each grant; and
- RPI 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. There is no ability to retest any grants made since 2004/05, which includes all grants made to the executive directors.

All-Employee Share Schemes

Executive directors can also participate in the share schemes open to all employees of Marks & Spencer, currently Sharesave, the Company's Save As You Earn scheme (SAYE). Details of participation by executive directors in Sharesave are given in part 2 of this report.

A SAYE scheme was approved by shareholders in 1981 and renewed by shareholders in 1987 and 1997 and shareholder approval is being sought at the 2007 AGM to renew the scheme for a further 10 years. HMRC 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, at a discounted price set at the start of the scheme. Options cannot normally be exercised until a minimum of three years has elapsed.

Service contracts and terms

Chairman

Lord Burns was appointed Chairman post the AGM on 11 July 2006 following the retirement of Paul Myners. Lord Burns has a service agreement which requires 12 months' notice from the Company or six months' notice should he wish to terminate the agreement.

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 by either party. Kevin Lomax retired from the Board on 31 August 2006 and Jack Keenan has given notice that he will be retiring from the Board with effect from 10 July 2007. Martha Lane Fox will join the Board on 1 June 2007.

Executive directors

All members of senior management, including executive directors, have service contracts. These contracts can be terminated by the Company giving 12 months' notice and by the employee giving six months' notice.

The Company retains the right to terminate the contract of any executive 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 specified benefits. In the case of all current executive directors, the Company reserves the right on termination to make phased payments which are paid in monthly instalments and subject to mitigation. Entitlement to participate in future share scheme awards ceases on termination.

Contract terms and current annual salaries/fees for all members of the Board

Name	Date of appointment	Notice period/unexpired term	Basic salary/fee ¹ £000	Committee member fee £000	Committee chair/SID fee £000	Current annual salary/fee £000
Chairman						
Lord Burns	01/10/2005	12 mths/6 mths	450	–	–	450
Chief Executive						
Stuart Rose	31/05/2004	12 mths/6 mths	1,050	–	–	1,050
Executive directors						
Ian Dyson	27/06/2005	12 mths/6 mths	525	–	–	525
Steven Sharp	08/11/2005	12 mths/6 mths	525	–	–	525
Non-executive directors						
Jeremy Darroch	01/02/2006	3 mths/3 mths	55	6	12	73
Steven Holliday	15/07/2004	3 mths/3 mths	55	12	–	67
Jack Keenan	01/09/2001	3 mths/3 mths	55	12	–	67
Sir David Michels	01/03/2006	3 mths/3 mths	55	12	12	79
Louise Patten	01/02/2006	3 mths/3 mths	55	6	12	73

¹ From 1 January 2007 for Chief Executive and executive directors and 1 April 2007 for Chairman and non-executive directors.

Shareholding policy

The current shareholding policy for executive directors was introduced from 1 June 2002. All executive directors are required to hold a defined percentage of salary (200% for Chief Executive and 100% for all other executive directors) within a five-year period from their appointment. The relevant salary is either the salary as at 1 June 2002 or as at date of appointment, whichever is the later. The share market value is measured at the current date.

Directors' interests

The beneficial interests of the directors and connected persons in the shares of the Company are shown below. Options granted under the SAYE scheme and the Executive Share Option Schemes and the shares awarded under the Deferred Share Bonus Plan and Performance Share Plan are shown on page 49. Further information regarding employee share option schemes is given in Note 12 to the financial statements starting on page 71 of the Annual report.

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 10 May 2007, one month prior to the Notice of the Annual General Meeting, other than that noted below in respect of Lord Burns. No director had any interest in any of the Company's subsidiaries at the beginning or end of the year.

Name	Ordinary shares as at 31 March 2007	Ordinary shares as at 1 April 2006
Lord Burns ¹	12,275	5,545
Jeremy Darroch	2,000	2,000
Ian Dyson	60,000	60,000
Steven Holliday	2,500	2,500
Jack Keenan	53,238	53,238
Sir David Michels	4,000	4,000
Louise Patten	8,000	4,000
Stuart Rose	500,416	500,416
Steven Sharp	28,473	27,816

¹ Lord Burns bought 2,197 shares on 2 April 2007 under the terms of his appointment, being the purchase of shares on a quarterly basis, using approximately 25% of his net income from the Company, increasing his shareholding to 14,472 ordinary shares.

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. Stuart Rose serves as a non-executive director at Land Securities and received a fee of £50,000 during the year under review.

Remuneration report continued

PART 2: AUDITED INFORMATION

1 Directors' emoluments

	Salary/ fee £000	Cash allowance and benefits ⁵ £000	Bonus ⁴ £000	Total 2007 £000	Total 2006 £000
Chairman					
Lord Burns ¹	337	2	–	339	88
Chief Executive					
Stuart Rose ²	975	277	1,050	2,302	2,305
Executive directors					
Ian Dyson ³	486	140	525	1,151	685
Steven Sharp ³	488	152	525	1,165	364
Non-executive directors					
Jeremy Darroch	61	–	–	61	8
Steven Holliday	60	–	–	60	50
Jack Keenan	68	–	–	68	60
Sir David Michels	68	–	–	68	4
Louise Patten	58	–	–	58	8
Directors retiring from the Board during the year					
Kevin Lomax ⁶	29	–	–	29	60
Paul Myners ⁷	67	57	–	124	203
Former directors⁸				251	1,282
Total	2,697	628	2,100	5,676	5,117

¹ Lord Burns was appointed Chairman on 11 July 2006. His fee on appointment increased to £400,000 from his previous salary as Deputy Chairman of £175,000.

² Stuart Rose received a salary increase from £950,000 to £1,050,000 effective from 1 January 2007. His total bonus earned in 2006/07 was £2,625,000.

³ Ian Dyson & Steven Sharp received a salary increase from £475,000 to £525,000 effective from 1 January 2007. They each received a total bonus of £1,312,500 for 2006/07.

⁴ For all executive directors, 40% of the total bonus is paid in cash as shown in the table, and 60% paid in shares as part of the Deferred Share Bonus Plan as described under the Annual Bonus Scheme on page 45. The Deferred Share Bonus Plan shares will be granted in June 2007.

⁵ The elements included in the Cash allowance and benefits column of the table are described in detail in the Salaries and benefits section on page 45 and have been audited.

In addition, non-executive directors are entitled to reimbursement of any expenses incurred as a result of their Board duties. For 2006/07, this included £20,000 for Sir David Michels, Senior Independent Director, who was reimbursed for general office and administration costs related to his Marks and Spencer Board duties.

⁶ Kevin Lomax retired from the Board on 31 August 2006.

⁷ Paul Myners retired from the Board on 11 July 2006. The Company agreed to provide Paul Myners with the services of a driver and fleet vehicle for a period of up to two years from August 2006. The cost of that arrangement for the period August 2006 to March 2007 inclusive was £56,245. The remaining £838 were benefits received between April and July 2007 whilst he was Chairman.

⁸ The £251,000 in 2007 (last year £246,000) relates to payments to former directors under the Early Retirement Plan. Under this 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.

The former directors are James Benfield who received £78,686 (last year £76,992) payable until 22 April 2009, and Derek Hayes who received £73,202 (last year £71,626) payable until 19 November 2008.

The pension scheme entitlement for Clinton Silver is supplemented by an additional, unfunded pension paid by the Company, which for 2007 was £98,873 (last year £96,745).

For 2006, the additional £1,036,000 relates to payments to directors who retired from the Board during that year.

2 Directors' interests in long-term incentive schemes

Directors' Share Schemes

	Date of award	Maximum shares receivable at 1 April 2006	Shares awarded during the year	Maximum shares receivable at 31 March 2007	Market Value on date of award (p)	Earliest date of vesting
Chief Executive						
Stuart Rose						
Performance Share Plan ¹	25/07/2005	473,868	–	473,868	358.75	25/07/2008
	19/07/2006	–	663,755	663,755	572.5	19/07/2009
Deferred Share Bonus Plan ²	05/06/2006	–	35,125	35,125	550.0	05/06/2009
Total		473,868	698,880	1,172,748		
Executive directors						
Ian Dyson						
Performance Share Plan ¹	25/07/2005	234,146	–	234,146	358.75	25/07/2008
	19/07/2006	–	331,878	331,878	572.5	19/07/2009
Deferred Share Bonus Plan ²	05/06/2006	–	48,579	48,579	550.0	05/06/2009
Total		234,146	380,457	614,603		
Steven Sharp						
Performance Share Plan ¹	25/07/2005	234,146	–	234,146	358.75	25/07/2008
	19/07/2006	–	331,878	331,878	572.5	19/07/2009
Deferred Share Bonus Plan ²	05/06/2006	–	64,772	64,772	550.0	05/06/2009
Restricted Share Plan ³	24/06/2005	90,000	–	90,000	352.0	24/07/2007
Total		324,146	396,650	720,796		

¹ The number of performance shares is the maximum (100%) of the award that could be receivable by the executive if the EPS performance conditions are fully met as outlined on page 46.

² Full details of the Deferred Share Bonus Plan are set out on page 45.

³ Steven Sharp was awarded these shares before he was appointed an executive director. (Full details of the Restricted Share Plan are set out in Note 12 to the financial statements on page 74 of the Annual Report.)

There has been no vesting or lapses for any of the above plans during this financial year.

Directors' Share Option Schemes

	Date of grant	Maximum options receivable at 1 April 2006	Options granted during the year	Maximum options receivable at 31 March 2007	Option price (p)	Option period
Chief Executive						
Stuart Rose						
Executive Share Option Scheme ¹	20/07/2004	979,825	–	979,825	347.0	20/07/07–19/07/14
SAYE	25/11/2005	4,613	–	4,613	349.0	01/01/11–30/06/11
Total		984,438	–	984,438		
Executive directors						
Ian Dyson						
SAYE	25/11/2005	4,613	–	4,613	349.0	01/01/11 – 30/06/11
Total		4,613	–	4,613		
Steven Sharp						
Executive Share Option Scheme ¹	20/07/2004	302,593	–	302,593	347.0	20/07/07–19/07/14
	24/11/2004	104,010	–	104,010	336.5	24/11/07–23/11/14
SAYE	25/11/2005	2,679	–	2,679	349.0	01/01/09–30/06/09
Total		409,282	–	409,282		

¹ The Executive Share Options have not been held for three years and therefore cannot be exercised under the scheme rules; Option price is below the market value on 31 March 2007 for all options; The performance criteria attached to the Executive Share Option Scheme is described on page 46.

There have been no exercises or lapses for any of the above schemes during this financial year.

The market price of the shares at the end of the financial year was 676.5p; the highest and lowest share price during the financial year were 736.5p and 538.5p respectively.

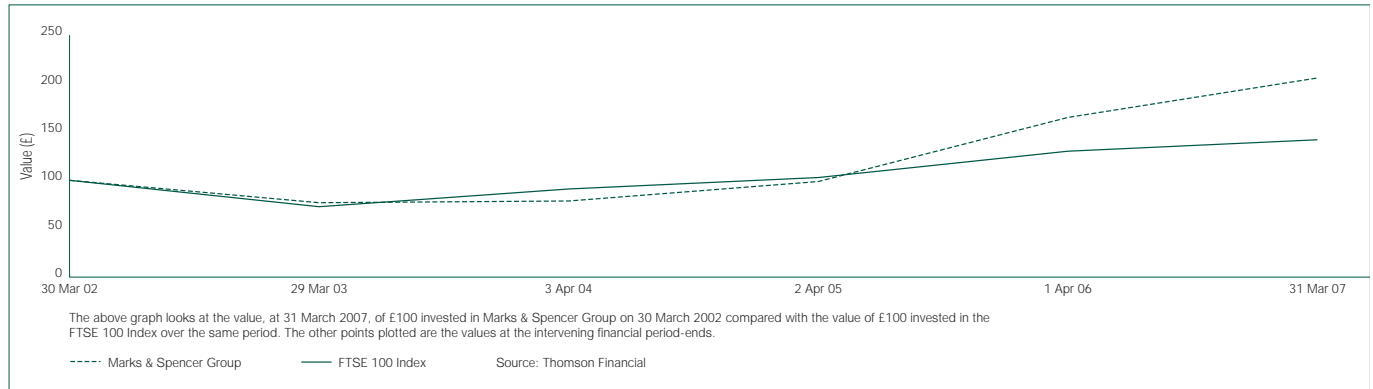
For both the tables above, the explanation of the performance criteria attached to the Performance Share Plan and the Executive Share Option Scheme in Long-Term Incentive Schemes on pages 45 and 46 have been audited.

Remuneration report continued

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 Total Shareholder Return which is share price growth plus any dividends paid.



The above graph does not form part of the audited information of the Remuneration Report.

Approved by the Board

Louise Patten, Chairman of the Remuneration Committee

London

21 May 2007

Auditors' report

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MARKS AND SPENCER GROUP PLC

We have audited the group and parent company financial statements (the "financial statements") of Marks and Spencer Group plc for the year ended 31 March 2007 which comprise the consolidated and Company income statements, the consolidated and Company balance sheets, the consolidated and Company cash flow statements, the consolidated statement of recognised income and expense, the Company statement of changes in shareholders' equity and the related group and parent company notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Remuneration report that is described as having been audited.

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 law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). 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 part of the Remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Group directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We review whether the Corporate governance statement reflects the company's compliance with the nine provisions of the Combined Code (2003) 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 form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual report and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman's foreword, the Chief Executive's business review, the Financial review, the Corporate governance statement, the unaudited part of the Remuneration report, the Group financial record and the Shareholder information. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 part of the Remuneration report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration report to be audited 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 and the part of the Remuneration report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's and the parent company's affairs as at 31 March 2007 and of the Group's and the parent company's profit and cash flows for the year then ended;
- the financial statements and the part of the Remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Group directors' report is consistent with the financial statements.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
London
21 May 2007

Consolidated income statement

	Notes	52 weeks ended 31 March 2007 £m	52 weeks ended 1 April 2006 £m
Revenue – continuing operations	2,3	8,588.1	7,797.7
Operating profit – continuing operations	2,3	1,045.9	850.1
Finance income	5	33.8	30.5
Finance costs	5	(143.0)	(134.9)
Analysed between:			
Before exceptional finance costs	5	(112.6)	(134.9)
Exceptional finance costs		(30.4)	–
Profit on ordinary activities before taxation – continuing operations	4	936.7	745.7
Analysed between:			
Before property disposals and exceptional items		965.2	751.4
Profit/(loss) on property disposals	3	1.9	(5.7)
Exceptional finance costs	5	(30.4)	–
Income tax expense	6	(277.5)	(225.1)
Profit on ordinary activities after taxation – continuing operations		659.2	520.6
Profit from discontinued operation	7A	0.7	2.5
Profit for the year attributable to shareholders		659.9	523.1
Basic earnings per share	8A	39.1p	31.4p
Diluted earnings per share	8B	38.5p	31.1p
Basic earnings per share from continuing operations	8A	39.1p	31.3p
Diluted earnings per share from continuing operations	8B	38.5p	31.0p
Non-GAAP measure:			
Adjusted profit before taxation (£m)	1	965.2	751.4
Adjusted basic earnings per share from continuing operations	8A	40.4p	31.4p
Adjusted diluted earnings per share from continuing operations	8B	39.8p	31.1p

Consolidated statement of recognised income and expense

	Notes	52 weeks ended 31 March 2007 £m	52 weeks ended 1 April 2006 £m
Profit for the year attributable to shareholders		659.9	523.1
Foreign currency translation differences		(14.0)	11.1
Actuarial losses on retirement benefit deficit		(8.6)	(169.3)
Cash flow and net investment hedges			
– losses deferred in equity		(7.4)	(3.1)
– recycled and reported in net profit		10.7	(1.4)
– amount recognised in inventories		2.1	(3.8)
Tax on items taken directly to equity		24.5	80.7
Net gains/(losses) not recognised in the income statement		7.3	(85.8)
Total recognised income and expense for the year		667.2	437.3
Prior year adjustment	1,25	48.4	
Total recognised income and expense since last annual report		715.6	

