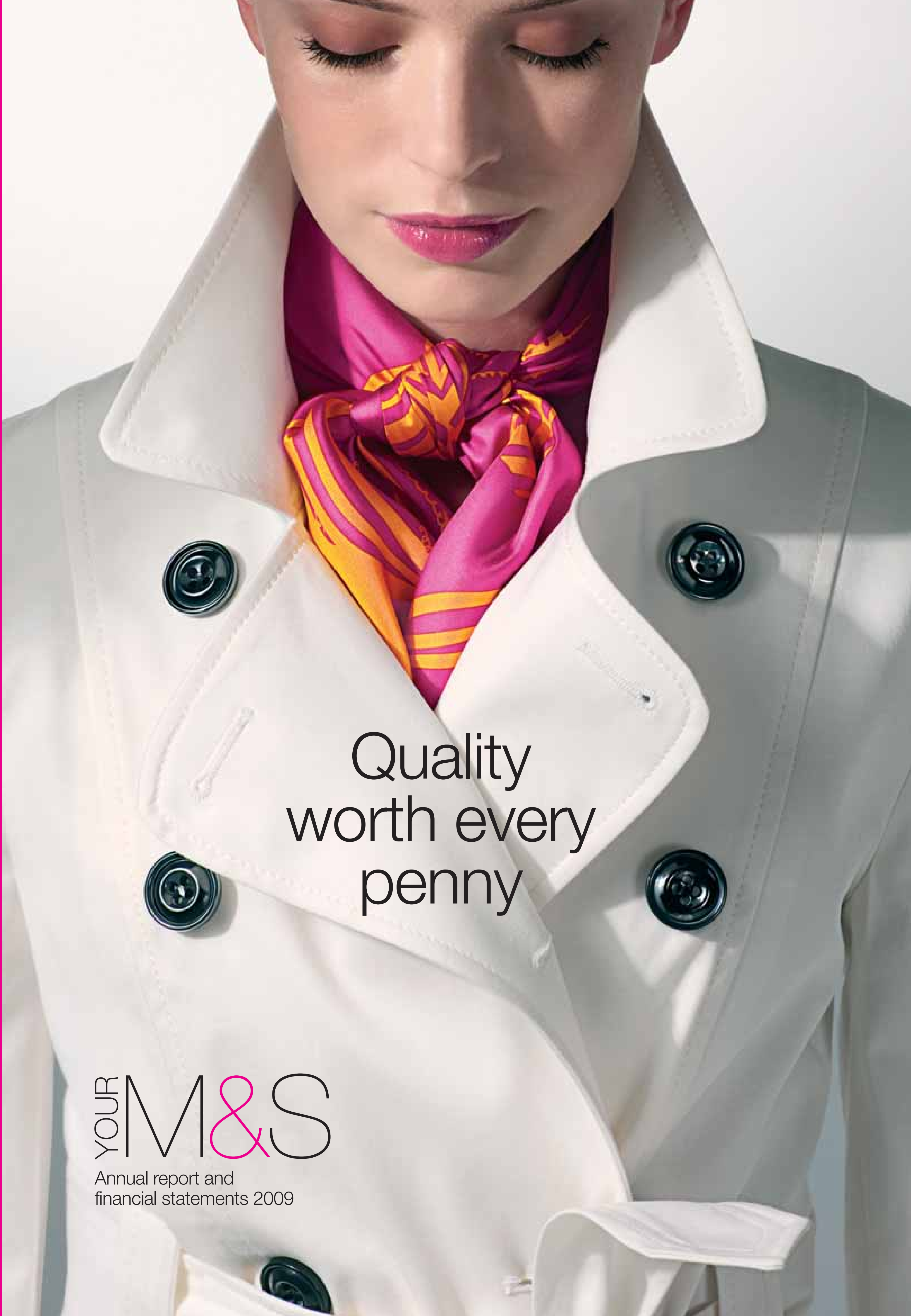
125 years of **Quality, Value, Service, Innovation** and **Trust**



Quality worth every penny

YOUR M&S

Annual report and
financial statements 2009

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How have we done?
Highlights from the past year

Group revenue
£9.1bn
+0.4%

UK 90.1%
International 9.9%

GM 50.1%
Food 49.9%

Adjusted Group operating profit
£768.9m
-29.4%

Adjusted Group profit before tax
£604.4m
-40.0%

Group gross margin
37.2%
-1.4% pts

Average weekly footfall
21.6m

Interim + final dividend
8.3p+9.5p=

Total dividend 2008/09
17.8p

Adjusted earnings per share
28.0p
-35.8%

For all our full and detailed key performance indicators See p18

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If you haven't already tried it, visit our easy-to-use, fully interactive online Annual Report. Many shareholders are now benefiting from more accessible information and helping the environment too.