Consolidated balance sheet

	Notes	As at 31 March 2007 £m	As at 1 April 2006 (restated) £m
ASSETS			
Non-current assets			
Intangible assets	13	194.1	163.5
Property, plant and equipment	14	4,044.5	3,575.8
Investment property	15	25.1	38.5
Investment in joint venture	16	9.3	9.0
Other financial assets	17	3.0	3.3
Trade and other receivables	18	247.0	242.8
Deferred tax assets	25	11.6	83.9
		4,534.6	4,116.8
Current assets			
Inventories		416.3	374.3
Other financial assets	17	50.9	48.8
Trade and other receivables	18	196.7	210.5
Derivative financial instruments	23	2.4	76.4
Cash and cash equivalents	19	180.1	362.6
Assets of discontinued operation		–	69.5
		846.4	1,142.1
Total assets		5,381.0	5,258.9
LIABILITIES			
Current liabilities			
Trade and other payables	20	1,043.9	867.8
Derivative financial instruments	23	8.3	8.0
Borrowings and other financial liabilities	21	461.0	1,052.8
Current tax liabilities		87.3	58.7
Provisions	24	5.7	9.2
Liabilities of discontinued operation		–	20.5
		1,606.2	2,017.0
Non-current liabilities			
Borrowings and other financial liabilities	21	1,234.5	1,133.8
Partnership liability to the Marks & Spencer UK Pension Scheme	22	496.9	–
Retirement benefit deficit	11	283.3	794.9
Trade and other payables	20	87.6	74.8
Derivative financial instruments	23	0.2	9.5
Provisions	24	16.8	19.1
Deferred tax liabilities	25	7.3	6.1
		2,126.6	2,038.2
Total liabilities		3,732.8	4,055.2
Net assets		1,648.2	1,203.7
EQUITY			
Called up share capital – equity	26,27	424.9	420.6
Share premium account	27	202.9	162.3
Capital redemption reserve	27	2,168.5	2,113.8
Hedging reserve	27	(4.4)	(8.0)
Other reserve	27	(6,542.2)	(6,542.2)
Retained earnings	27	5,397.1	5,057.2
Total shareholders' equity		1,646.8	1,203.7
Minority interest in equity		1.4	–
Total equity		1,648.2	1,203.7

Approved by the Board
21 May 2007

Stuart Rose, Chief Executive
Ian Dyson, Group Finance Director

Chairman's
Foreword

Executive Team

Chief Executive's
Business Review

Your Board

Financial
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Information

Consolidated cash flow information

CASH FLOW STATEMENT

	Notes	52 weeks ended 31 March 2007 £m	52 weeks ended 1 April 2006 £m
Cash flows from operating activities			
Cash generated from operations – continuing	29A	1,442.6	1,183.6
Cash generated from operations – discontinued	29B	0.7	13.9
Tax paid		(150.8)	(101.5)
Net cash inflow from operating activities		1,292.5	1,096.0
Cash flows from investing activities			
Disposal of subsidiary, net of cash disposed		48.8	–
Capital expenditure and financial investment	29C	(712.8)	(266.3)
Interest received		13.2	12.9
Net cash outflow from investing activities		(650.8)	(253.4)
Cash flows from financing activities			
Interest paid		(123.4)	(142.8)
Exceptional interest paid		(21.6)	–
Other debt financing	29D	(479.2)	(420.0)
Equity dividends paid		(260.6)	(204.1)
Other equity financing	29E	9.2	55.8
Net cash outflow from financing activities		(875.6)	(711.1)
Net cash (outflow)/inflow from activities		(233.9)	131.5
Effects of exchange rate changes		(1.5)	1.6
Opening net cash		282.4	149.3
Closing net cash	30A	47.0	282.4

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	52 weeks ended 31 March 2007 £m	52 weeks ended 1 April 2006 £m
Opening net debt	(1,729.3)	(2,277.2)
Net cash (outflow)/inflow from activities	(233.9)	131.5
Cash outflow/(inflow) from increase/(decrease) in current financial assets	2.6	(1.0)
Cash outflow from decrease in debt financing	479.2	420.0
Debt financing net of liquid resources disposed with subsidiary	(16.8)	–
Fair value movement on derivatives	67.0	(3.7)
Partnership liability to the Marks & Spencer UK Pension Scheme (non-cash)	(495.6)	–
Exchange and other non-cash movements	(22.7)	1.1
Movement in net debt	(220.2)	547.9
Closing net debt	(1,949.5)	(1,729.3)

Notes to the financial statements

1 ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

Following a change in external interpretation of IAS 12 – 'Income Taxes' the Group's accounting policy for deferred tax now more closely reflects the manner in which management expects to recover or settle the carrying amounts of its buildings through sale or use. The opening balance sheet at 3 April 2005 has been restated to recognise £48.4m of additional deferred tax assets and reserves. There is no material impact of this change on the income statement.

The following IFRSs and amendments have been issued by the International Accounting Standards Board but none is expected to have a material impact on the results or net assets of the Group.

Amendment to IAS 1 – 'Presentation of Financial Statements – Capital Disclosures' was issued in August 2005. It introduces new requirements for capital disclosures. It is required to be implemented by the Group from 1 April 2007, and will have no impact on the results or net assets of the Group.

IFRS 7 – 'Financial Instruments: Disclosures' was issued in August 2005. It replaces IAS 32 – 'Financial Instruments: Disclosure and Presentation' with revised and additional disclosures. It is required to be implemented by the Group from 1 April 2007, and will have no impact on the results or net assets of the Group.

IFRS 8 – 'Operating Segments' was issued in November 2006. It replaces IAS 14 – 'Segmental Reporting' and requires operating segments to be disclosed on the same basis as that used for internal reporting. It is required to be implemented by the Group from 1 April 2009, and will have no impact on the results or net assets of the Group.

Amendment to IAS 23 – 'Borrowing Costs' was issued in March 2007. It removes the option of immediately expensing borrowing costs that are directly attributable to a qualifying asset and requires such costs to be capitalised. It is required to be implemented by the Group from 1 April 2009 but is not expected to have a material impact on the results or net assets of the Group.

Marks and Spencer Scottish Limited Partnership has taken exemption under paragraph 7 of the Partnership and Unlimited Companies (Accounts) Regulations 1993 (SI 1993/1820) from the requirement to prepare and deliver accounts in accordance with the Companies Act.

A summary of the Company's and the Group's accounting policies is given below:

Accounting convention

The financial statements are drawn up on the historical cost basis of accounting, except as disclosed in the accounting policies set out below.

Basis of consolidation

The Group financial statements incorporate the financial statements of Marks and Spencer Group plc and all its subsidiaries made up to the year end date. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

Subsidiary undertakings are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiary undertakings acquired during the year are recorded using the acquisition method of accounting and their results included from the date of acquisition.

The separable net assets, both tangible and intangible of the newly acquired subsidiary undertakings are incorporated into the financial statements on the basis of the fair value as at the effective date of control.

Results of subsidiary undertakings disposed of during the financial year are included in the financial statements up to the effective date of disposal. Where a business component representing a separate major line of business is disposed of, or classified as held for sale, it is classified as a discontinued operation. The post-tax profit or loss of the discontinued operation is shown as a single amount on the face of the income statement, separate from the other results of the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated.

Revenue

Revenue 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. Sales of furniture are recorded on delivery to the customer.

Dividends

Final dividends are recorded in the financial statements in the period in which they are approved by the Company's shareholders. Interim dividends are recorded in the period in which they are approved and paid.

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 include a property partnership interest and various equities and bonds. The equities and bonds are managed by third-party investment managers and are held separately in trust.

Notes to the financial statements continued

1 ACCOUNTING POLICIES continued

Regular valuations are prepared by independent professionally qualified actuaries in respect of the defined benefit schemes. These determine the level of contribution required to fund the benefits set out in the rules of the plans and allow for the periodic increase of pensions in payment. The 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 interest. This is based on the market value of the assets of the schemes at the start of the financial year.

A charge is also made within interest representing the expected increase in the liabilities of the retirement benefit schemes during the year. This arises from the liabilities of the schemes being one year closer to payment.

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

Actuarial gains and losses are recognised immediately in the statement of recognised income and expense.

Intangible assets

A Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisitions over the Group's interest in the fair value of the identifiable assets and liabilities (including intangible assets) of the acquired entity at the date of the acquisition. Goodwill is recognised as an asset and assessed for impairment at least annually. Any impairment is recognised immediately in the income statement.

Upon disposal of a subsidiary the attributable goodwill is included in the calculation of the profit or loss arising on disposal. Goodwill written off to reserves under UK GAAP prior to 31 March 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

B Brands

Acquired brand values are held on the balance sheet at cost and amortised on a straight-line basis over their estimated useful lives. Any impairment in value is recognised immediately in the income statement.

C Software intangibles

Where computer software is not an integral part of a related item of computer hardware, the software is treated as an intangible asset. Capitalised software costs include external direct costs of material and services and the payroll and payroll-related costs for employees who are directly associated with the project.

Capitalised software development costs are amortised on a straight-line basis over their expected economic lives, normally between three to five years.

Property, plant and equipment

A Land and buildings

The Group's policy is to state property, plant and equipment at cost less accumulated depreciation and not to revalue property for accounting purposes.

B Interest

Interest is not capitalised.

C Depreciation

Depreciation is provided to write off the cost of tangible non-current assets (including investment properties), less estimated residual values, by equal annual instalments as follows:

- freehold land: not depreciated;
- freehold and leasehold buildings with a remaining lease term over 50 years: depreciated to their residual value over their estimated remaining economic lives;
- leasehold buildings with a remaining lease term of less than 50 years: over the remaining period of the lease;
- fit-out: 10-25 years according to the estimated life of the asset; and
- fixtures, fittings and equipment: 3-15 years according to the estimated life of the asset.

Residual values and useful economic lives are reviewed annually. Depreciation is charged on all additions to, or disposals of, depreciating assets in the year of purchase or disposal. Any impairment in value is charged to the income statement.

1 ACCOUNTING POLICIES continued

D Assets held under leases

Where assets are financed by leasing agreements where the risks and rewards are substantially transferred to the Group ('finance leases') the assets are treated as if they had been purchased outright and the corresponding liability to the leasing company is included as an obligation under finance leases. Depreciation on leased assets is charged to the income statement on the same basis as owned assets. Leasing payments are treated as consisting of capital and interest elements and the interest is charged to the income statement.

All other leases are 'operating leases' and the costs in respect of operating leases are charged on a straight-line basis over the lease term. The value of any lease incentive received to take on an operating lease (for example, rent free periods) is recognised as deferred income and is released over the life of the lease.

Investment properties

Investment properties are recorded at cost less accumulated depreciation and any recognised impairment loss.

Leasehold prepayments

Payments made to acquire leasehold land are included in prepayments at cost and are amortised over the life of the lease.

Share-based payments

The Group issues equity settled share-based payments to certain employees. A fair value for the equity settled share awards is measured at the date of grant. The Group measures the fair value using the valuation technique most appropriate to value each class of award, either the Black-Scholes or Monte Carlo method.

The fair value of each award is recognised as an expense over the vesting period on a straight-line basis, after allowing for an estimate of the share awards that will eventually vest. The level of vesting is reviewed annually; and the charge is adjusted to reflect actual and estimated levels of vesting.

Inventories

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

Foreign currencies

The results of overseas 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 recognised income and expense.

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 balance sheet date are translated at the closing balance sheet rate. The resulting exchange gain or loss is recognised within the income statement.

Taxation

The tax charge comprises current tax payable and deferred tax.

The current tax charge represents an estimate of the amounts payable to tax authorities in respect of the Group's taxable profits and is based on an interpretation of existing tax laws.

Deferred tax is recognised on temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base at tax rates that are expected to apply when the asset is realised or the liability settled, based on tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is not recognised in respect of:

- the initial recognition of goodwill that is not tax deductible; and
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction does not affect accounting or taxable profits.

Deferred tax assets are only recognised when it is probable that taxable profits will be available against which the deferred tax asset can be utilised.

Deferred tax liabilities are not provided in respect of undistributed profits of non-UK resident subsidiaries where (i) the Group is able to control the timing of distribution of such profits and (ii) it is not probable that a taxable distribution will be made in the foreseeable future.

Financial instruments

Financial assets and liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

A Trade receivables

Trade receivables are recorded at their nominal amount less an allowance for any doubtful debts.

B Investments and other financial assets

Investments and other financial assets are classified as either 'available for sale', 'fair value through profit or loss' or 'held to maturity'. They are initially measured at cost, including transaction costs, with the exception of 'fair value through profit and loss'. Where securities are designated as 'fair value through profit or loss', gains and losses arising from changes in fair value are included in net profit or loss for the period. For 'available for sale' investments, gain or losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period. Equity investments that do not have a quoted market price in an active market and whose fair value can not be reliably measured by other means are held at cost. 'Held to maturity' investments are measured at amortised cost using the effective interest method.

Notes to the financial statements continued

1 ACCOUNTING POLICIES continued

Investments in subsidiaries are held at cost less impairment. Dividends received from the pre-acquisition profits of subsidiaries are deducted from the cost of investment.

C Classification of financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

D Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

E Loan notes

Long-term loans are held at amortised cost unless the loan is hedged by a derivative financial instrument in which case hedge accounting treatment will apply.

F Trade payables

Trade payables are stated at their nominal value.

G Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments and hedging activities

The Group primarily uses interest rate swaps and forward foreign currency contracts to manage its exposures to fluctuating interest and foreign exchange rates. These instruments are initially recognised at fair value on the trade date and are subsequently remeasured at their fair value at the balance sheet date. The method of recognising the resulting gain or loss is dependent on whether the derivative is designated as a hedging instrument and the nature of the item being hedged. The Group designates derivatives as either:

- a hedge of a highly probable forecast transaction or change in the cash flows of a recognised asset or liability (a cash flow hedge); or
- a hedge of the exposure to change in the fair value of a recognised asset or liability (a fair value hedge); or
- a hedge of the exposure on the translation of net investments in foreign entities (a net investment hedge).

Underlying the definition of fair value is the presumption that the Group is a going concern without any intention of materially curtailing the scale of its operations.

For those of the Group's derivative instruments stated at fair value, the fair value will be determined by the Group applying discounted cash flow analysis using quoted market rates as an input into the valuation model.

In determining the fair value of a derivative, the appropriate quoted market price for an asset held is the bid price, and for a liability issued is the offer price.

At inception of a hedging relationship, the hedging instrument and the hedged item are documented and prospective effectiveness testing is performed. During the life of the hedging relationship, effectiveness testing is continued to ensure the instrument remains an effective hedge of the transaction.

In order to qualify for hedge accounting, the following conditions must be met:

- formal designation and documentation at inception of the hedging relationship, detailing the risk management objective and strategy for undertaking the hedge;
- the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk;
- for a cash flow hedge, a forecast transaction that is the subject of the hedge must be highly probable;
- the effectiveness of the hedge can be reliably measured; and
- the hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout its life.

A Cash flow hedges

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and any ineffective portion is recognised immediately in the income statement. If the firm commitment or forecasted transaction that is the subject of a cash flow hedge results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged items affect net profit or loss.

B Fair value hedges

For an effective hedge of an exposure to changes in the fair value, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in profit or loss. Gains or losses from remeasuring the derivative, or for non-derivatives the foreign currency component of its carrying amount, are recognised in profit or loss.

C Net investment hedges

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of the net investments are recognised directly in equity and any ineffective portion is recognised immediately in the income statement.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

1 ACCOUNTING POLICIES *continued*

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

The Group does not use derivatives to hedge income statement translation exposures.

Critical accounting estimates and judgements

The preparation of consolidated financial statements requires the Group to make estimates and assumptions that affect the application of policies and reported amounts. Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are discussed below:

A Impairment of goodwill

The Group is required to test, at least annually, whether goodwill has suffered any impairment. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the choice of a suitable discount rate in order to calculate the present value of these cash flows. Actual outcomes could vary.

B Impairment of property, plant and equipment

Property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is determined based on value in use calculations prepared on the basis of management's assumptions and estimates.

C Depreciation of property, plant and equipment

Depreciation is provided so as to write down the assets to their residual values over their estimated useful lives as set out above. The selection of these residual values and estimated lives requires the exercise of management judgement.

D Post retirement benefits

The determination of the pension cost and defined benefit obligation of the Group's defined benefit pension schemes depends on the selection of certain assumptions which include the discount rate, inflation rate, salary growth, mortality and expected return on scheme assets. Differences arising from actual experiences or future changes in assumptions will be reflected in subsequent periods. See note 11 for further details.

E Refunds and loyalty scheme accruals

Accruals for sales returns and loyalty scheme redemption are estimated on the basis of historical returns and redemptions and these are recorded so as to allocate them to the same period as the original revenue is recorded. These provisions are reviewed regularly and updated to reflect management's latest best estimates, however, actual returns and redemptions could vary from these estimates.

Non-GAAP performance measures

The directors believe that the 'adjusted' profit and earnings per share measures provide additional useful information for shareholders on the underlying performance of the business. These measures are consistent with how business performance is measured internally. The adjusted profit before tax measure is not a recognised profit measure under IFRS and may not be directly comparable with 'adjusted' profit measures used by other companies. The adjustments made to reported profit before tax are to exclude the following:

- exceptional income and charges. These are largely one-off in nature and therefore create volatility in reported earnings; and
- profits and losses on the disposal of properties. These can vary significantly from year to year, again creating volatility in reported earnings.

Notes to the financial statements continued

2 SEGMENTAL INFORMATION

The Group's primary reporting segments are geographic, with the Group operating in two geographic areas being the UK and International. The International segment consists of the Marks & Spencer owned businesses in the Republic of Ireland and Hong Kong, together with franchised operations. The geographic segments disclose revenue, operating profit and segment assets and liabilities by destination and reflect management responsibility. Within each geographic segment the Group sells both food and general merchandise and secondary segment disclosure is given for revenue. Given that both food and general merchandise are sold from the same locations it is not practical to provide segmental information on operating assets and capital expenditure at this level.

The geographic segment results are as follows:

	Revenue		Operating profit		Segment assets		Segment liabilities	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 (restated) £m	2007 £m	2006 £m
UK Retail								
Before property disposals	7,977.5	7,275.0	956.5	790.1				
Profit/(loss) on property disposals	-	-	0.2	(5.6)				
	7,977.5	7,275.0	956.7	784.5	4,988.4	4,479.6	(1,811.4)	(1,630.7)
International Retail								
Owned stores ¹	369.5	324.2	45.4	35.8				
Franchised stores	241.1	198.5	42.1	29.9				
Before property disposals	610.6	522.7	87.5	65.7				
Profit/(loss) on property disposals	-	-	1.7	(0.1)				
	610.6	522.7	89.2	65.6	295.7	214.5	(61.7)	(81.5)
Total	8,588.1	7,797.7	1,045.9	850.1	5,284.1	4,694.1	(1,873.1)	(1,712.2)
Assets/(liabilities) from discontinued operation ²					-	69.5	-	(20.5)
Total non-operating assets/(liabilities) ³					96.9	495.3	(1,859.7)	(2,322.5)
Total assets/(liabilities)					5,381.0	5,258.9	(3,732.8)	(4,055.2)

¹ Owned stores consist of the Marks & Spencer owned businesses in the Republic of Ireland and Hong Kong.

² The assets and liabilities in the comparative period relate to Kings Super Markets.

³ Non-operating assets and liabilities include balances in respect of financing and taxation.

Revenue originates in the following geographical segments: United Kingdom £8,218.6m (last year £7,473.5m) and International £369.5m (last year £324.2m). The value of goods exported from the UK, including shipments to international subsidiaries, amounted to £438.0m (last year £367.6m).

Included within UK Retail is an operating profit of £19.5m (last year £9.6m) in respect of fees received from HSBC in relation to M&S Money.

Other segment items:

	2007			2006		
	United Kingdom £m	International £m	Total £m	United Kingdom £m	International £m	Total £m
Revenue						
General Merchandise	4,002.8	423.9	4,426.7	3,651.8	366.0	4,017.8
Foods	3,974.7	186.7	4,161.4	3,623.2	156.7	3,779.9
	7,977.5	610.6	8,588.1	7,275.0	522.7	7,797.7
Expenditure on intangible assets (see note 13)	46.5	-	46.5	10.7	0.2	10.9
Expenditure on property, plant and equipment (see note 14)	718.9	27.0	745.9	307.3	14.1	321.4
Amortisation (see note 13)	14.2	-	14.2	12.7	-	12.7
Depreciation (see note 14)	258.4	10.1	268.5	252.5	8.8	261.3

Since last year end, gifts have been reclassified from both clothing and food to be incorporated within home. Accordingly, £7.4m of revenue has been reclassified from foods to general merchandise. Within general merchandise £20.8m of revenue has been reclassified between clothing and home.

3 EXPENSE ANALYSIS

	2007 £m	2006 £m
Revenue	8,588.1	7,797.7
Cost of sales	(5,246.9)	(4,812.1)
Gross profit	3,341.2	2,985.6
Selling and marketing expenses	(1,779.2)	(1,625.7)
Administrative expenses	(584.1)	(522.7)
Other operating income	66.1	18.6
Profit/(loss) on property disposals	1.9	(5.7)
Operating profit	1,045.9	850.1

The selling and marketing expenses and administrative expenses in the table above are further analysed in the table below:

	2007			2006		
	Selling and marketing expenses £m	Admini- strative expenses £m	Total £m	Selling and marketing expenses £m	Admini- strative expenses £m	Total £m
Employee costs (see note 10A)	928.8	245.3	1,174.1	844.9	228.3	1,073.2
Occupancy costs	310.5	62.4	372.9	276.2	49.2	325.4
Repairs, renewals and maintenance of property	55.4	19.1	74.5	73.0	17.2	90.2
Depreciation and amortisation	264.4	18.3	282.7	243.5	30.5	274.0
Other costs	220.1	239.0	459.1	188.1	197.5	385.6
Operating expenses	1,779.2	584.1	2,363.3	1,625.7	522.7	2,148.4

Notes to the financial statements continued

4 PROFIT BEFORE TAXATION

	2007 £m	2006 £m
The following items have been included in arriving at profit before taxation:		
Depreciation of property, plant, and equipment		
– Owned assets	266.8	259.2
– Under finance leases	1.7	2.1
Amortisation of intangibles	14.2	12.7
(Profit)/loss on property disposals	(1.9)	5.7
Operating lease rentals payable		
– Property	143.4	127.1
– Fixtures, fittings and equipment	7.2	8.5
Exceptional finance costs (see note 5)	30.4	–

Included in administrative expenses is the auditors' remuneration, including expenses for audit and non-audit services, as follows:

	2007 £m	2006 £m
Statutory audit services		
Annual audit of the Company and the consolidated accounts	0.3	0.3
Audit of subsidiary companies	0.8	0.8
	1.1	1.1
Non-audit related services		
Other services pursuant to legislation	0.1	0.1
Tax advisory services	0.2	0.3
Other services	0.2	0.1
	0.5	0.5

In addition to the above, fees in respect of the annual audit of the Marks & Spencer UK Pension Scheme were £0.1m (last year £0.1m).

5 FINANCE COSTS/INCOME

	2007 £m	2006 £m
Finance costs:		
Interest payable on bank borrowings	4.1	4.2
Amortisation of issue costs of bank loans	1.5	2.3
Interest payable on syndicated bank facility	6.8	7.7
Interest payable on medium term notes	77.5	96.2
Interest payable on securitised loan notes	19.0	20.3
Interest payable on finance leases	2.2	2.3
Dividend on non-equity B shares	0.2	2.3
Unwinding of discount on Partnership liability to the Marks & Spencer UK Pension Scheme	1.3	–
	112.6	135.3
Less: amounts included in profit from discontinued operation	–	(0.4)
Before exceptional finance costs	112.6	134.9
Exceptional finance costs ¹	30.4	–
Finance costs	143.0	134.9
Finance income:		
Bank and other interest receivable	13.0	13.4
Pension finance income (net) (see note 11E)	20.8	17.5
Fair value hedges ²	–	0.2
	33.8	31.1
Less: amounts included in profit from discontinued operation	–	(0.6)
Finance income	33.8	30.5
Net finance costs³	109.2	104.4

¹ The exceptional finance costs represent the unamortised transaction costs, a one-off make-whole premium and the cancellation of the swaps arising on the redemption of £317.2m of secured bonds. These bonds were redeemed in order to release properties for use in the limited partnership with the Marks & Spencer UK Pension Scheme. See note 21 for further details of the bond redemption.

² Last year includes a fair value gain on hedging instruments of £67.2m and a corresponding fair value loss on underlying medium term notes of £67.0m, which were designated into a hedging relationship. As at year end there were no fair value hedges.

³ Where applicable, interest payable amounts are shown net of their assigned interest rate derivative. The fair values of these derivatives have been reported as a net figure under interest income.

6 INCOME TAX EXPENSE**A Taxation charge**

	2007 £m	2006 £m
Current tax		
UK corporation tax at 30% (last year 30%)		
– current year	172.4	150.3
– current year tax on exceptional finance costs	(6.5)	–
– prior years	6.1	(2.0)
	172.0	148.3
Overseas current taxation	7.5	5.3
Total current taxation	179.5	153.6
Deferred tax (see note 25)		
– current year	108.2	71.8
– prior years	(10.2)	(0.3)
Total deferred taxation	98.0	71.5
Total income tax expense	277.5	225.1

Notes to the financial statements continued

6 INCOME TAX EXPENSE continued

B Taxation reconciliation

	2007 £m	2006 £m
Profit before tax	936.7	745.7
Taxation at the standard UK corporation tax rate of 30% (last year 30%)	281.0	223.7
Depreciation and charges on non-qualifying fixed assets	5.4	10.2
Other income and expenses not taxable or deductible	(1.0)	(2.7)
Tax on exceptional finance costs not deductible	2.6	–
Overseas profits taxed at lower rates	(6.4)	(3.8)
Adjustments to tax charge in respect of prior periods	(4.1)	(2.3)
Total income tax expense	277.5	225.1

The post-exceptional effective tax rate was 29.6% (last year 30.2%) and the pre-exceptional effective tax rate was 29.4% (last year 30.2%).

7 DISCONTINUED OPERATION

On 31 March 2006, the Group announced the sale of Kings Super Markets Inc to a US investor group for \$61.5m excluding cash in the business at the date of disposal. The disposal of the business was completed on 28 April 2006.

A Profit from discontinued operation

	2007 £m	2006 £m
Revenue	13.0	228.2
Cost of sales	(8.2)	(144.7)
Gross profit	4.8	83.5
Net operating expenses	(4.5)	(80.5)
Net interest receivable	–	0.2
Profit before taxation	0.3	3.2
Taxation on results	–	(0.7)
Profit after taxation	0.3	2.5
Gain on disposal of subsidiary net assets	0.4	–
Taxation	–	–
Net gain on disposal	0.4	–
Profit from discontinued operation	0.7	2.5

B Expenditure, depreciation and amortisation

The following items have been excluded from the segmental disclosures in note 2.

	2007 £m	2006 £m
Expenditure on property, plant and equipment	–	5.4
Depreciation	0.3	6.3

8 EARNINGS PER SHARE

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

The adjusted earnings per share figures have also been calculated based on earnings excluding the effect of property disposals and exceptional items. These have been calculated to allow the shareholders to gain an understanding of the underlying trading performance of the Group.

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

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

	2007 £m	2006 £m
Earnings after tax	659.9	523.1
Profit from discontinued operation	(0.7)	(2.5)
Earnings after tax – continuing	659.2	520.6
Property disposals (net of tax)	(1.4)	2.0
Exceptional finance costs (net of tax)	23.9	–
Adjusted earnings after tax – continuing	681.7	522.6
	m	m
Weighted average number of ordinary shares in issue	1,688.6	1,667.0
Potentially dilutive share options under Group's share option schemes	26.3	14.5
Weighted average number of diluted ordinary shares	1,714.9	1,681.5

A Basic earnings per share

	2007	2006
Weighted average number of ordinary shares in issue (millions)	1,688.6	1,667.0
Basic earnings per share (pence)	39.1	31.4
Profit from discontinued operation per share (pence)	–	(0.1)
Basic earnings per share – continuing (pence)	39.1	31.3
Property disposals per share (pence)	(0.1)	0.1
Exceptional finance costs per share (pence)	1.4	–
Adjusted basic earnings per share – continuing (pence)	40.4	31.4

B Diluted earnings per share

	2007	2006
Weighted average number of diluted ordinary shares (millions)	1,714.9	1,681.5
Diluted earnings per share (pence)	38.5	31.1
Profit from discontinued operation per share (pence)	–	(0.1)
Diluted earnings per share – continuing (pence)	38.5	31.0
Property disposals per share (pence)	(0.1)	0.1
Exceptional finance costs per share (pence)	1.4	–
Adjusted diluted earnings per share – continuing (pence)	39.8	31.1

Notes to the financial statements continued

9 DIVIDENDS

	2007 per share	2006 per share	2007 £m	2006 £m
Dividends on equity ordinary shares:				
Paid final dividend	9.2p	7.5p	154.6	124.3
Paid interim dividend	6.3p	4.8p	106.0	79.8
	15.5p	12.3p	260.6	204.1

In addition the directors have proposed a final dividend in respect of the year ended 31 March 2007 of 12.0p per share amounting to a dividend of £204.0m. It will be paid on 13 July 2007 to shareholders who are on the Register of Members on 1 June 2007. In line with the requirements of IAS 10 – 'Events after the Balance Sheet Date', this dividend has not been recognised within these results.

10 EMPLOYEES

A Aggregate remuneration

The aggregate remuneration and associated costs of Group employees were:

	2007			2006		
	Continuing operations £m	Discontinued operation £m	Total £m	Continuing operations £m	Discontinued operation £m	Total £m
Wages and salaries	943.8	–	943.8	856.3	36.2	892.5
Social security costs	75.7	–	75.7	64.3	3.3	67.6
Other pension costs	111.9	–	111.9	96.9	1.3	98.2
Share-based payments	27.3	–	27.3	24.7	–	24.7
Employee welfare and other personnel costs	25.1	–	25.1	33.1	2.3	35.4
Capitalised staff costs	(9.7)	–	(9.7)	(2.1)	–	(2.1)
Aggregate remuneration	1,174.1	–	1,174.1	1,073.2	43.1	1,116.3

Details of key management compensation are given in note 32D.

B Average number of employees

	2007	2006
UK stores		
Management and supervisory categories	5,235	4,601
Other	64,074	57,687
UK head office		
Management and supervisory categories	2,396	2,325
Other	850	732
Overseas	3,316	2,959
Discontinued operation	–	2,006
Total average number of employees	75,871	70,310

If the number of hours worked was converted on the basis of a normal working week, the equivalent average number of full-time employees for continuing operations would have been 52,670 (last year 46,989).

C Directors' emoluments

Emoluments of directors of the Company are summarised below. Further details are given in the Remuneration report on pages 44 to 50.

	2007 £000	2006 £000
Aggregate emoluments	5,369	4,249
Termination payments	–	622

The emoluments exclude payments to former directors of £307,000 (last year £246,000).

11 RETIREMENT BENEFITS

The Group provides pension arrangements for the benefit of its UK employees through the Marks & Spencer UK Pension Scheme. This has a defined benefit section, which was closed to new entrants with effect from 1 April 2002, and a defined contribution section which has been open to new members with effect from 1 April 2003. Further details of the Pension Scheme can be found on page 30.

The defined benefit section operates on a final salary basis and at the year end had some 27,000 active members (last year 31,000), 57,000 deferred members (last year 57,000) and 37,000 pensioners (last year 38,000). At the year end, the defined contribution section had some 7,000 active members (last year 5,000) and some 1,000 deferred members (last year nil).

The Group also operates a small funded defined benefit pension scheme in the Republic of Ireland. Retirement benefits also include a UK post-retirement healthcare scheme and unfunded pension plans.

Within the total Group retirement benefit cost of £91.1m (last year £80.7m), £78.0m (last year £69.1m) relates to the UK defined benefit section, £7.6m (last year £5.6m) to the UK defined contribution section and £5.5m (last year £6.0m) to other retirement benefit schemes.

A Pensions and other post-retirement liabilities

	2007 £m	2006 £m
Total market value of assets	5,227.5	4,606.2
Present value of scheme liabilities	(5,487.0)	(5,381.3)
Funded pension plan deficit	(259.5)	(775.1)
Unfunded pension plans	(1.2)	(1.7)
Post-retirement healthcare	(22.6)	(18.1)
Retirement benefit deficit	(283.3)	(794.9)

B Financial assumptions

A full actuarial valuation of the UK defined benefit Pension Scheme was carried out at 31 March 2006 and showed a deficit of £704.0m. The financial assumptions for the UK scheme and the most recent actuarial valuations of the other post-retirement schemes have been updated by independent qualified actuaries to take account of the requirements of IAS 19 – 'Retirement Benefits' in order to assess the liabilities of the schemes:

	2007 %	2006 %
Rate of increase in salaries	3.7	3.7
Rate of increase in pensions in payment for service		
– pre April 1997	2.6	2.4
– between April 1997 and July 2005	3.0	2.9
– post July 2005	2.3	2.1
Discount rate	5.3	4.9
Inflation rate	3.0	2.9
Long-term healthcare cost increases	8.0	7.9

The amount of the deficit varies if the main financial assumptions change, particularly the discount rate. If the discount rate increased/decreased by 0.1% the IAS 19 deficit would decrease/increase by c.£100m.

Notes to the financial statements continued

11 RETIREMENT BENEFITS continued

C Demographic assumptions

The demographic assumptions are in line with those adopted for the last formal actuarial valuation of the Scheme. One of the most significant demographic assumptions underlying the valuation is mortality. The post-retirement mortality assumptions are based on an analysis of the pensioner mortality trends under the Scheme for the period to March 2006 updated to allow for anticipated longevity improvements over the subsequent year. The specific mortality rates used are based on the PMA92 and PFA92 tables, adjusted to allow for the experience of scheme pensioners. The life expectancies underlying the valuation are as follows:

	2007 Years	2006 Years
Current pensioners (at age 65) – males	21.0	18.8
Current pensioners (at age 65) – females	23.5	22.6
Future pensioners (at age 65) – males	21.9	19.8
Future pensioners (at age 65) – females	24.3	23.6

D Analysis of assets and expected rates of return

The major categories of assets as a percentage of total plan assets are:

	2007 %	2006 %
Property partnership interest	9	–
UK equities	16	17
Overseas equities	27	30
Government bonds	7	16
Corporate bonds (Triple B or above)	41	27
Cash and other	–	10
	100	100

The expected long-term rates of return are:

	2007 %	2006 %
Property partnership interest	5.5	–
UK equities	8.4	8.0
Overseas equities	8.4	8.0
Government bonds	4.7	4.3
Corporate bonds (Triple B or above)	5.3	4.9
Cash and other	–	4.5
Overall expected return	6.6	6.2

The overall expected return on assets assumption is derived as the weighted average of the expected returns from each of the main asset classes. The expected return for each asset class reflects a combination of historical performance analysis, the forward looking views of financial markets (as suggested by the yields available) and the views of investment organisations. Consideration is also given to the rate of return expected to be available for reinvestment.