- It's a more engaging and interactive experience
- It's printable as individual pages
- It saves paper and costs

About M&S For 125 years M&S has been trusted by customers to offer high quality products at great value. We are 'Your M&S', having grown from a Penny Bazaar stall to become the UK's leading retailer of quality clothing, food and home products. With more than 21 million UK customers, we are also an expanding international force, now in 40 territories. A team of 78,000 people and over 2,000 suppliers form the bedrock of our business, ensuring our brand will continue to offer **Quality, Value, Service, Innovation** and **Trust**.

1. Our core UK business See page 26

With an annual turnover of £8.16bn our UK business has a broadly even split between General Merchandise (clothing and home) and Food.

General Merchandise £3.9bn sales (-3.5%)
With more than 1 in 10 clothing items bought from us, we are the UK's largest clothing retailer and the first choice for stylish, well-made and great value clothes for the whole family. We lead the market in womenswear, lingerie and menswear and have an expanding kidswear and home business.

Market share (value)*
10.7%

Market share (volume)*
11.2%

*Source: Fashiontrak

Food £4.2bn sales (-0.1%)
We are the UK's leading provider of high quality food for every occasion and appetite. We sell everything from fresh produce and groceries, to partly-prepared meals and ready meals; all at outstanding quality, freshness and value. This is while retaining our commitment to the highest standards of innovation, ethical sourcing and healthy eating.

Market share*
3.9%

*Source: TNS Worldpanel

2. Our M&S Direct business See page 36

M&S Direct £324m sales (+19%)
M&S Direct is key to improving customer convenience and service, helping us to reach a new generation of shoppers. We are on target to achieve **£500m in sales by 2010/11.**

M&S Direct:
- E-commerce website
- Home catalogue
- Flowers & wine delivery
- Hampers
- Food to Order
- lunchtogo

3. Our International business See page 38

International £898m sales (+25.9%)
With a portfolio of owned and franchised stores, our International business is on plan to achieve 15 to 20% of Group revenues by 2010/11. In 2008/09 sales benefited from an additional 32 stores joining the chain. We now have 296 **stores** in **40 territories.**

4. Our UK property portfolio See page 40

Over the last three years, we have transformed our UK stores into bright and contemporary destinations with a range of hospitality options. We are also more convenient with 668 stores across the UK, including **75 new stores** opened in 2008/09.

668 UK stores:
- **10** Premiere
- **43** Major
- **29** Retail Park
- **209** High Street
- **39** Outlets
- **156** Simply Food wholly-owned
- **182** Simply Food franchises

5. Integrating Plan A See page 42

We established Plan A in January 2007, setting out **100 rigorous social and environmental targets** to help us become a better business by 2012. Customer support has helped us achieve world-class progress in: reducing carbon emissions and waste to landfill, sustainable sourcing, ethical trading and promoting healthy lifestyles.

Our Plan for the future
Overview by Sir Stuart Rose

Sir Stuart Rose Chairman

We have spent the last five years putting in place strong foundations in line with our long-term plan. We have introduced new products and services in our core business of General Merchandise (GM) and Food, broadened our multi-channel offer, expanded our international presence, improved our property portfolio, and put Plan A at the heart of our business.

We are not immune to the short-term impact of the recession and have had to take action to protect the strength of the balance sheet. As a result we have cut the dividend by 20.9%. While this was a difficult decision for the Board, we believe it is the right thing to do for two main reasons: because economic conditions remain uncertain, and because of the need for us to retain financial strength and flexibility.

Throughout the year we have prudently managed costs and continued our investment in our systems and supply chain so we can improve efficency across the business. We also responded to the changing needs of our customers by improving our values without compromising on quality; something we view as short-term pain for long-term gain.

As well as helping us through these tough conditions, these steps will enable us to take advantage of the opportunities that lie ahead and maximise value for our shareholders.

With a strong brand, the right products and an experienced management team, we are now:

Increasing the pace of change and operational execution in the business;

Leveraging M&S Direct by building more channels to market;

Building our international portfolio to grow our global customer base; and

Reinvigorating our brand communications.