At year end, the UK scheme indirectly held 463,964 (last year 394,672) ordinary shares in the Company through its investment in an Aquila Life UK Equity Index Fund.

11 RETIREMENT BENEFITS continued**E Analysis of amount charged against profits**

	2007 £m	2006 £m
Operating cost		
Current service cost ¹	113.9	109.9
Curtailment gain	(2.0)	(13.0)
	111.9	96.9
Finance cost		
Expected return on plan assets	(282.0)	(265.5)
Interest on scheme liabilities	261.2	248.0
Net finance income	(20.8)	(17.5)
Discontinued operations		
Service cost and finance income of discontinued operation	-	1.3
Total cost of retirement benefits	91.1	80.7

¹ Includes £8.6m (last year £6.3m) in relation to defined contribution plans.

F Scheme assets

Changes in the fair value of the scheme assets are as follows:

	2007 £m	2006 £m
Fair value of scheme assets at start of year	4,606.2	3,956.8
Expected return on scheme assets ¹	282.0	265.9
Employer contributions ^{2,3}	611.3	130.2
Benefits paid	(191.8)	(164.2)
Transfer on disposal of Financial Services	-	(32.0)
Actuarial (loss)/gain	(80.4)	454.3
Exchange movement	0.2	1.4
Discontinued operation	-	(6.2)
Fair value of scheme assets at end of year	5,227.5	4,606.2

¹ The actual return on scheme assets was £201.6m (last year £720.2m). Last year's expected return includes £0.4m in respect of the discontinued operation.

² The contribution for 2006/07 includes the additional contribution of the Property Partnership Interest of £500.1m transferred into the UK defined benefit pension scheme on 14 March 2007 and an additional cash contribution of £40.3m paid in April 2007 to increase contributions from 15.8% to 27.0% (last year an additional cash contribution of £51.0m was paid in April 2005).

³ Future contributions to the UK scheme will be made at the rate of 27.0% of pensionable salaries up to the next full actuarial valuation. The Group expects to contribute £98.7m to defined benefit schemes for the year ended 30 March 2008.

Notes to the financial statements continued

11 RETIREMENT BENEFITS continued

G Retirement benefit obligations

Changes in the present value of retirement benefit obligations are as follows:

	2007 £m	2006 £m
Present value of obligation at start of year	5,401.1	4,632.8
Current service cost	113.9	111.2
Curtailement gain	(2.0)	(13.0)
Interest cost ¹	261.2	248.4
Benefits paid	(191.8)	(164.2)
Transfer on disposal of Financial Services	–	(32.0)
Actuarial (gain)/loss	(71.8)	623.6
Exchange movement	0.2	1.3
Discontinued operation	–	(7.0)
Present value of obligation at end of year	5,510.8	5,401.1
Analysed as:		
Present value of pension scheme liabilities	5,487.0	5,381.3
Unfunded pension plans	1.2	1.7
Post-retirement healthcare	22.6	18.1
Present value of obligation at end of year	5,510.8	5,401.1

¹ Last year's interest cost includes £0.4m in respect of the discontinued operation.

H Cumulative actuarial gains and losses recognised in equity

	2007 £m	2006 £m
Loss at start of year	(927.0)	(757.7)
Net actuarial losses recognised in the year	(8.6)	(169.3)
Loss at end of year	(935.6)	(927.0)

I History of experience gains and losses

	2007 £m	2006 £m	2005 £m	2004 £m	2003 £m
Experience adjustments arising on scheme assets	(80.4)	454.3	77.4	401.9	(713.3)
Experience gains/(losses) arising on scheme liabilities	18.8	20.0	(24.0)	(30.3)	16.0
Changes in assumptions underlying the present value of scheme liabilities	53.0	(643.6)	(131.5)	(157.8)	(196.1)
Actuarial (losses)/gains recognised in equity	(8.6)	(169.3)	(78.1)	213.8	(893.4)
Fair value of scheme assets	5,227.5	4,606.2	3,956.8	3,634.2	2,638.5
Present value of scheme liabilities	(5,487.0)	(5,381.3)	(4,611.0)	(4,280.1)	(3,888.1)
Pension scheme deficit	(259.5)	(775.1)	(654.2)	(645.9)	(1,249.6)

12 SHARE-BASED PAYMENTS

The charge for share-based payments arises across the following schemes:

	Notes	2007 £m	2006 £m
Save As You Earn Share Option Scheme	12A	10.0	10.2
Executive Share Option Scheme	12B	3.1	6.5
Performance Share Plan	12C	7.1	2.5
Deferred Share Bonus Plan	12D	5.3	2.0
Restricted Share Plan	12E	1.3	1.8
Executive Share Matching Plan	12F	-	0.4
United Kingdom Share Incentive Plan	12G	0.4	1.3
Share Matching Deal Plan	12H	0.1	-
Total share-based payment charge		27.3	24.7

Details of the option and share schemes that the Group operates are provided in the Remuneration report on pages 44 to 50.

A 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. Inland Revenue rules limit the maximum amount saved to £250 per month. The price at which options may be offered is 80% of the market price for three consecutive dealing days preceding the offer date. The options may normally be exercised during the period of six months after the completion of the SAYE contract, either three or five years after entering the Scheme.

	2007		2006	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of the period	40,403,625	261.6p	52,188,263	235.0p
Granted	6,569,527	559.0p	8,528,770	349.0p
Exercised	(11,814,068)	232.4p	(14,658,839)	206.9p
Forfeited	(1,637,012)	325.5p	(4,270,037)	253.6p
Expired	(280,456)	258.0p	(1,384,532)	397.7p
Outstanding at end of the period	33,241,616	327.6p	40,403,625	261.6p
Exercisable at end of period	726,615	243.4p	3,897,065	226.7p

For SAYE share options exercised during the period, the weighted average share price at the date of exercise was 698.8p (last year 472.5p).

The fair values of the options granted during the year have been calculated using the Black-Scholes model assuming the inputs shown below:

	2007		2006	
	3 year plan	5 year plan	3 year plan	5 year plan
Grant date	Nov 06	Nov 06	Nov 05	Nov 05
Share price at grant date	698p	698p	436p	436p
Exercise price	559p	559p	349p	349p
Option life in years	3 years	5 years	3 years	5 years
Risk free rate	5.4%	5.3%	4.3%	4.2%
Expected volatility	21.5%	27.5%	25.8%	29.8%
Expected dividend yield	2.2%	2.2%	2.7%	2.7%
Fair value of option	200.6p	247.8p	120.6p	143.6p

Volatility has been estimated by taking the historic volatility in the Company's share price over a three or five-year period.

The resulting fair value is expensed over the service period of three or five years on the assumption that 15% of three-year options and 20% of five-year options will lapse over the service period as employees leave the Company.

Notes to the financial statements continued

12 SHARE-BASED PAYMENTS continued

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

Options granted	Number of options		Weighted average remaining contractual life (years)		Option price
	2007	2006	2007	2006	
January 1999	–	164,580	–	0.3	324p
January 2000	161,410	3,295,357	0.3	1.3	223p
January 2001	3,948,712	4,485,640	1.3	2.1	156p
January 2002	227,479	3,775,553	0.3	1.3	250p
January 2003	3,495,809	3,923,986	1.3	2.1	283p
January 2004	4,484,581	9,238,136	2.2	2.2	228p
January 2005	6,834,424	7,199,193	2.3	3.3	280p
January 2006	7,713,616	8,321,180	3.1	4.1	349p
January 2007	6,375,585	–	4.0	–	559p
	33,241,616	40,403,625	2.5	2.6	328p

B Executive Share Option Scheme

Under the terms of the Executive Share Option Scheme, last approved by shareholders in 2005, 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 any schemes other than the 2005 scheme. No awards have been made under the 2005 scheme. Further details are set out in the Remuneration report on page 46.

Performance targets are assessed over a three-year period from the date of grant with no ability to re-test any grants. Once options have vested they can be exercised during the period up to ten years from grant date.

	2007		2006	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of the period	18,135,466	333.5p	31,690,916	335.2p
Granted	–	–	1,491,046	352.0p
Exercised	(5,522,018)	316.6p	(9,683,033)	324.8p
Forfeited	(589,781)	334.8p	(4,338,398)	352.2p
Expired	(6,550)	458.0p	(1,025,065)	414.0p
Outstanding at end of the period	12,017,117	341.2p	18,135,466	333.5p
Exercisable at end of period	3,537,471	328.4p	2,841,565	374.4p

For executive share options exercised during the period, the weighted average share price at the date of exercise was 632.3p (last year 423.4p).

12 SHARE-BASED PAYMENTS continued

The resulting fair value is expensed over the expected service period of five years on the assumption that 30% of options will lapse over the service period as employees leave the Company.

Outstanding options granted under all executive share option schemes are as follows:

Options granted	Number of options		Weighted average remaining contractual life (years)		Option price
	2007	2006	2007	2006	
(1984 Scheme)					
May 1996	–	13,100	–	0.1	458p
June 1997	5,692	5,692	0.2	1.2	527p
(1997 Scheme)					
June 1998	247,778	486,551	1.2	2.2	557p
November 1998	7,425	7,425	1.6	2.6	404p
June 1999	127,521	217,279	2.2	3.2	358p
(2000 Scheme)					
September 2000	3,445	6,945	3.4	4.4	215p
June 2001	196,303	358,488	4.2	5.2	256p
December 2001	74,161	110,170	4.7	5.7	350p
(2002 Scheme)					
June 2002	760,394	1,500,272	5.2	6.2	350p
November 2002	66,980	102,905	5.6	6.6	353p
January 2003	–	32,738	–	6.8	297p
June 2003	1,975,461	5,355,784	6.2	7.2	297p
November 2003	77,078	522,773	6.6	7.6	270p
January 2004	–	96,884	–	7.8	289p
February 2004	33,111	85,185	6.8	7.8	270p
July 2004	6,236,497	6,950,820	7.3	8.3	347p
November 2004	868,599	868,599	7.6	8.6	337p
June 2005	1,336,672	1,413,856	8.2	9.2	352p
	12,017,117	18,135,466	6.8	7.5	335p

Notes to the financial statements continued

12 SHARE-BASED PAYMENTS continued

C Performance Share Plan

The Performance Share Plan is the primary long-term incentive plan for approximately 100 of the most senior executives and was first approved by shareholders in 2005. Under the Plan, annual awards, based on a percentage of salary, may be offered. The extent to which the awards vest is based on earnings per share growth over three years. Further details are set out in the Remuneration report on page 45. Awards under this scheme have been made in 2004/05 and 2005/06.

During the year, 3,511,040 shares (last year 3,694,559) were awarded under the Plan. The weighted average fair value of the shares awarded was 572.9p (last year 365.7p).

D Deferred Share Bonus Plan

The Deferred Share Bonus Plan was introduced in 2005/06 as part of the annual bonus scheme for approximately 450 of the most senior managers. As part of the bonus scheme, the managers are required to defer a proportion of any bonus paid into shares which will be held for three years. There are no further performance conditions on these shares, other than continued employment, and the value of any dividends earned during the deferred period will be paid at the end of the period. Further details are set out in the Remuneration report on page 45.

During the year, 1,923,413 shares were awarded under the Plan in relation to the 2005/06 annual bonus. The fair value of the shares awarded was 550.0p.

E Restricted Share Plan

A Restricted Share Plan was established in 2000 as part of the reward strategy for retention of senior employees who are vital to the success of the business recovery and growth. The Plan operates for senior executives below Executive Director level. Awards under the Plan are made as part of ongoing reviews of reward packages, and recruitment tools for new employees. The shares are held in trust for a period of between one and three years, at which point they are released to the employee, subject to them still being in employment.

During the year, 38,622 shares (last year 564,336) have been awarded under the Restricted Share Plan. The weighted average fair value of the shares awarded was 578.0p (last year 331.1p).

F Executive Share Matching Plan

The Executive Share Matching Plan for senior management was introduced in 2002, since when there have been annual awards in 2002, 2003 and 2004. The Plan currently operates for one member of senior management, and it is intended that no further awards are made under this Plan. Participants were required to invest one-third of any annual bonus earned in shares of the Company. The pre-tax value of the invested bonus would be matched by an award of shares, with the extent of the match determined by the Total Shareholder Return performance measure. No awards have been made during the year (last year nil).

G United Kingdom Share Incentive Plan

The Share Incentive Plan is a discretionary, all-employee plan, approved by the Inland Revenue, under which Freeshares may be allocated by the Company. The last award was made in July 2003.

H Share Matching Deal Plan

The Share Matching Deal Plan was introduced in 2006 for those employees who were eligible to receive a cash-only bonus. The scheme was not open to those employees who participated in the Deferred Share Bonus Plan. The Plan allows employees to invest a proportion of their bonus in shares of the Company. These investment shares must be held by the participant for three years, during which time they will receive dividends. At the end of the three-year holding period, if the participant is still in employment with the Company, and still holds the investment shares, they will receive one matching share for every four that they bought.

During the year, 41,086 matching shares have been awarded under the Share Matching Deal Plan, at a fair value of 596.4p.

13 INTANGIBLE ASSETS

	Goodwill £m	Brands £m	Computer software £m	Computer software under development £m	Total £m
At 3 April 2005					
Cost or valuation	69.5	80.0	32.8	5.6	187.9
Accumulated amortisation	-	(2.7)	(19.8)	-	(22.5)
Net book value	69.5	77.3	13.0	5.6	165.4
Year ended 1 April 2006					
Opening net book value	69.5	77.3	13.0	5.6	165.4
Additions	-	-	0.2	10.7	10.9
Transfers	-	-	9.5	(9.5)	-
Disposals	-	-	-	(0.1)	(0.1)
Amortisation charge	-	(5.3)	(7.4)	-	(12.7)
Closing net book value	69.5	72.0	15.3	6.7	163.5
At 1 April 2006					
Cost or valuation	69.5	80.0	42.3	6.7	198.5
Accumulated amortisation	-	(8.0)	(27.0)	-	(35.0)
Net book value	69.5	72.0	15.3	6.7	163.5
Year ended 31 March 2007					
Opening net book value	69.5	72.0	15.3	6.7	163.5
Additions	-	-	0.3	46.2	46.5
Transfers	-	-	25.9	(25.9)	-
Disposals	-	-	(0.1)	(1.6)	(1.7)
Amortisation charge	-	(5.3)	(8.9)	-	(14.2)
Closing net book value	69.5	66.7	32.5	25.4	194.1
At 31 March 2007					
Cost or valuation	69.5	80.0	51.2	25.4	226.1
Accumulated amortisation	-	(13.3)	(18.7)	-	(32.0)
Net book value	69.5	66.7	32.5	25.4	194.1

Goodwill relates to the acquisition of 'per una', which was acquired in October 2004 and is not amortised, but tested annually for impairment with the recoverable amount being determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rate, growth rates and changes in income and costs.

The Group prepares discounted cash flow forecasts based on financial forecasts approved by management covering a three-year period, which takes account of both past performance and expectations for future market developments. Cash flows beyond this three-year period are extrapolated using a growth rate of 2.0%, which does not exceed the long-term average growth rate for retail businesses in the UK. Management estimates the discount rate using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to retail businesses. A pre-tax discount rate of 9.5% has been used.

Brands consist of the 'per una' brand which is being amortised on a straight-line basis over a period of 15 years.

Notes to the financial statements continued

14 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £m	Fixtures, fittings & equipment £m	Assets in the course of construction £m	Total £m
At 3 April 2005				
Cost	2,412.0	3,162.1	21.6	5,595.7
Accumulated depreciation	(82.7)	(1,926.8)	–	(2,009.5)
Net book value	2,329.3	1,235.3	21.6	3,586.2
Year ended 1 April 2006				
Opening net book value	2,329.3	1,235.3	21.6	3,586.2
Exchange difference	2.2	2.0	0.3	4.5
Additions ¹	34.7	251.8	40.3	326.8
Transfers	–	20.3	(20.3)	–
Disposals	(34.1)	(6.2)	–	(40.3)
Assets of discontinued operations	(11.4)	(21.0)	(1.4)	(33.8)
Depreciation charge ²	(10.7)	(256.9)	–	(267.6)
Closing net book value	2,310.0	1,225.3	40.5	3,575.8
At 1 April 2006				
Cost	2,392.2	3,287.1	40.5	5,719.8
Accumulated depreciation	(82.2)	(2,061.8)	–	(2,144.0)
Net book value	2,310.0	1,225.3	40.5	3,575.8
Year ended 31 March 2007				
Opening net book value	2,310.0	1,225.3	40.5	3,575.8
Exchange difference	(2.7)	(1.6)	(0.2)	(4.5)
Additions ¹	63.9	578.7	103.3	745.9
Reclassification from investment property (see note 15)	13.2	–	–	13.2
Transfers	8.8	27.3	(36.1)	–
Disposals	(6.4)	(10.7)	–	(17.1)
Depreciation charge ²	(13.9)	(254.9)	–	(268.8)
Closing net book value	2,372.9	1,564.1	107.5	4,044.5
At 31 March 2007				
Cost	2,468.2	3,653.3	107.5	6,229.0
Accumulated depreciation	(95.3)	(2,089.2)	–	(2,184.5)
Net book value	2,372.9	1,564.1	107.5	4,044.5

¹ 'Additions' includes Enil (last year £5.4m) in respect of the discontinued operation (see note 7).

² 'Depreciation charge' includes £0.3m (last year £6.3m) in respect of the discontinued operation (see note 7).

The net book value above includes land and buildings of £43.7m (last year £44.9m) and equipment of £16.4m (last year £5.0m) where the Group is a lessee under a finance lease.

15 INVESTMENT PROPERTY

	2007 £m	2006 £m
Cost		
At start of year	38.6	38.6
Reclassification to property, plant and equipment	(13.3)	–
At end of year	25.3	38.6
Depreciation		
At start of year	0.1	–
Reclassification to property, plant and equipment	(0.1)	–
Depreciation charge	0.2	0.1
At end of year	0.2	0.1
Net book value	25.1	38.5

During the year, some investment properties have been transferred to property, plant and equipment (see note 14) as they are being converted into new trading space. These properties are excluded from the market value of investment properties below.

The investment properties were valued at £34.3m as at 31 March 2007 by qualified professional valuers working for CB Richard Ellis, Chartered Surveyors, acting in the capacity of External Valuers. Last year the investment properties were valued at £55.5m by qualified professional valuers working for 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 (RICS). The properties were valued on the basis of Market Value. All valuations were carried out in accordance with the RICS Appraisal and Valuation Standards. As the investment properties are held at depreciated historical cost, this valuation has not been reflected in the carrying value of the assets.

The Group received rental income of £1.7m (last year £1.5m) in respect of these investment properties.

16 INVESTMENT IN JOINT VENTURE

	2007 £m	2006 £m
At start of year	9.0	8.7
Share of profit	0.3	0.3
At end of year	9.3	9.0

The joint venture represents a 50% equity interest in Hedge End Park Limited, a property investment company incorporated in Great Britain. The partner in the joint venture is J Sainsbury plc.

In relation to the Group's interest in joint ventures, the assets and liabilities are shown below:

	2007 £m	2006 £m
Non-current assets	2.6	2.5
Current assets	7.1	6.7
Current liabilities	(0.4)	(0.2)
Net assets	9.3	9.0

Notes to the financial statements continued

17 OTHER FINANCIAL ASSETS

	2007 £m	2006 £m
Non-current		
Unlisted investments	3.0	3.3
Current		
Listed UK securities	46.2	43.6
Unlisted investments	4.7	5.2
	50.9	48.8

18 TRADE AND OTHER RECEIVABLES

	2007 £m	2006 £m
Non-current		
Other receivables	1.4	5.3
Prepaid leasehold premiums	242.8	235.8
Other prepayments and accrued income	2.8	1.7
	247.0	242.8
Current		
Trade receivables	69.0	45.2
Less: Provision for impairment of receivables	(1.1)	(3.2)
Trade receivables – net	67.9	42.0
Other receivables	51.9	27.4
Prepaid pension contributions	–	57.7
Prepaid leasehold premiums	7.6	7.6
Other prepayments and accrued income	69.3	75.8
	196.7	210.5

19 CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes short-term deposits with banks and other financial institutions, with an initial maturity of three months or less and credit card debtors receivable within 48 hours. The carrying amount of these assets approximates their fair value.

The effective interest rate on short-term bank deposits is 4.9% (last year 4.5%); these deposits have an average maturity of three days (last year eight days).

20 TRADE & OTHER PAYABLES

	2007 £m	2006 £m
Current		
Trade payables	259.7	242.6
Other payables	327.8	196.6
Social security and other taxes	49.6	40.7
Pension contributions payable	40.3	–
Accruals and deferred income	366.5	387.9
	1,043.9	867.8
Non-current		
Accruals and deferred income	87.6	74.8

21 BORROWINGS AND OTHER FINANCIAL LIABILITIES

	2007 £m	2006 £m
Current		
Bank loans, overdrafts and commercial paper ¹	159.7	90.0
Syndicated bank facility ²	296.9	–
Medium term notes ³	–	901.0
Securitised loan notes ⁴	–	4.4
Finance lease liabilities	4.4	2.7
Non-equity B shares	–	54.7
	461.0	1,052.8
Non-current		
Medium term notes ⁵	1,177.3	779.0
Securitised loan notes ⁴	–	307.3
Finance lease liabilities	57.2	47.5
	1,234.5	1,133.8
Total	1,695.5	2,186.6

¹ Bank loans, overdrafts and commercial paper includes a £5.0m (last year £5.0m) loan from the Hedge End Park Limited joint venture (see note 16).

² Relates to a £1.2bn five-year committed facility set to mature on 27 March 2011.

³ Relates to a number of floating rate medium term notes which matured throughout the 2006/07 financial year linked to sterling and euro LIBOR for periods ranging from one to six months.

⁴ Relates to three separate bonds securitised against 45 of the Group's properties which were redeemed on 12 March 2007 in order to release properties for use in the limited partnership with the Marks & Spencer UK Pension Scheme. See note 11 for further details of the Pension Scheme.

⁵ Relates to fixed rate bonds of £375m at a rate of 6.375% repayable on 7 November 2011, £400m at a rate of 5.625% repayable on 24 March 2014 and £400m at a rate of 5.875% repayable on 29 May 2012. Interest on all of these bonds is payable annually.

Non-equity B shares

	Shares	2007 £m	Shares	2006 £m
Authorised non-equity B shares of 70p each	–	–	3,200,000,000	2,240.0
Allotted, called up and fully paid non-equity shares of 70p each:				
At start of year	78,184,314	54.7	93,822,916	65.7
Redemption of B shares	(78,184,314)	(54.7)	(15,638,602)	(11.0)
	–	–	78,184,314	54.7

On 27 March 2006, the Company gave notice to redeem all of the remaining B shares in issue. The redemption was on the basis of 70p per share. The decision by the Company to redeem all outstanding B shares was consistent with the rights and restrictions attached to the B shares contained in the circular sent to shareholders in February 2002 prior to approval at the Extraordinary General Meeting of the Company on 28 February 2002. Prior to redemption, holders of B shares were entitled to receive a sub-LIBOR dividend in respect of their B shares for the period 26 March to 4 May 2006 which is included within finance costs. The B shares were redeemed at par on 5 May 2006.

Notes to the financial statements continued

21 BORROWINGS AND OTHER FINANCIAL LIABILITIES continued

Maturity of borrowings

The maturity of borrowings is as follows:

	2007 £m	2006 £m
Repayable within one year or on demand:		
Bank loans, overdrafts and commercial paper	159.7	90.0
Syndicated bank facility	296.9	–
Medium term notes	–	901.0
Securitised loan notes	–	4.4
Finance leases	4.4	2.7
Non-equity B shares	–	54.7
	461.0	1,052.8
Repayable between one and two years:		
Securitised loan notes	–	3.8
Finance leases	3.7	1.3
	3.7	5.1
Repayable between two and five years:		
Medium term notes	381.4	–
Securitised loan notes	–	13.6
Finance leases	6.9	0.3
	388.3	13.9
Repayable in five years or more:		
Medium term notes	795.9	779.0
Securitised loan notes	–	289.9
Finance leases	46.6	45.9
	842.5	1,114.8
Total	1,695.5	2,186.6

Borrowing facilities

At year end, the Group had a five-year committed syndicated bank facility of £1.2bn set to mature on 27 March 2011, which contains only one financial covenant being the ratio of earnings before interest, tax, depreciation, amortisation and rents payable to interest plus rents payable. The Group also has a number of undrawn uncommitted facilities available to it. At year end, these amounted to £155m (last year £175m), all of which are due to be reviewed within a year. At the balance sheet date a sterling equivalent of £297m (last year £nil) was drawn under the committed facility and a further £19m (last year £nil) was drawn under the uncommitted facility.

Financial liabilities

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 liabilities is as set out below excluding short-term payables and the partnership liability (see note 22):

Currency	2007			2006		
	Fixed rate £m	Floating rate £m	Total £m	Fixed rate £m	Floating rate £m	Total £m
Sterling	1,374.5	154.1	1,528.6	1,137.7	1,045.5	2,183.2
Euro	–	159.5	159.5	3.2	0.2	3.4
Hong Kong Dollar	–	7.4	7.4	–	–	–
	1,374.5	321.0	1,695.5	1,140.9	1,045.7	2,186.6

Included within floating rate liabilities is £nil (last year £54.7m) of unredeemed B shares.

The floating rate sterling and euro borrowings are linked to interest rates related to LIBOR. These rates are for periods up to one month. Excluding finance leases but including the partnership liability, the fixed rate sterling borrowings are at an average rate of 5.8% (last year 6.1%) and the weighted average time for which the rate is fixed is 8.5 years (last year 10.4 years).

21 BORROWINGS AND OTHER FINANCIAL LIABILITIES continued**Interest rate analysis**

The effective interest rates at the balance sheet date were as follows:

	2007 %	2006 %
Committed/uncommitted borrowings	4.8	–
Medium term notes	5.9	5.7
Securitised loan notes	–	6.3
Non-equity B shares	–	3.5
Finance leases	4.4	4.4

Finance leases

The minimum lease payments under finance leases fall due as follows:

	2007 £m	2006 £m
Not later than one year	7.1	4.8
Later than one year but not more than five	19.5	9.8
More than five years	196.0	197.7
	222.6	212.3
Future finance charges on finance leases	(161.0)	(162.1)
Present value of lease obligations	61.6	50.2

It is the Group's policy to lease certain of its properties and equipment under finance leases. The average lease term for equipment is five years and 125 years for property. Interest rates are fixed at the contract rate. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent payments. The Group's obligations under finance leases are secured by the lessors' charges over the leased assets.

22 PARTNERSHIP LIABILITY TO THE MARKS & SPENCER UK PENSION SCHEME

The partnership liability to the Marks & Spencer UK Pension Scheme of £496.9m (last year £nil) relates to the amortising liability in respect of the obligations of the Marks and Spencer Scottish Limited Partnership to the Marks & Spencer UK Pension Scheme.

The Group has agreed a plan with the Pension Scheme Trustee to address the majority of the deficit by transferring properties with a current market value of £1.1bn into a partnership established by the Group. A limited interest in this partnership was contributed to the Pension Scheme on 13 March 2007. The Group retains control over these properties, including the flexibility to substitute alternative properties. The properties held in the partnership have been leased back to Marks and Spencer plc. The pension scheme is entitled to a distribution from the profits of the partnership of £50m per annum for 15 years from July 2008. The Group has the right to buy out the Trustee's partnership interest at any point for an amount equal to the net present value of the remaining annual distributions due to the pension scheme.

Each year the obligation will reduce as payments are made to the pension scheme by the partnership and an interest charge will be taken to the income statement representing the unwinding of the discounted obligation at an implied interest rate of 5.32%. The fair value of this liability was £495.3m (last year £nil).

23 FINANCIAL INSTRUMENTS**Treasury Policy and Financial Risk Management**

The Group operates a centralised Group Treasury function to manage the Group's funding requirements and financial risks in line with the Board approved treasury policies and procedures, and their delegated authorities.

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.

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

It remains the Group's policy not to hold or issue financial instruments for trading purposes, except where financial constraints necessitate the need to liquidate any outstanding investments. The treasury function is managed as a cost centre and does not engage in speculative trading.

The principal financial risks faced by the Group are liquidity/funding, interest rate, foreign currency and counterparty risks. The policies and strategies for managing these risks are summarised as follows:

Notes to the financial statements continued

23 FINANCIAL INSTRUMENTS continued

(a) Liquidity/funding risk

The Group's funding strategy is to ensure a mix of funding sources offering flexibility and cost effectiveness to match the requirements of the Group. Operating subsidiaries are financed by a combination of retained profits, bank borrowings, medium-term notes, securitised loan notes and committed syndicated bank facilities. In addition to the existing borrowings, the Group has a Euro Medium Term Note programme of £3bn, of which £1.2bn (last year £1.7bn) was in issuance as at the balance sheet date. Short-term borrowings are backed by a £1.2bn five-year committed syndicated bank facility, of which £296.9m (last year £nil) was drawn down at the balance sheet date.

(b) Interest rate risk

The Group is exposed to interest rate risk in relation to the sterling, euro and Hong Kong dollar variable rate financial assets and liabilities. The Group's policy is to use derivative contracts where necessary to maintain a mix of fixed and floating rate borrowings to manage this risk. The structure and maturity of these derivatives correspond to the underlying borrowings and are accounted for as fair value or cash flow hedges as appropriate.

At the balance sheet date fixed rate borrowings amounted to £1,374.5m (last year £1,137.7m) representing three public bond issues and finance leases. Based on the financial liabilities and assets as at the balance sheet date a one percentage point movement in average interest rates will have a £3.0m (last year £6.2m) impact on the Group's net interest charge.

(c) Foreign currency risk

Transactional foreign currency exposures arise from both the export of goods from the UK to overseas subsidiaries, and from the import of materials and goods directly sourced from overseas suppliers. Group Treasury hedge these exposures principally using forward foreign exchange contracts progressively covering up to 100% out to 18 months.

As at the balance sheet date the gross notional value in sterling terms of forward foreign exchange sell or buy contracts amounted to £456m (last year £270m) with a weighted average maturity date of six months (last year six months).

The Group does not use derivatives to hedge balance sheet and profit and loss translation exposures. However, the translation exposures arising on the overseas net assets are hedged with foreign currency debt. As at the balance sheet date, €234m (last year €nil) and HK\$113m (last year HK\$nil) currency debt was hedging overseas net assets.

The Group also hedges foreign currency intercompany loans where these exist. As at the balance sheet date, the gross notional value of intercompany loan hedges was £128m (last year £109m).

(d) Counterparty risk

Counterparty risk exists where the Group can suffer financial loss through default or non-performance by financial institutions. Exposures are managed through Group Treasury policy which limits the value that can be placed with each approved counterparty to minimise the risk of loss. The counterparties are limited to the approved institutions with secure credit ratings. Limits are reviewed regularly by senior management.

The maximum exposure to credit risk at the balance sheet date was as follows: trade receivables £68m (last year £42m), other receivables £53m (last year £33m), cash and cash equivalents £180m (last year £363m) and derivatives £2m (last year £76m). The Group does not have any material exposures to concentrations of credit risk with any one counterparty.

Derivative financial instruments

	2007		2006	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Current				
Interest rate swaps – fair value hedges	–	–	1.6	–
Cross currency – fair value hedges	–	–	71.9	(5.3)
Forward foreign exchange contracts – cash flow hedges	1.4	(8.3)	1.2	(2.7)
Forward foreign exchange contracts – held for trading	1.0	–	1.7	–
	2.4	(8.3)	76.4	(8.0)
Non-current				
Interest rate swaps – cash flow hedges	–	–	–	(9.5)
Forward foreign exchange contracts – cash flow hedges	–	(0.2)	–	–
	–	(0.2)	–	(9.5)

During the year, the Group held a number of interest rate and currency swaps to redesignate both fixed and floating rate debt to the Group's desired interest rate profile. The attributes of these derivatives matched the characteristics of the underlying debt hedged. Derivatives moving floating debt to fixed were designated as cash flow hedges, and derivatives moving fixed debt to floating were designated as fair value hedges.

23 FINANCIAL INSTRUMENTS continued

Forward foreign exchange contracts in relation to the Group's forecast currency requirements are designated as cash flow hedges with fair value movements recognised directly in equity. To the extent that these hedges cover actual currency payables or receivables then associated fair value movements previously recognised in equity are recorded in the income statement in conjunction with the corresponding asset or liability.

Forward foreign exchange contracts in relation to the hedging of the Group's foreign currency intercompany loans are designated as held for trading with fair value movements being recognised in the income statement. The corresponding fair value movement of the intercompany loan balance results in an overall nil impact on the income statement.