In addition to leading M&S successfully through the recession, another of my priorities is to ensure there is a strong management team in place and an appropriate succession plan for the business.

As we celebrate our 125th anniversary we do so with an unrivalled reputation for **Quality, Value, Service, Innovation** and **Trust.** These core values are as important today as they ever have been. They are all about doing the right thing which is, quite simply, how we do business.

Marks & Spencer Ltd.
CELEBRATING
125 YEARS

Chairman's overview
continued

125 YEARS OF SERVICE

Above: Florence Chittick has spent her entire working life at our flagship Marble Arch store in London. In 47 years she's seen recessions, watched our customers grow up from children into adults and in the 1970s worked alongside our Chairman, Sir Stuart Rose.

"When I joined M&S, then Chairman Marcus Sieff told me I was now part of the family. He was absolutely right and every day I'm reminded of that when I come into work. Having started at a time when we didn't have fitting rooms, when the food hall was just a small room at the back of the building, and when all of our sales were done over the counter, I've seen Marks grow and grow. I've worked every department in the store, so there are always a lot of familiar faces as our loyal customers keep coming back. Every day still brings new challenges, so I'll be here for quite some time yet."

Florence Chittick, Womenswear Section Manager, Marble Arch

The year at a glance

During the year we acted decisively to meet the challenges of the global economic downturn, taking steps to manage costs tightly and respond quickly to the changing needs of our customers.

Our adjusted profits are down 40.0% on last year to £604.4m. This is due in part to conditions on the High Street as well as our conscious decision to improve our value, without compromising our quality. We have built unrivalled trust in the M&S brand over the last 125 years, and will not sacrifice our core principles when times get tough.

Clothing is our customers' biggest discretionary purchase and as the UK's leading clothing retailer, with the largest market share, it was inevitable that demand would ease off as customers reined in their spending. Although value market share is marginally down from 11.0 to 10.7%, we have held our volume market share at 11.2%. We believe this is evidence that Kate Bostock and her team are in tune with our customer base (see page 26).

You will see from John Dixon's review of our Food business (on page 32) that we are now back on track after a challenging period at the start of the financial year. John became Director of Food in July 2008 and immediately started to address our prices, innovation levels and availability. With a clear mandate for growth, John and his team are returning to our brand values of **Quality, Value, Service, Innovation and Trust**. Early signs show that this is working, with the rate of decline in our UK like-for-like sales improving quarter to quarter.

Our Home, International and M&S Direct businesses continue to be growth areas in a challenging year, with International and M&S Direct forming key platforms for our future growth plans. M&S Direct had a good year, with sales up 19.0%, reflecting new initiatives including an online wine club and international delivery. Our International business reported growth of 25.9% following the ongoing integration of our subsidiary partners.

125 YEARS OF QUALITY

1958 We sold our first Christmas pudding in 1958 and now sell around 1.6 million each year as well as 4 million Christmas cakes.

1929 We first started selling sandwiches from the ice cream counters in our stores in 1929. Today the nation's favourite is prawn mayonnaise. Sandwiches that is, not ice cream.

125 YEARS OF INNOVATION

This page: Womenswear In the last quarter of 2008/09, we enticed an additional 200,000 under-35s into store, with the majority drawn to our high fashion brand – Limited Collection.

+200,000

This page: Menswear We offer four menswear brands – everything from a £4 pack of pants to a £499 luxury suit.

£4 to £499

Chairman's overview
continued

125 YEARS OF SERVICE

Above: Andy East New to M&S, Andy East is on the Business Placement Programme for university students, and is meeting more people than he ever thought possible.

"I must meet a thousand people every day. Working in the menswear department you get chatting with people buying a suit for a job interview or picking out clothes for their holiday. I enjoy hearing their stories and sharing in their excitement."

Andy East, Trainee Manager

Our priorities

- Retain our market leading position in GM
- Improve our performance in Food
- Drive our International business
- Optimise margins and tightly control costs
- Maintain a strong balance sheet
- Uphold high ethical standards

Context, progress, and new challenges

It is five years since I returned to M&S as Chief Executive. At the time the business was suffering from a lack of investment and offering poor value, innovation and styling. The Board charged the management team and me with reshaping the business and making it relevant for the 21st Century. Specifically we were to:

- Defend the business from an unwelcome takeover advance;
- Make the business relevant for the 21st Century;
- Develop the management team;
- Articulate a strategy for the future;
- Initiate the strategy; and
- Effect a seamless transition to new leadership in an appropriate timescale.

Over the past five years we have invested heavily in the business and re-established our value credentials. As a result we have grown market share by both value and volume, and our brand is back in the hearts and minds of our customers. In short, M&S is back on the map and well positioned to emerge stronger from the downturn.

Managing through the recession

Although we have achieved much over the last few years, the process we started in 2004 is not yet finished. The pace of change and growth has been slowed by the recession, and it is still unclear how much longer the recession has to run – but it will end. Our overriding priority now is to lead the business through the recession, while continuing to invest for the long term. In November 2008 we put in place six priorities (see left) to do this.

Ian covers our balance sheet in detail later, but I would I like to focus on what we have done to retain our leading position in GM and improve our Food business, by focusing on value, and on some of the difficult decisions around costs. I would also like to cover the trust with which our customers reward us for upholding high ethical standards in the way we do business.

125 YEARS OF INNOVATION

1970 We've always believed fresh is best. That's why we introduced sell-by dates on our food in 1970. But as we were years ahead of the government and other retailers, the idea took some explaining. Our Sell-By PR campaign helped to establish the idea in the public consciousness.

1972 We launched a major fresh chicken advertising campaign that included a television commercial as well as newspaper advertisements using the slogan: "Remember when chicken used to taste like chicken?"

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Chairman's overview
continued

125 YEARS OF INNOVATION

Above: Scotbeef Family business Scotbeef has worked with M&S for 47 years. Since introducing canned corned beef in 1962 we've grown together – to the point where today we provide some 50% of the UK's fresh Aberdeen Angus beef.

"After so many years, we still enjoy working with the M&S team to find new ways of doing business. This involves everything from working closely with our farmers to sample up to 20 steaks a week so we can select the very best breeds, to recently seeing the launch of our exclusive M&S 'Cornish Cruncher' cheese-filled burgers. It's great to be part of the innovation process and to know what an important role we play in providing the quality products M&S customers have come to love and expect."

Robbie Galloway, Managing Director of Scotbeef.

Improving our value In 2008/09 we continued to focus on getting the basics right in GM and Food, and also addressed customers' financial concerns. As the economy worsened, we made a deliberate decision to invest in our prices, reviewing all of them to ensure we were delivering the very best quality at unbeatable value. In GM we sharpened our opening price points and introduced new promotions such as the 'One Day Christmas Spectaculars' and 'Dress for Less'; while in Food we introduced a series of permanent good value options such as 'Wise Buys' and 'Family Favourites for £4' as well as key promotions such as the popular 'Dine in for Two for £10'. The result is that we have given our customers better value without sacrificing our quality or ethical credentials, a fact reflected in a gradually improving business performance towards the end of the financial year.

Managing costs We are continuing to invest despite the recession. But we also recognise that we have to balance the long-term strategy with the short-term need to manage the business through the downturn by being prudent where necessary.

We worked closely with our employee representative groups to manage the closure of 26 under-performing – mostly Simply Food – stores and to reduce roles across Head Office at the start of 2009.

At the same time we looked carefully at our final salary pension scheme, which is a substantial cost to the Company. It became clear that we needed to reduce costs so that we could secure long-term sustainability for the scheme's 21,000 members. We therefore decided to cap the level of pay increases which count towards pensions and change the formula for early retirement reductions.

Our staff understood that this was the right thing to do in order to protect the scheme, and were quick to adopt the changes. Ian will explain the pension changes as well as other cost management measures more fully on page 14.

Trust Although the downturn has put household budgets under pressure, we believe our customers do not want low prices at the expense of quality or ethics. Our research also shows that customers are no longer accepting green marketing at face value. They are challenging companies to deliver on their promises so that they can be sure that they have made the right choices for their families.

125 YEARS OF SERVICE

1870 – 1910 During this time, products were displayed behind counters, so customers often felt obliged to buy once they'd asked to look at a product or try it on. We introduced "Admission Free" signs to make customers feel more comfortable about browsing, which proved a successful tactic and encouraged more impulse buys.

1932 Queen Mary visited the Marble Arch store and the following day an article in the *The Times* noted that she'd purchased an Axminster rug, a leather handbag, a willow pattern teapot and a 21-piece tea service.