Gains and losses in equity on forward foreign exchange contracts as of 31 March 2007 will be released to the income statement at various dates over the following 14 months from the balance sheet date.

With the exception of the Group's fixed rate bond debt and the partnership liability (see note 22), there were no material differences between the carrying value of non-derivative financial assets and financial liabilities and their fair values as at the balance sheet date.

The carrying value of the Group's fixed rate bond debt was £1,177.3m (last year £915.0m), the fair value of this debt was £1,162.9m (last year £940.8m).

24 PROVISIONS

	UK restructuring £m	Overseas restructuring £m	Total £m
At 3 April 2005	35.2	9.7	44.9
Provided in the year	5.8	-	5.8
Released in the year	(3.5)	-	(3.5)
Utilised during the year	(18.2)	(0.8)	(19.0)
Exchange differences	-	0.1	0.1
At 1 April 2006	19.3	9.0	28.3
At 2 April 2006	19.3	9.0	28.3
Provided in the year	2.0	-	2.0
Released in the year	(1.1)	-	(1.1)
Utilised during the year	(6.1)	(0.5)	(6.6)
Exchange differences	-	(0.1)	(0.1)
At 31 March 2007	14.1	8.4	22.5

Analysis of total provisions:

	2007 £m	2006 £m
Current	5.7	9.2
Non-current	16.8	19.1
Total provisions	22.5	28.3

The provision for UK restructuring primarily relates to costs of closing Lifestore, restructuring of the Direct operation and head office restructuring.

The provision for overseas restructuring costs primarily relates to future closure costs in respect of discontinued operations in Continental Europe.

The non-current provisions relate to closure costs of discontinued operations in Continental Europe, the closure of Lifestore operations and the restructuring of Direct operations and are expected to be utilised over a period of 15 years.

Notes to the financial statements continued

25 DEFERRED TAX

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 30% (last year 30%) for UK differences and the local tax rates for overseas differences.

The movements in deferred tax assets and liabilities (after the offsetting of balances within the same jurisdiction as permitted by IAS 12 – 'Income Taxes') during the period are shown below. Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

Deferred tax assets/(liabilities)

	Fixed assets temporary differences £m	Accelerated capital allowances £m	Pension temporary differences £m	Other short-term temporary differences £m	Total deferred tax assets £m	Deferred tax liabilities ¹ £m	Total £m
At 3 April 2005 as previously reported	(145.7)	(74.3)	241.2	3.4	24.6	(4.7)	19.9
Prior year adjustment ²	48.4	–	–	–	48.4	–	48.4
At 3 April 2005 restated	(97.3)	(74.3)	241.2	3.4	73.0	(4.7)	68.3
Charged to the income statement	(2.7)	(10.7)	(42.4)	(14.9)	(70.7)	(0.8)	(71.5)
Credited/(charged) to equity	5.0	–	52.7	24.7	82.4	(0.6)	81.8
Transferred to discontinued operations	–	–	–	(0.8)	(0.8)	–	(0.8)
At 1 April 2006 ²	(95.0)	(85.0)	251.5	12.4	83.9	(6.1)	77.8
At 2 April 2006	(95.0)	(85.0)	251.5	12.4	83.9	(6.1)	77.8
Credited/(charged) to the income statement	4.4	(18.2)	(71.4)	(12.5)	(97.7)	(0.3)	(98.0)
Credited/(charged) to equity	–	–	3.4	22.0	25.4	(0.9)	24.5
At 31 March 2007	(90.6)	(103.2)	183.5	21.9	11.6	(7.3)	4.3

¹ Deferred tax liabilities relate primarily to overseas fixed assets and accelerated capital allowances.

² Following a change in external interpretation of IAS 12 – 'Income Taxes' the opening balance sheet at 3 April 2005 has been restated to recognise £48.4m of additional deferred tax assets arising on fixed asset temporary differences. At 1 April 2006 this balance was previously reported as £143.4m and has been restated to £95.0m.

In arriving at the deferred tax on fixed assets, credit has been taken for capital losses with a tax value of £57.0m (last year £56.1m).

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries. As the earnings are continually reinvested by the Group, no tax is expected to be payable on them in the foreseeable future. Undistributed profits of overseas subsidiaries amount to £226.7m (last year £187.0m).

The Group is claiming UK tax relief for losses incurred by some of its current and former European subsidiaries. In the light of continuing litigation, no asset has been recognised in respect of these claims.

26 SHARE CAPITAL

	Shares	2007 £m	Shares	2006 £m
Authorised ordinary shares of 25p each	3,200,000,000	800.0	3,200,000,000	800.0
Allotted, called up and fully paid ordinary shares of 25p each:				
At start of year	1,682,437,014	420.6	1,658,095,142	414.5
Shares issued on exercise of share options	17,336,086	4.3	24,341,872	6.1
At end of year	1,699,773,100	424.9	1,682,437,014	420.6

Issue of new shares

17,336,086 (last year 24,341,872) ordinary shares having a nominal value of £4.3m (last year £6.1m) were allotted during the year under the terms of the Company's schemes which are described in note 12. The aggregate consideration received was £44.9m (last year £61.8m).

27 STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Other reserve ¹ £m	Retained earnings ^{2,3} £m	Total £m
At 3 April 2005 as previously reported	414.5	106.6	2,102.8	(1.6)	(6,542.2)	4,761.5	841.6
Prior year adjustment (see note 25)	-	-	-	-	-	48.4	48.4
At 3 April 2005 restated	414.5	106.6	2,102.8	(1.6)	(6,542.2)	4,809.9	890.0
Profit for the year attributable to shareholders	-	-	-	-	-	523.1	523.1
Dividends	-	-	-	-	-	(204.1)	(204.1)
Foreign currency translation	-	-	-	-	-	11.1	11.1
Shares issued on exercise of employee share options	6.1	55.7	-	-	-	-	61.8
Redemption of B shares	-	-	11.0	-	-	(11.0)	-
Purchase of own shares held by employee trust ⁴	-	-	-	-	-	(6.0)	(6.0)
Actuarial loss on retirement benefit deficit	-	-	-	-	-	(169.3)	(169.3)
Deferred tax on retirement benefit deficit	-	-	-	-	-	52.0	52.0
Deferred tax on share schemes	-	-	-	-	-	21.8	21.8
Deferred tax on revalued properties	-	-	-	-	-	5.0	5.0
Charge for share-based payments	-	-	-	-	-	24.7	24.7
Cash flow hedges							
- losses deferred in equity	-	-	-	(3.1)	-	-	(3.1)
- recycled and reported in net profit	-	-	-	(1.4)	-	-	(1.4)
- amount recognised in inventories	-	-	-	(3.8)	-	-	(3.8)
- tax on fair value losses	-	-	-	1.9	-	-	1.9
At 1 April 2006 ⁵	420.6	162.3	2,113.8	(8.0)	(6,542.2)	5,057.2	1,203.7
At 2 April 2006	420.6	162.3	2,113.8	(8.0)	(6,542.2)	5,057.2	1,203.7
Profit for the year attributable to shareholders	-	-	-	-	-	659.9	659.9
Dividends	-	-	-	-	-	(260.6)	(260.6)
Foreign currency translation	-	-	-	-	-	(14.0)	(14.0)
Shares issued on exercise of employee share options	4.3	40.6	-	-	-	-	44.9
Redemption of B shares	-	-	54.7	-	-	(54.7)	-
Purchase of own shares held by employee trust ⁴	-	-	-	-	-	(18.4)	(18.4)
Purchase of call option for Company's shares	-	-	-	-	-	(17.3)	(17.3)
Actuarial loss on retirement benefit deficit	-	-	-	-	-	(8.6)	(8.6)
Deferred tax on retirement benefit deficit	-	-	-	-	-	4.0	4.0
Deferred tax on share schemes	-	-	-	-	-	22.3	22.3
Charge for share-based payments	-	-	-	-	-	27.3	27.3
Cash flow and net investment hedges							
- losses deferred in equity	-	-	-	(7.4)	-	-	(7.4)
- recycled and reported in net profit	-	-	-	10.7	-	-	10.7
- amount recognised in inventories	-	-	-	2.1	-	-	2.1
- tax on fair value gains	-	-	-	(1.8)	-	-	(1.8)
At 31 March 2007	424.9	202.9	2,168.5	(4.4)	(6,542.2)	5,397.1	1,646.8

¹ The 'Other reserve' was created as part of the capital restructuring that took place in 2002. It represents the difference between the nominal value of the shares issued prior to the capital reduction by the Company (being the carrying value of the investment in Marks and Spencer plc) and the share capital, share premium and capital redemption reserve of Marks and Spencer plc at the date of the transaction.

² Cumulative goodwill of Enil (last year £62.0m) arising on the acquisition of subsidiaries has been written off against retained earnings.

³ Includes a cumulative £2.9m loss (last year £11.1m gain) in the currency reserve.

⁴ The Marks and Spencer Employee Benefit Trust ('the Trust') holds 4,767,449 (last year 2,820,688) shares with a book value of £28.1m (last year £9.7m) and a market value of £32.3m (last year £15.7m). These shares were acquired by the Trust in the market. In addition, the Trust has entered into a call option to purchase up to 8.1m of the Company's shares. The Trust used funds provided by Marks and Spencer plc to meet the Group's obligations. Awards are granted to employees at the discretion of Marks and Spencer plc and shares are awarded to employees by the Trust in accordance with the wishes of Marks and Spencer plc under senior executive share schemes, the Share Matching Plan and Restricted Share Plan. Dividends are waived on all of these Plans except for the Deferred Bonus Share Plan where dividends are paid via a Dividend Reinvestment Plan for awards made in the form of forfeitable shares.

⁵ Retained earnings were previously reported as £5,008.8m. Following the change in accounting policy this has been restated to £5,057.2m (see note 25).

Notes to the financial statements continued

28 CONTINGENCIES AND COMMITMENTS

A Capital commitments

	2007 £m	2006 £m
Commitments in respect of properties in the course of construction	265.8	60.5

B Other material contracts:

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

C Commitments under operating leases:

The Group leases various stores, offices, warehouses and equipment under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

	2007 £m	2006 £m
Total future minimum rentals under non-cancellable operating leases expiring:		
Not later than one year	10.6	10.2
Later than one year and not later than five years	57.4	49.9
Later than five years and not later than 25 years	1,778.3	1,724.4
Later than 25 years	1,527.6	1,515.4
Total	3,373.9	3,299.9

The total future sublease payments to be received are £68.8m (last year £58.9m).

29 ANALYSIS OF CASH FLOWS GIVEN IN THE CASH FLOW STATEMENT

	52 weeks ended 31 March 2007 £m	52 weeks ended 1 April 2006 £m
A Cash flows from operating activities – continuing		
Profit on ordinary activities after taxation	659.2	520.6
Income tax expense	277.5	225.1
Interest payable and similar charges	143.0	134.9
Interest receivable	(33.8)	(30.5)
Operating profit	1,045.9	850.1
Increase in inventories	(42.8)	(42.2)
Decrease/(increase) in receivables	12.5	(4.1)
Payments to acquire leasehold properties	(13.5)	(38.0)
Increase in payables	136.6	128.0
Exceptional operating cash outflow (see note 29F)	(4.2)	(14.6)
Depreciation and amortisation	282.7	274.0
Share-based payments	27.3	24.7
(Profit)/loss on property disposals	(1.9)	5.7
Cash generated from operations – continuing	1,442.6	1,183.6
B Cash flows from operating activities – discontinued		
Profit on ordinary activities after taxation	0.7	2.5
Profit on sale of business	(0.4)	–
Income tax expense	–	0.7
Net interest receivable	–	(0.2)
Operating profit	0.3	3.0
Decrease in working capital	0.1	3.5
Depreciation and amortisation	0.3	6.3
Loss on property disposals	–	1.1
Cash generated from operations – discontinued¹	0.7	13.9

¹ The discontinued operation relates to Kings Super Markets Inc. There was a cash outflow of £nil (last year £5.2m) in relation to investing activities, £nil inflow (last year £0.1m) in relation to financing activities and £nil outflow (last year £0.6m) for taxation.

29 ANALYSIS OF CASH FLOWS GIVEN IN THE CASH FLOW STATEMENT continued

	52 weeks ended 31 March 2007 £m	52 weeks ended 1 April 2006 £m
C Capital expenditure and financial investment		
Purchase of property, plant and equipment	(666.9)	(298.5)
Proceeds from sale of property, plant and equipment	2.9	45.1
Purchase of intangible fixed assets	(46.5)	(10.9)
Sale/(purchase) of non-current financial assets	0.3	(3.0)
(Purchase)/sale of current financial assets	(2.6)	1.0
	(712.8)	(266.3)
D Other debt financing		
Cash inflow/(outflow) from borrowings	21.6	(144.6)
Drawdown/(repayment) of syndicated bank facility	296.4	(200.0)
Redemption of securitised loan notes	(319.6)	(3.1)
Redemption of medium term notes	(818.2)	(58.3)
Issue of medium term notes	397.5	–
Decrease in obligations under finance leases	(2.2)	(3.0)
Redemption of B shares	(54.7)	(11.0)
	(479.2)	(420.0)
E Other equity financing		
Shares issued on exercise of employee share options	44.9	61.8
Purchase of own shares held by employee trust	(18.4)	(6.0)
Purchase of call option for Company's shares	(17.3)	–
	9.2	55.8
F Exceptional operating cash flows		
UK restructuring costs	(2.8)	(7.0)
Closure of Lifestore	(0.7)	(6.7)
Closure of European operations	(0.7)	(0.7)
Defence costs	–	(0.2)
	(4.2)	(14.6)

Additions to property, plant and equipment during the year amounting to £13.6m (last year £1.3m) were financed by new finance leases.

Notes to the financial statements continued

30 ANALYSIS OF NET DEBT

A Reconciliation of movement in net debt

	At 1 April 2006 £m	Cash flow £m	Discontinued operations £m	Fair value movement on derivatives £m	Exchange and other non-cash movements £m	At 31 March 2007 £m
Net cash:						
Bank loans (see note 21)	(90.0)	(366.1)	–	–	–	(456.1)
Less: amounts treated as financing (see below)	5.0	318.0	–	–	–	323.0
	(85.0)	(48.1)	–	–	–	(133.1)
Cash and cash equivalents (see note 19)	367.4	(180.9)	(4.9)	–	(1.5)	180.1
Net cash per cash flow statement	282.4	(229.0)	(4.9)	–	(1.5)	47.0
Current financial assets (see note 17)	67.7	2.6	(18.8)	–	(0.6)	50.9
Debt financing:						
Bank loans, overdrafts and commercial paper treated as financing (see above)	(5.0)	(21.6)	–	–	–	(26.6)
Syndicated bank facility (see note 21)	–	(296.4)	–	–	–	(296.4)
Securitised loan notes (see note 21)	(310.8)	319.6	–	–	(8.8)	–
Medium term notes (see note 21)	(1,656.7)	420.7	–	67.0	1.8	(1,167.2)
Finance lease liabilities (see note 21)	(52.2)	2.2	2.0	–	(13.6)	(61.6)
Non-equity B Shares (see note 21)	(54.7)	54.7	–	–	–	–
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 22)	–	–	–	–	(495.6)	(495.6)
Debt financing	(2,079.4)	479.2	2.0	67.0	(516.2)	(2,047.4)
Net debt	(1,729.3)	252.8	(21.7)	67.0	(518.3)	(1,949.5)

B Reconciliation of net debt to balance sheet

	2007 £m	2006 £m
Balance sheet and related notes		
Cash and cash equivalents	180.1	362.6
Current financial assets (see note 17)	50.9	48.8
Bank loans, overdrafts and commercial paper (see note 21)	(159.7)	(90.0)
Syndicated bank facility (see note 21)	(296.9)	–
Medium term notes (see note 21)	(1,177.3)	(1,680.0)
Securitised loan notes (see note 21)	–	(311.7)
Finance lease liabilities (see note 21)	(61.6)	(50.2)
Non-equity B shares (see note 21)	–	(54.7)
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 22)	(496.9)	–
	(1,961.4)	(1,775.2)
Financial assets included within assets of discontinued operation	–	21.7
Interest payable included within related borrowing	11.9	24.2
Total net debt	(1,949.5)	(1,729.3)

31 FOREIGN EXCHANGE RATES

	Weighted average sales rate		Weighted average profit rate		Balance sheet rate	
	2007	2006	2007	2006	2007	2006
Euro	1.48	1.47	1.47	1.47	1.47	1.43
US dollar	1.88	1.78	1.88	1.79	1.96	1.74
Hong Kong dollar	14.77	13.85	14.77	13.89	15.31	13.48

32 RELATED PARTY TRANSACTIONS

A Subsidiaries

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Company and its subsidiaries are disclosed in the Company's separate financial statements.

B Hedge End joint venture

A loan of £5.0m was received from the joint venture on 9 October 2002. It is repayable on five business days' notice and was renewed on 31 December 2005. Interest was charged on the loan at 5%.