This page: Food The relaunch of our Italian range is one of the clearest examples of innovation at its best, with average growth of 15% on the year.

+15%

125 YEARS OF VALUE

This page: Kidswear In just a year we have grown our market share in kidswear by 0.6% pts, putting us fourth in the market – the highest level in seven years.

+0.6% pts

Chairman's overview
continued

125 YEARS OF INNOVATION

Above: Manor Fresh Every fresh M&S spud – whether a jacket, new, Jersey or organic potato – is provided by Manor Fresh. With partners dotted across the UK, Manor Fresh gets our new potatoes into store faster than anyone else. They have extended our UK growing seasons, introduced new varieties, improved taste and reduced food miles, all in line with our rigorous Field to Fork farming standards.

Award-winning grower Steven Jack, supplies all M&S Scottish stores with his new potatoes in season. He says:

"M&S has inspired us to really push the boundaries of traditional farming. It feels good to get out of bed each day knowing that we are doing the right thing by the land, and are such a big part of bringing fresh veg to millions of British households."

Steven Jack, Award-winning potato grower

We launched Plan A in January 2007 because we believed that all businesses have to take action to reduce their environmental and social impact. Plan A was not a new idea but a continuation of the culture that has existed in our business for 125 years.

Our customers have always trusted us to make the right decisions on product sourcing and manufacturing, and to treat our 78,000 staff and over 2,000 suppliers fairly. It gives us a true point of difference in a crowded market place, and now more than ever it is what our customers have come to expect.

We are not put off by the short-term impact of the recession. We set ourselves 100 rigorous commitments as part of Plan A, and have achieved 39 with 24 of them now going even further. In addition to being the right thing to do, these commitments are generating cost savings across the business that we can invest back into our prices.

Planning beyond the recession

As I have already outlined, the recession has given us the opportunity to re-examine our plan. We have therefore completed a review of where we are and what we need to do to deliver a step-change in the way we service our customers' needs and in the way in which we operate our business. We are:

- Increasing the pace of change and operational execution in the business;
- Accelerating towards becoming a multi-channel retailer, focusing all our actions on the customer, whichever channel they wish to use;
- Driving our International business, particularly China, India and Southern and Eastern Europe, balancing investment and returns; and
- Reinvigorating our brand communication with our customers, highlighting our ethical and sustainability objectives.

In order to drive this process, we have launched a change programme under the banner '2020 – Doing the Right Thing'. Ian Dyson will be responsible for the delivery of this programme across all areas of the business, supported by Kate Bostock, John Dixon, Steve Rowe and Tanith Dodge.

We are bringing our GM businesses together, and as a result Home will now report to Kate Bostock. M&S Direct will report to Steve Rowe, enabling us to consolidate all customer channels under one person. The changes mean we require someone to focus exclusively on growing our International business moving forward. Regrettably Carl Leaver has decided he will not continue in this role. We wish him the best in his future endeavours.

125 YEARS OF INNOVATION

1953 We launched the first ever high street petite range – 'For the Shorter Woman' – in 1953 following research which showed that the majority of women were shorter than the accepted average of 5'5".

1970s The fashion for micro mini-skirts led to adults buying children's skirts to achieve the right length. Within a week a number of M&S stores sold out of a season's worth of a children's kitts – most of which were purchased by women.

Chairman's overview
continued

Our Executive Committee

1. Sir Stuart Rose Chairman

2. Ian Dyson Group Finance and Operations Director

3. Steven Sharp Executive Director, Marketing

4. Kate Bostock Executive Director, Clothing

5. Clem Constantine Director of Property and Store Development

6. John Dixon Director of Food

7. Tanith Dodge Director of Human Resources

8. Carl Leaver Director of International, Home and M&S Direct

9. Nayna McIntosh Director of Store Marketing and Design

10. Steve Rowe Director of Retail

11. Andrew Skinner Director of GM Merchandising and Planning

12. Darrell Stein Director of IT and Logistics

As of 18 May 2009

Kate Bostock Executive Director, Clothing & Home

Steve Rowe Director of Retail and M&S Direct

Carl Leaver Resigned as Director of International, Home and M&S Direct

The management team

Our management team is a great combination of old and new M&S DNA. This means we are able to take the best of old M&S and reinvent it for tomorrow without losing sight of the things we have done to become the brand we are today. We are working hard together to push the business forward.