C Marks & Spencer Pension Scheme

Details of other transactions and balances held with the Marks & Spencer Pension Scheme are set out in note 11.

D Key management compensation

	2007 £m	2006 £m
Salaries and short-term benefits	9.6	12.0
Post-employment benefits	0.4	0.7
Termination benefits	-	1.6
Share-based payments	6.7	4.7
Total	16.7	19.0

Key management in the comparative period included the directors, the Group Secretary, and the highest level of senior management. In 2006/07, a new Executive Committee (ExCo) was formed and so key management for 2007 includes the directors, the Group Secretary and only those members of key management who are members of ExCo. If ExCo had been formed in the prior year, the comparative total key management compensation would have been £12.3m. Further information about the remuneration of individual directors is provided in the Remuneration report.

During the year, key management have purchased goods at the Group's usual prices less a 20% discount. This discount is available to all staff employed directly by the Group in the UK.

Interest-free loans outstanding to key management, which includes no directors, at 31 March 2007 were £nil (last year £13,678).

Company income statement

	Notes	52 weeks ended 31 March 2007 £m	52 weeks ended 1 April 2006 £m
Operating profit	C2,C3	–	–
Income from shares in Group undertakings		260.6	205.2
Finance costs	C4	(0.2)	(2.5)
Profit for the year attributable to shareholders		260.4	202.7

Company balance sheet

	Notes	2007 £m	2006 £m
ASSETS			
Non-current assets			
Investments in Group undertakings	C6	9,046.1	9,046.1
Current assets			
Trade and other receivables		0.1	0.4
Total assets		9,046.2	9,046.5
LIABILITIES			
Current liabilities			
Amounts owed to Group undertakings		2,060.8	2,051.7
Trade and other payables		0.9	0.3
Non-equity B shares		–	54.7
Total liabilities		2,061.7	2,106.7
Net assets		6,984.5	6,939.8
EQUITY			
Called up share capital – equity		424.9	420.6
Share premium account	C7	202.9	162.3
Capital redemption reserve	C7	2,168.5	2,113.8
Merger reserve	C7	1,397.3	1,397.3
Retained earnings	C7	2,790.9	2,845.8
Total equity		6,984.5	6,939.8

Approved by the Board
21 May 2007

Stuart Rose, Chief Executive
Ian Dyson, Group Finance Director

Company statement of changes in shareholders' equity

	52 weeks ended 31 March 2007 £m	52 weeks ended 1 April 2006 £m
Profit attributable to shareholders	260.4	202.7
Dividends	(260.6)	(204.1)
	(0.2)	(1.4)
Shares issued on the exercise of employee share options	44.9	61.8
Change in shareholders' equity	44.7	60.4
Opening shareholders' equity	6,939.8	6,879.4
Closing shareholders' equity	6,984.5	6,939.8

Company cash flow statement

	52 weeks ended 31 March 2007 £m	52 weeks ended 1 April 2006 £m
Cash flows from operating activities		
Cash generated from operations	0.9	(0.4)
Tax paid	-	(0.5)
Net cash inflow/(outflow) from operating activities	0.9	(0.9)
Cash flows from investing activities		
Dividends received	260.6	205.2
Investment in subsidiary	-	(0.1)
Net cash inflow from investing activities	260.6	205.1
Cash flows from financing activities		
Interest paid	(0.2)	(2.5)
Redemption of non-equity B shares	(54.7)	(11.0)
Shares issued on exercise of employee share options	44.9	61.8
Repayment/(drawdown) of intercompany loan	9.1	(48.4)
Equity dividends paid	(260.6)	(204.1)
Net cash outflow from financing activities	(261.5)	(204.2)
Net cash inflow from activities	-	-
Cash and cash equivalents at beginning and end of year	-	-

Company notes to the financial statements

C1 ACCOUNTING POLICIES

The Company's accounting policies are given in note 1 of the Group financial statements.

C2 EMPLOYEES

The Company had no employees during the current or prior year. Directors received emoluments in respect of their services to the Company during the year of £751,000 (last year £502,000). The Company did not operate any pension schemes during the current or preceding year.

C3 AUDITORS' REMUNERATION

Auditors' remuneration in respect of the Company's annual audit has been borne by its subsidiary Marks and Spencer plc and has been disclosed on a consolidated basis in the Company's consolidated financial statements as required by section 227A of the Companies Act 1985.

C4 FINANCE COSTS

Dividends of £0.2m (last year £2.5m) were paid in respect of non-equity B shares.

C5 DIVIDENDS

	2007 per share	2006 per share	2007 £m	2006 £m
Dividends on equity ordinary shares:				
Paid final dividend	9.2p	7.5p	154.6	124.3
Paid interim dividend	6.3p	4.8p	106.0	79.8
	15.5p	12.3p	260.6	204.1

In addition, the directors have proposed a final dividend in respect of the year ended 31 March 2007 of 12.0p per share amounting to a dividend of £204.0m. It will be paid on 13 July 2007 to shareholders who are on the Register of Members on 1 June 2007. In line with the requirements of IAS 10 – 'Events after the Balance Sheet Date', this dividend has not been recognised within these results.

C6 INVESTMENTS

A Investments in Group undertakings

	2007 £m	2006 £m
Beginning of the year	9,046.1	9,046.0
Additional investment in subsidiary	–	0.1
End of year	9,046.1	9,046.1

Shares in Group undertakings represent the Company's investment in Marks and Spencer plc.

C6 INVESTMENTS CONTINUED

B Principal subsidiary undertakings

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

	Principal activity	Country of incorporation and operation	Proportion of voting rights and shares held by:	
			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 and Spencer (Ireland) Limited	Retailing	Republic of Ireland	–	100%
Marks and Spencer (Asia Pacific) Limited	Retailing	Hong Kong	–	100%
Marks and Spencer Simply Foods Limited	Retailing	Great Britain	–	100%
M.S. 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%
Marks and Spencer Chester Limited	Property Investment	Great Britain	–	100%
Marks and Spencer SCM Limited	Procurement	Great Britain	–	100%
Per Una Group Limited	Procurement	Great Britain	–	100%
Marks and Spencer Scottish Limited Partnership	Property Investment	Great Britain	–	– ¹

¹ Marks and Spencer plc is a general partner.

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.

C7 STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Merger reserve £m	Retained earnings £m	Total £m
At 3 April 2005	414.5	106.6	2,102.8	1,397.3	2,858.2	6,879.4
Profit for the year attributable to shareholders	–	–	–	–	202.7	202.7
Dividends	–	–	–	–	(204.1)	(204.1)
Shares issued on exercise of employee share options	6.1	55.7	–	–	–	61.8
Redemption of B shares	–	–	11.0	–	(11.0)	–
At 1 April 2006	420.6	162.3	2,113.8	1,397.3	2,845.8	6,939.8
At 2 April 2006	420.6	162.3	2,113.8	1,397.3	2,845.8	6,939.8
Profit for the year attributable to shareholders	–	–	–	–	260.4	260.4
Dividends	–	–	–	–	(260.6)	(260.6)
Shares issued on exercise of employee share options (see note 12)	4.3	40.6	–	–	–	44.9
Redemption of B shares	–	–	54.7	–	(54.7)	–
At 31 March 2007	424.9	202.9	2,168.5	1,397.3	2,790.9	6,984.5

C8 RELATED PARTY TRANSACTIONS

During the year, the Company has received dividends from Marks and Spencer plc of £260.6m (last year £205.2m) and has increased its loan from Marks and Spencer plc by £9.1m (last year £48.4m decrease). There were no other related party transactions.

Group financial record

The figures for 2005 to 2007 are prepared under IFRS. The figures for 2004 and 2003 are UK GAAP figures presented in the same format as the 2005 to 2007 figures.

	IFRS 2007 52 weeks £m	IFRS 2006 52 weeks £m	IFRS 2005 52 weeks £m	UK GAAP 2004 53 weeks £m	UK GAAP 2003 52 weeks £m
Income statement					
Revenue – continuing operations	8,588.1	7,797.7	7,490.5	7,728.1	7,399.0
Operating profit – continuing operations					
United Kingdom	956.7	784.5	528.0	738.6	601.5
Overseas	89.2	65.6	70.1	45.0	34.9
Total operating profit	1,045.9	850.1	598.1	783.6	636.4
Analysed as					
Before exceptional operating charges	1,045.9	850.1	648.7	825.7	680.3
Exceptional operating charges	–	–	(50.6)	(42.1)	(43.9)
Net interest payable ¹	(130.0)	(121.9)	(104.4)	(45.7)	(40.6)
Pension finance income/(charge)	20.8	17.5	11.4	(15.2)	27.0
Profit before taxation – continuing operations	936.7	745.7	505.1	722.7	622.8
Taxation on ordinary activities	(277.5)	(225.1)	(150.1)	(225.1)	(182.1)
Profit after taxation	659.2	520.6	355.0	497.6	440.7
Profit from discontinued operations	0.7	2.5	231.2	54.7	66.2
Minority interests	–	–	–	–	0.4
Profit attributable to shareholders	659.9	523.1	586.2	552.3	507.3

¹ For 2007 includes £30.4m of exceptional finance costs which arose on the early redemption of £317.2m of secured bonds (see note 5).

	IFRS 2007 £m	IFRS ¹ 2006 £m	IFRS ¹ 2005 £m	UK GAAP 2004 £m	UK GAAP 2003 £m
Balance sheet					
Non-current assets					
Intangible non-current assets	194.1	163.5	165.4	-	-
Property, plant and equipment (including investment properties)	4,069.6	3,614.3	3,624.8	3,497.6	3,435.1
Trade and other receivables	247.0	242.8	211.2	1,779.3	1,559.5
Joint venture and other financial assets	12.3	12.3	9.0	10.0	29.7
Deferred tax assets	11.6	83.9	73.0	203.5	277.1
Non-current assets	4,534.6	4,116.8	4,083.4	5,490.4	5,301.4
Current assets	846.4	1,142.1	832.3	2,086.7	1,686.8
Total assets	5,381.0	5,258.9	4,915.7	7,577.1	6,988.2
Current liabilities	(1,606.2)	(2,017.0)	(1,237.4)	(1,919.9)	(1,769.4)
Non-current liabilities					
Retirement benefit deficit	(283.3)	(794.9)	(676.0)	(669.5)	(1,278.2)
Other non-current liabilities	(1,843.3)	(1,243.3)	(2,044.7)	(2,533.7)	(1,832.3)
Total liabilities	(3,732.8)	(4,055.2)	(3,958.1)	(5,123.1)	(4,879.9)
Net assets	1,648.2	1,203.7	957.6	2,454.0	2,108.3

¹ Non-current deferred tax assets have been restated by £48.4m in 2005 and 2006 due to a change in accounting policy (see note 25).

	IFRS 2007 52 weeks £m	IFRS 2006 52 weeks £m	IFRS 2005 52 weeks £m	UK GAAP 2004 53 weeks £m	UK GAAP 2003 52 weeks £m
Cash flow					
Cash flows from operating activities					
Generated from operating activities	1,443.3	1,197.5	1,601.8	666.5	1,168.7
Taxation paid	(150.8)	(101.5)	(166.7)	(220.4)	(216.9)
Cash flows from operating activities	1,292.5	1,096.0	1,435.1	446.1	951.8
Cash flows from investing activities					
Acquisitions and disposals	48.8	-	351.1	51.3	(38.8)
Capital expenditure and financial investment	(712.8)	(266.3)	(113.5)	(317.4)	(326.7)
Dividends received from joint venture	-	-	-	-	8.0
Interest received	13.2	12.9	15.4	14.4	11.9
Cash flows from investing activities	(650.8)	(253.4)	253.0	(251.7)	(345.6)
Cash flows from financing activities					
Interest paid ¹	(145.0)	(142.8)	(116.5)	(61.2)	(51.3)
Non-equity dividend paid	-	-	(2.8)	(3.0)	(6.8)
Other debt financing	(479.2)	(420.0)	757.1	413.6	(431.4)
Equity dividends paid	(260.6)	(204.1)	(236.9)	(247.1)	(225.4)
Other equity financing	9.2	55.8	(2,265.1)	(66.6)	(280.9)
Cash flows from financing activities	(875.6)	(711.1)	(1,864.2)	35.7	(995.8)
Net cash (outflow)/inflow from activities	(233.9)	131.5	(176.1)	230.1	(389.6)

¹ 2007 includes £21.6m of exceptional finance costs.

Group financial record continued

Key performance measures

		IFRS 2007 52 weeks	IFRS 2006 52 weeks	IFRS 2005 52 weeks	UK GAAP 2004 53 weeks	UK GAAP 2003 52 weeks ⁴
Gross margin ¹	$\frac{\text{Gross profit}}{\text{Revenue}}$	38.9%	38.3%	34.7%	35.4%	34.8%
Net margin ¹	$\frac{\text{Operating profit}}{\text{Revenue}}$	12.2%	10.9%	8.0%	9.9%	8.6%
Net margin excluding property disposals and exceptional items		12.2%	11.0%	8.7%	10.2%	9.2%
Profitability ¹	$\frac{\text{Profit before tax}}{\text{Revenue}}$	10.9%	9.6%	6.7%	9.4%	8.4%
Profitability excluding property disposals and exceptional items		11.2%	9.6%	7.4%	9.7%	9.0%
Basic earnings per share ¹	$\frac{\text{Basic earnings}}{\text{Weighted average ordinary shares in issue}}$	39.1p	31.3p	17.6p	24.2p	21.8p
Earnings per share adjusted for property disposals and exceptional items ¹		40.4p	31.4p	19.2p	24.7p	23.3p
Dividend per share declared in respect of the year		18.3p	14.0p	12.1p	11.5p	10.5p
Dividend cover	$\frac{\text{Profit attributable to shareholders}}{\text{Dividend payable}}$	2.1x	2.2x	2.9x	2.1x	2.1x
Return on equity ²	$\frac{\text{Profit attributable to shareholders}}{\text{Average equity shareholders' funds}}$	46.3%	50.0%	35.1%	25.2%	22.4%
Retail gearing ²	$\frac{\text{Retail debt + net post retirement liability}}{\text{Retail debt + net post retirement liability + retail shareholders' funds}}$	59.1%	68.8%	76.2%	44.7%	53.0%
Retail fixed charge cover	$\frac{\text{Operating profit before depreciation and operating lease charges}}{\text{Fixed charges}^3}$	5.9x	4.9x	4.1x	7.3x	6.9x
Net debt ⁵ (£m)		1,949.5	1,729.3	2,147.7	1,994.7	1,831.4
Capital expenditure (£m)		792.4	337.7	229.4	433.5	311.0

¹ Based on continuing operations.

² Retail shareholders' funds for 2005 and 2006 have been restated to recognise £48.4m of additional tax assets and reserves, following the change in external interpretation of IAS 12 – 'Income Taxes'.

³ Fixed charges are defined as net interest payable and operating leases payable.

⁴ 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'.

⁵ Excludes accrued interest.