We recognise that continuity is vital if the business is to continue its progress. The Board therefore took the decision last year to appoint me to Executive Chairman, to ensure the continuation of our objectives. As Chairman, I – together with the rest of the Board – am acutely aware of the recent corporate governance issues. Sir David Michels, Deputy Chairman, is responsible for our governance and will address this on page 12.

The Board is supported by Group Secretary, Graham Oakley, who after 24 years of dedicated service to M&S will retire on 8 July 2009. We thank him for his wisdom and wish him well in his retirement. Graham will be succeeded by Amanda Mellor, current Head of Investor Relations, and we welcome her to the role.

Finally, a special mention must go to George Davies who retired as the chair of 'per una' in November 2008. I would like to thank George for his considerable contribution to M&S. In the seven years since its inception, 'per una' has significantly added to our womenswear offer and become a brand that is loved by millions of customers. We wish him all the best in his retirement.

125 years in retail

We are confident that M&S is well-placed to emerge from the recession as a stronger business. Our optimism is based on the advances we have made in the past five years, and the vantage point we have as a retailer with a 125 year history.

We have been through significant recessions in the UK, from the Great Depression of the 1930s to the dotcom bubble bursting in the early years of the 21st Century. We have also traded through two World Wars and numerous other events that have all rocked consumer confidence. We have approached this recession in exactly the same way as we approached previous recessions. Our experience suggests M&S is early to feel the effects and early to experience recovery.

Our customer base is broad and with high market share we have the clear advantage of being able to analyse trends and react quickly to changes. Our core shopper is slightly older, and because they have been through previous recessions, were quick to rein back spending at the first signs of the economic downturn.

We have worked hard to help our customers and to reassure them that we offer great value, and there are now encouraging signs that our core customer is more confident.

Looking ahead

Building an M&S that is fit for the future means we have to continue to listen to our customers and anticipate trends. It also means looking to our rich heritage to inform our future. This is a strong, resilient business and we are working hard to deliver our plans.

M&S is not a fair-weather brand. We are here for our customers in the bad times as well as in the good. It would be impossible to deliver against our brand values without staff and suppliers who are second to none. I would like to take this opportunity to thank them very much for their hard work, loyalty and support in the toughest of circumstances.

The year ahead will bring new challenges. But we believe our strategy is sound, and we are fully focused on coming through the recession in the current year, and driving the business beyond that for the future.

Sir Stuart Rose Chairman

125 YEARS OF QUALITY

1926 Our first bra was designed to flatten the breasts, in-keeping with the 'flapper' fashion of the time. The first tights then arrived in 1962 and we now use enough lycra in them to stretch to the moon and back 300 times.

2009 The most popular bra size bought in M&S stores is 36C, with 100,000 women fitted by our customer assistants every week.

Governance overview
by Sir David Michels, Deputy Chairman

Sir David Michels Deputy Chairman

See pages 50 to 61 for the full governance report

A strong Board

A strong Board makes a significant difference to a company's ability to create value. As Deputy Chairman I lead on all governance issues including the annual review of Board and individual directors' effectiveness, and the implementation of a successful succession strategy for the business.

A key task, given to me in my first few weeks as Deputy Chairman, was to recruit a new independent non-executive director. In October 2008 we appointed Jan du Plessis to that role. He joins me and the other four non-executive directors who are independent and bring an external dimension to the Board, drawing on their wide range of experience across industry sectors.

Succession timetable

We have always said that our aim is to develop a strong management team and appoint a successor as Chief Executive internally if appropriate. That was the genesis of the decision the Board took in 2008, when it concluded that it would be in the best interests of the Company to retain Sir Stuart Rose until 2011.

If internal succession is appropriate, we would expect to announce the appointment of a new Chief Executive during 2010. Stuart would then stay on for a suitable period to affect a smooth transition before we identify an independent Chairman and revert to recommended best practice.

In the event that internal succession is not an option, we will instigate a search and appoint a new Chief Executive during 2010. In this case, Stuart would again stay on to ensure a seamless transition before being replaced by an independent Chairman.

Voting at this year's AGM

You will have seen that the Local Authority Pension Fund Forum (LAPFF) has filed a shareholder resolution. Although LAPFF continues to have confidence in Stuart's leadership and is not advising its members to vote against his re-election, it is calling for M&S to split the role of Chairman and Chief Executive, appointing an independent Chairman by 2010.