UK store portfolio (as at 11 May 2007)

Abbeycentre Belfast • Aberdeen • Accrington • Aldershot Outlet • Altrincham • Andover • Ards Shopping Centre • Arena Park Coventry • Arnison Centre Durham • Ashford • Ashford Outlet • Ashton-under-Lyne • Astle Park Outlet • Avonmeads • Aylesbury • Ayr • Balham • Ballymena • Banbridge Outlet • Banbury • Bangor, Northern Ireland • Bangor, Wales • Banstead • Barnsley • Barnstaple • Barrow • Basildon • Basingstoke • Bath • Bath Road, Slough • Bayswater • Beaconsfield • Bearsden • Beckenham • Bedford • Belfast • Beverley • Bexleyheath • Bicester • Biggin Hill • Birch West Services • Birkenhead • Birmingham • Birmingham New Street Station • Bishop Auckland • Bishop Stortford • Blackburn • Blackheath • Blackpool • Blackrock • Blanchardstown • Bluewater • Bolton • Bolton Middlebrook • Bond Street Station • Bootle • Borehamwood • Boston • Bothwell Street, Glasgow • Boundary Mill Outlet • Bournemouth • Brackley (BP) • Bracknell • Bradford • Bradwell Abbey, Milton Keynes (BP) • Braehead • Braintree • Braintree Outlet • Breakspear Way (BP) • Brent Cross • Brentwood • Bridgend Outlet • Bridlington • Brighton • Brighton Station • Bristol • Brixton Road • Bromley • Brompton Road • Brooklands • Broughty Ferry • Burnley • Burton • Bury • Bury St. Edmunds • Buxton • Byker Outlet • Byres Road, Glasgow • Camberley • Cambridge • Cambridge Station • Camden Town • Canary Wharf • Cannon Street Station • Canterbury • Cardiff • Cardiff Station • Cardinal Place, Victoria • Carlisle • Carmarthen • Castleford • Castleford Outlet • Castlepoint • Caversham • Charing Cross Station • Chatham Outlet • Chelmsford • Chelsea • Cheltenham • Cherwell Valley Services • Cheshire Oaks Outlet • Cheshunt • Chester • Chesterfield • Chichester • Chieveley Services • Chiswick • Christchurch • Church View, Tunbridge Wells (BP) • Cirencester • Clacton • Clapham • Clapham South • Claredon (BP) • Clarion Quay, Dublin • Cleveleys • Colchester • Coleraine • Coliseum • Colmore Row • Cork • Covent Garden • Coventry • Craigeith • Cranleigh • Crawley • Crescent Link • Crewe • Cribbs Causeway • Cross Gates, Leeds • Crouch End • Croydon • Culverhouse Cross • Cwmbran • Dalton Park Outlet • Darlington • Deal • Denton Outlet • Derby • Devizes • Dewsbury • Didsbury • Doncaster • Doncaster Outlet • Donington Park Services • Dorchester • Dorking • Douglas • Dover • Drogheda • Grafton Street, Dublin • Mary Street, Dublin • Dumbarton • Dumfries • Dun Laoghaire, Dublin • Dundee • Dundrum • Dunfermline • Durham • Ealing Broadway • Earls Court • East Kilbride • East Reading Services • Eastbourne • Edgware Broadwalk • Edgware Road • Edinburgh • Edinburgh Waverley Station • Elgin • Eltham • Enfield • Epsom • Euston Station • Evesham • Exeter • Exeter Services • Falkirk • Falmouth • Fareham • Felixstowe • Fenchurch Street • Ferrybridge Services • Fforestfach • Finsbury Pavement • Fleet • Fleetwood Outlet • Formby • Fort Kinnaird • Fosse Park • Fourways, Corby (BP) • Foyleside • Frankley South Services • Frome • Fulham Island • Gainsborough • Galway • Gatwick North • Gatwick South • Gemini, Warrington • Gerrards Cross • Glasgow Argyl Street • Glasgow Central Station • Glasgow Sauchiehall Street • Gloucester • Godstone Park (BP) • Grafton Centre Cambridge • Grantham • Gravesend • Green Park • Greenock • Greenwich • Gretna Outlet • Grimsby • Guildford • Guiseley • Gunwharf Quays Outlet • Gyle • Hackney • Halifax • Hamilton • Hammersmith • Hammersmith Flyover (BP) • Hampstead • Handforth, Wilmslow • Harborne • Harbourside, Bristol • Harlow • Harpenden • Harrogate • Harrow • Hartlepool • Hastings • Hatfield Outlet • Haywards Heath • Hazel Grove • Heathrow Terminal 3 • Hedge End • Hemel Hempstead • Hempstead Valley • Hereford • Hertford • High Wycombe • Hilton Park North Services • Hitchin • Holloway Road • Honiton • Horsham • Hounslow Outlet • Huddersfield • Hull • Huntingdon • Ilford • Ilkeston • Inverness • Ipswich • Irvine • Islington • Junction One Outlet • Keighley • Kendal • Kensington • Kenton Bar • Kettering • Kew • Kidderminster Weavers Wharf • Kilburn • Kilmarnock • Kings Cross Station • Kings Lynn • Kings Road • Kingsditch • Kingston • Kingston Park Milton Keynes • Kingsway Derby • Kirkcaldy • Knutsford Services • Lancaster • Lancaster North Services • Leamington • Leeds • Leeds Central Station • Leeds Moortown • Leicester • Leigh Delamere East Services • Leigh Delamere West Services • Letchworth • Lewisham • Lichfield • Liffey Valley • Lincoln • Lisburn • Liverpool • Liverpool Lime Street Station • Liverpool Street Station • Livingston • Livingston Outlet • Llandudno • Llanelli • Llanishen • London Bridge Station • London Colney • Loughborough • Loughton • Lower Earley • Lowestoft • Lowry Outlet • Luton • Luton Airport • Lytham St. Annes • Macclesfield • Maidenhead • Maidstone • Malone • Manchester • Manchester Piccadilly Plaza • Manchester Piccadilly Station • Mansfield • Mansfield Outlet • Marble Arch • Market Harborough • Marlow • Marylebone Station • Meadowhall • Melton Mowbray • Merry Hill • Metro Centre • Middlesbrough • Mill Hill • Milngavie • Milton Dumbarton (BP) • Milton Keynes • Monks Cross • Monmouth • Morningside, Edinburgh • Morpeth • Mount, St Albans (BP) • Muswell Hill • Naas • Neath • New Mersey • Newark • Newbridge • Newbury • Newcastle • Newcastle-under-Lyme • Newmarket • Newport • Newport, Isle of Wight • Newry • Newton Abbot • Newton Mearns • Newtownbreda • North Stafford Services • Northallerton • Northampton • Northolt Park (BP) • Northwich • Norwich • Notting Hill Gate • Nottingham • Nuneaton • Oadby • Ocean Terminal • Omagh • Ormskirk • Orpington • Orsett South (BP) • Oxford • Paddington Station • Paisley • Palmers Green • Pantheon • Paternoster Square • Pease Pottage Services • Perth • Peterborough • Pinner • Plymouth • Pontardulais • Pontefract • Pontypridd • Poole • Portsmouth • Preston • Prestwich • Princes Risborough • Princess Park • Pudsey • Putney • Reading • Reading Station • Redcar • Redditch • Redhill • Reigate • Rhyl • Richmond • Rickmansworth • Ripon • Rochdale • Romford • Rotherham Parkgate • Roundacre Basildon (BP) • Royal Quays Outlet • Rugby • Ruislip • Sale • Salisbury • Scarborough • Scunthorpe • Sevenoaks • Sheaf Street Station • Sheffield • Shepherds Bush (BP) • Shirley • Shoreham • Shrewsbury • Skegness • Slateford Road, Edinburgh (BP) • Slough • Solihull • Sonning Cutting, Reading (BP) • South Shields • South Woodford • Southend-on-Sea • Southgate • Southport • Southwaite South Services • Spalding • Speke • Springfields Outlet • St Albans • St Helens • St Neots • Stafford • Staines • Stamford • Stevenage • Stirling • Stockport • Stockton • Stoke-on-Trent • Straiton • Stratford • Street Outlet • Sudbury • Summertown • Sunbury Cross • Sunderland • Surbiton • Sutton • Sutton Coldfield • Swansea • Swindon • Swindon Outlet • Swiss Cottage • Talbot Green • Tamworth • Tamworth Services • Taunton • Teddington • Teesside • Telford • Temple Fortune • Tewkesbury • The Forge Outlet • The Fort Birmingham • The More, London • Thurrock • Thurrock Outlet • Thurrock Services • Tiverton • Toddington North Services • Toddington South Services • Tolworth • Tooting • Torbay • Torquay • Tottenham Court Road • Trafford Park • Trowbridge • Trowell North Services • Truro Lemon Quay • Tunbridge Wells • Twickenham • Upper Road Belfast • Uxbridge • Valley Park Croydon • Victoria Station • Wakefield • Walsall • Walsall Outlet • Walworth Road • Warrington • Waterloo Station • Watford • Welwyn Garden City • West Bridgford • West End Glasgow • West Quay • West Reading Services • West Wickham • Westbourne • Westcliffe-on-Sea (BP) • Westhill • Weston-Super-Mare • Westwood Cross • Wetherby • Weymouth • Whetstone • Whitley Bay • Wigan • Wimbledon • Winchester • Windsor • Woking • Wokingham • Wolverhampton • Wood Green • Woolley Edge South Services • Woolwich Outlet • Worcester • Workington • Worthing • Wrexham • Wrythe (BP) • Wycombe Marsh • Yarmouth • Yeovil • York • York Outlet • York Retail Park

Shareholder information

ORDINARY SHARES

As at 31 March 2007 there are 232,802 holders of ordinary shares whose shareholdings are analysed as below. We also have a further 38,000 investors holding shares via our Corporate nominee.

Size of shareholding	Number of shareholders	Percentage of total number of shareholders	Number of ordinary shares	Percentage of ordinary shares
1 – 500	118,099	50.73	23,138,646	1.36
501 – 1,000	46,572	20.00	34,511,550	2.03
1,001 – 2,000	34,937	15.01	49,595,056	2.92
2,001 – 5,000	23,530	10.11	71,687,705	4.22
5,001 – 10,000	5,952	2.56	41,163,276	2.42
10,001 – 100,000	2,968	1.27	69,611,100	4.09
100,001 – 1,000,000	519	0.22	180,108,886	10.60
1,000,001 – Highest	225	0.10	1,229,956,881	72.36
Total	232,802	100.00	1,699,773,100	100.00

Shareholders are further analysed as follows

Type of owner

Private holders	224,520	96.44	323,657,534	19.04
Institutional and corporate holders	8,282	3.56	1,376,115,566	80.96
Total	232,802	100.00	1,699,773,100	100.00

FINANCIAL CALENDAR

Record date to be eligible for the final dividend

1 June 2007

AGM – Earls Court 2

10 July 2007

Final ordinary dividend for the year to 31 March 2007 to be paid

13 July 2007

Half year results to be announced

6 Nov 2007*

Record date to be eligible for the interim dividend

16 Nov 2007*

Interim ordinary dividend to be paid

11 Jan 2008*

* provisional dates

Shareholder vouchers

The 2006 Café Revive and Spend and Save vouchers once again proved very popular. The offer for 2007/08 is being extended to technology products and shopping online via our website. Vouchers will be distributed with the January dividend and be valid throughout February and March 2008.

Dividends

Shareholders are able to choose how they receive their dividends

- direct to their bank account;†
- paid in foreign currencies;
- reinvested in M&S shares; or
- paid by cheque.

†M&S preferred option

The quickest and most efficient way to receive your dividends is to have them paid direct to your bank account. This saves waiting for funds to clear and reduces the paper and postage we use. Those selecting this payment method receive a consolidated tax voucher at their registered address each January. However, we are able to send a tax voucher with each payment if preferred. To change how you receive your dividends either log on to www.shareview.co.uk or contact Lloyds TSB Registrars.

Electronic communication

Together with Lloyds TSB Registrars we are able to offer an easy to use, free and secure service allowing you to manage your shareholding online. You can also elect to view your Annual report via our website. Shareholders who choose this option receive the same information, only sooner.

We recognise electronic communication is not for everyone, which is why we offer choices. By advising us of your requirements we are able to offer a range of services and tailor communication to meet your needs. Informed choices, aligned to new technology will reduce the amount of paper, print and postage we use.

Together, we can minimise waste and our impact on the environment. For further information go to

www.shareview.co.uk

Electronic shareholding

Shareholders can hold shares electronically in our Corporate nominee account. This

- gives increased security for personal details;
- removes the need for a share certificate; and
- provides share dealing at competitive rates.

For further information please contact Lloyds TSB Registrars.

Company website

Visit www.marksandspencer.com/thecompany to find out more about your Company. You can catch up on the latest news in the press release section, read the latest Annual report and review, as well as watch recordings of past AGMs and our financial results presentations. Our 2007 AGM is being broadcast live on the internet and details of how you can view this are included in your Notice of Meeting. We welcome feedback on the site. Please email your comments to chairman@marks-and-spencer.com

Shareholder security

Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount, or offers of free reports about the Company. Details of any share dealing facilities that the Company endorses will be included in Company mailings. More detailed information can be found at www.fsa.gov.uk/consumer

SHAREHOLDER VOUCHERS

Enjoy shopping at M&S stores and online with your annual shareholder vouchers.

DIVIDENDS

Receive dividends direct to your bank account in sterling or foreign currency, reinvest in more M&S shares or receive a cheque.

ELECTRONIC COMMUNICATIONS

Register your AGM vote, update your details and check your holding online at www.shareview.co.uk

ELECTRONIC SHAREHOLDING

Open an M&S Share Service account for more convenient dealing without a share certificate. For further information please contact LloydsTSB registrars.

COMPANY WEBSITE

Keep updated on M&S news as it happens at www.marksandspencer.com

CONTACT US

Email us at chairman@marks-and-spencer.com
Customer queries **0845 302 1234**
Shareholder queries **0845 609 0810**
+44 (0) 121 415 7071 (outside the UK)

ShareGift

Shareholders with a small number of shares, the value of which makes it uneconomical to sell, may wish to consider donating them to charity.

ShareGift is a registered charity administered by The Orr Mackintosh Foundation. Set up in 1996, they have donated the proceeds of unwanted shareholdings to a wide range of UK charities.

Find out more at www.ShareGift.org or by telephoning ShareGift on 020 7337 0501.

American Depositary Receipts (ADRs)

The Company has a level 1 ADR programme sponsored by JP Morgan Chase Bank NA to enable US investors to purchase Marks & Spencer American Depositary Shares (ADSs) in US Dollars 'over the counter'. Each ADS represents six ordinary shares. For further information, please contact JP Morgan Chase Bank, NA P.O. Box 43013, Providence, RI 02940-3013, USA
Email: adr@jpmorgan.com
Website: www.adr.com

Toll-free for callers within the US: (800) 990 1135
For those calling outside the US: +1 (781) 575 4328

Half year results

The half year results will be advertised in selected national newspapers and be available on our website in November.

How we do business

A copy of the How we do business report detailing our environmental and social performance is available online at www.marksandspencer.com/howwedobusinessreport2007

Capital Gains Tax (CGT)

For the purposes of CGT, the price of an ordinary share on 31 March 1982 was 153.5p, which, when adjusted for the 1 for 1 scrip issue in 1984, gives a figure of 76.75p.

Following the capital reorganisation in March 2002, the Inland Revenue has confirmed the base cost for CGT purposes was 372.35p (81.43%) for an ordinary share and 68.75p (18.57%) for a B share.

Unsolicited mail

The Company is obliged by law to make its share register publicly available and, as a consequence, some shareholders may receive unsolicited mail. If you wish to limit the amount of unsolicited mail you receive, please contact:

The Mailing Preference Service (MPS)
DMA House, 70 Margaret Street, London W1W 8SS

Alternatively, register online at www.mpsonline.org.uk or call the MPS Registration line on 0845 703 4599.

The use of a nominee company can also help protect your privacy. You can transfer your shares into our Corporate nominee company by contacting Lloyds TSB Registrars. Alternatively, contact your broker for information on their nominee services.

Registered office and Head office

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Telephone +44 (0) 20 7935 4422
Registered in England and Wales (No. 4256886)

Group Secretary and Head of Corporate Governance

Graham Oakley

Registrars

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The Causeway, Worthing, West Sussex BN99 6DA

Telephone 0845 609 0810
and outside the UK +44 (0) 121 415 7071

Feedback

We want to know what you think of this document. Please go to www.marksandspencer.com/annualreport2007survey and complete our online survey.

Further information

For additional copies of the Annual report or Annual review and summary financial statements go to www.marksandspencer.com/thecompany

Alternatively, call 0800 591 697

Large print and audio files can be downloaded from our website.

Glossary

Better buying

Refers to the way we now buy our clothing – at the right time, in the right amount at the right price.

Business Involvement Groups (BIG)

Comprise some 3,500 people across M&S, elected to represent their colleagues' views when the Company is informing, consulting and involving staff on matters relating to work and employment.

Buying direct

Buying directly from a supplier. Around 30% of the general merchandise we buy is sourced 'direct'.

Buying in greater depth

Buying more of a particular product or range to meet demand.

Core business

Our main UK business - selling clothing, food and home products.

Earnings per share (EPS)

The profit for the year attributable to shareholders, divided by the average number of shares in issue.

Fast fashion

Products available in the latest styles, only weeks after they have been on the catwalk. Developed from sample to sales floor in only eight weeks.

Footfall

The number of people who visit our stores.

Full service vendors (FSVs)

A supplier who provides a full design, commercial, sourcing, manufacturing and shipping service of our products from source to our distribution centres in the UK. Around 70% of what we buy is sourced through FSVs.

General merchandise

Our clothing, footwear, home and beauty products (i.e. all non-food).

Gross margin

Sales less the cost of goods sold, as a percentage of sales.

Market share

The percentage of the market or market segment that is being serviced by M&S. For instance, if 100 t-shirts were sold a year in the UK and M&S sold 10 of them, it would have 10% market share.

M&S Direct

Our online, phone and catalogue services, including the flower, wine and food ordering business, as well as the home catalogue.

Open to buy

Budget we set aside so that we can buy more of a popular product or buy into new trends during the season.

Opening price point (OPP)

The starting price for our ranges. For example, t-shirts at £5 or bras at £6.

Our core values

The values which underpin our business: quality, value, service, innovation and trust.

Plan A

Our new £200m, five-year 'eco plan'.

Total shareholder return (TSR)

The increase or decrease in value of £100 invested in Marks and Spencer Group plc on 30 March 2002 compared to £100 invested in the FTSE 100 over the same period.

Value

At M&S, price and quality combined makes 'value'.

Volume

The number of individual items we sell.



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