The M&S Board is fully aware of its governance responsibilities and for that reason has always been transparent about the reasons for Stuart taking on the role of Executive Chairman.

We remain strongly of the view that the current combined role is the right choice for M&S at this time, and that we have an appropriate succession timetable in place to lead M&S through this challenging period. For this reason we recommend that shareholders vote against the LAPFF resolution.

Please refer to the Notice of Meeting (enclosed) to read the LAPFF resolution and our response, as well as full details on how to vote.

Board of Directors

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★ Independent
● Audit Committee
■ Remuneration Committee
♦ Nomination Committee

1. Sir Stuart Rose Chairman ♦ Appointed in May 2004. Age 60. Stuart was appointed Executive Chairman in June 2008. He is a non-executive director of Land Securities plc and Chairman of Business in the Community. Stuart began his career in retail at Marks & Spencer in 1972 where he remained until 1989, before going on to become the Chief Executive of a number of well known UK retailers, including Argos plc, Booker plc and Arcadia Group plc. Stuart was knighted in 2008.

2. Sir David Michels Deputy Chairman ★●■♦ (Chairman) Appointed in March 2006. Age 62. David is Deputy Chairman, Chairman of the Nomination Committee and senior independent director. He is senior independent director of easyJet plc and has been appointed interim Chairman with effect from 1 July 2009. David is a non-executive director of Strategic Hotels & Resorts and Jumeriah Group, Dubai. He was previously senior independent director of The British Land Company plc, non-executive director of Arcadia Group and Chief Executive of Hilton Group plc. David was knighted in 2006.

3. Ian Dyson Group Finance and Operations Director Appointed in June 2005. Age 46. Ian joined Marks & Spencer as Group Finance Director, becoming Group Finance and Operations Director in March 2008. Ian was formerly Finance Director of The Rank Group plc. Prior to this he was Group Financial Controller of Hilton Group plc. Ian was a non-executive director of Misys plc until September 2005.

4. Kate Bostock Executive Director, Clothing Appointed in March 2008. Age 52. Kate joined Marks & Spencer in October 2004. Previously Kate was Product Director for Childrenswear at Next from 1994, before joining Asda in 2001 as Product Director for the George Global Brand. She was responsible for the launch of the standalone George concept and the launch of the George brand globally.

5. Steven Sharp Executive Director, Marketing Appointed in November 2005. Age 58. Steven joined Marks & Spencer in May 2004. He is a non-executive director of Adnams plc and an elected member of the Tate Members' Council. Steven has previously been Marketing Director at Asda, the Burton Group, Booker plc and Arcadia Group plc.

M&S Governance

Leadership and governance go hand-in-hand in a successful company. For both to work well you need a clear plan of what you want to achieve. Following its 2008/09 performance review, the Board has agreed actions for 2009/10 within three key areas to ensure our governance is robust and continues to add value to Marks & Spencer:

1. An independent Board

Harness the experience and talent of the non-executive directors to invest in the business for the long term, so M&S is well placed when the market improves.

Chairman (1)	executive
Executive Directors (3)	executive
Deputy Chairman (1)	independent
Non-Executive Directors (5)	independent

2. An informed Board

Improve the depth and breadth of information given to the Board to facilitate robust decision-making during the economic downturn (see diagram right).

3. A responsible Board

Reinforce our brand reputation and stakeholder relationships for the long-term success of M&S through our brand values, Plan A and code of ethics.

Our investors are rewarded with profitable returns
Our customers experience Quality, Value, Service, Innovation and Trust every time they shop with us
Our employees are proud to work at M&S
Our suppliers are engaged in profitable partnerships
Our communities and the **environment** benefit from our sustainable business

6

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11


6. Jeremy Darroch Non-Executive Director ★◆● (Chairman) Appointed in February 2006. Age 46. Jeremy is Chairman of the Audit Committee. He is Chief Executive of British Sky Broadcasting Plc, having been the Company's Chief Financial Officer. Jeremy was previously Group Finance Director and Retail Finance Director at Dixons Group plc.

7. Steven Holliday Non-Executive Director ★●■◆ Appointed in July 2004. Age 52. Steven is Group CEO of National Grid plc, having at different times been responsible for the UK Electricity and Gas businesses. Previously, he held numerous senior positions with the Exxon Group. Steven has also developed business opportunities in countries such as China, Australia, Japan and Brazil.

8. Martha Lane Fox Non-Executive Director ★●■◆ Appointed in June 2007. Age 36. Martha is a non-executive director of Channel 4 Television and a Trustee of the charity Reprieve. She is founder and Chairman of Lucky Voice, and of her own grant giving foundation, Antigone. Martha is also a director of mydeco.com. She was a co-founder of lastminute.com.

9. Louise Patten Non-Executive Director ★◆■ (Chairman) Appointed in February 2006. Age 55. Louise is Chairman of the Remuneration Committee. She is a senior adviser to Bain & Co, non-executive Chairman of Brixton plc and a non-executive director of Bradford & Bingley. She was formerly a non-executive director of Hilton Group plc, GUS plc, Somerfield plc and Harveys Furnishings plc.

10. Jan du Plessis Non-Executive Director ★◆● Appointed in November 2008. Age 55. Jan is Chairman of British American Tobacco plc. He was appointed Chairman of Rio Tinto plc in April 2009 having been a non-executive director since September 2008. Jan was a non-executive director of Lloyds Banking Group plc until April 2009. He was previously Group Finance Director of the Swiss luxury goods group Richemont until 2004.

11. Graham Oakley Group Secretary and Head of Corporate Governance Appointed in August 1997. Age 52. Joined the M&S legal department in 1985. On 8 July 2009 he will retire and will be succeeded by Amanda Mellor, current Head of Investor Relations.

Overview
Performance & KPIs
Brand & Marketplace
Operating & Financial review
Governance
Financial statements

Managing through the recession by Ian Dyson, Group Finance and Operations Director

Ian Dyson Group Finance and Operations Director

During 2008/09 we took decisive actions to manage the business through the recession. We invested in price to support our customers, reduced our costs and managed our cash flow and balance sheet tightly. These actions have enabled us to deliver adjusted profits of £604.4m in 2008/09 and to reduce our net debt to £2.5bn. More importantly they have positioned us to move the business forward in 2009/10 and beyond.

Results

Group revenue was up 0.4% to just over £9bn. UK sales were down 1.7% and were clearly impacted by the difficult market conditions. International sales were up 25.9% reflecting the integration of our acquisitions in Greece and the Czech Republic, and space growth.

Adjusted operating profit was down 29.4% to £768.9m, reflecting a reduction in UK gross margin of 1.7 percentage points as we invested in price for the benefit of our customers, and cost growth of 4.3%. Profit before tax was £604.4m, down 40.0% and adjusted earnings per share was 28.0p, down 35.8%.

125 YEARS OF INNOVATION

Above: New & Improved We opened 75 stores and modernised a further 24 in 2008/09.

Investment in margin

We responded to the economic downturn and the effect that this was having on our customers by making significant investments in pricing and promotions. While this has resulted in even better value for our customers and has been a major factor in retaining their loyalty to our brand, it has adversely impacted our UK gross margin, which was 170 bps lower than last year at 41.3%.

Food gross margin was down 235 bps at 31.5%. This reflects significant investment in prices across our range, but with particular emphasis on staple goods, and a higher level of promotions. GM gross margin was down 70 bps with further gains in buying margin being more that offset by higher levels of price promotion and markdowns.

Underlying cost savings

£148m
5.7%

Cost management

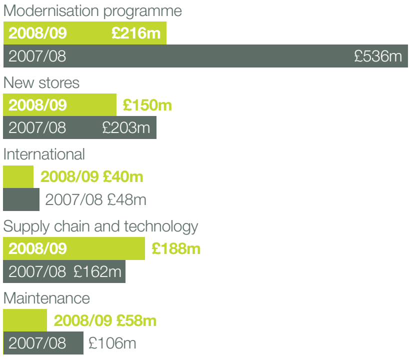
As the economy worsened and our sales performance deteriorated, we took a series of actions to reduce our costs in 2008/09 and to help support profitability going forward. Total UK operating costs were £2,740.6m which was up 4.9% (excluding bonus). If we take out the impact of new space opened during the year, cost inflation and increased depreciation costs arising out of the capital expenditure programme of the last few years, underlying costs were down 5.7% – representing an underlying saving of some £148m.

Staff costs Retail staff costs were £863.3m which was up only 1.9% reflecting substantial improvements in productivity and staff scheduling, without affecting service levels. This can be seen in our monthly customer service tests – our mystery shopping programme. Our staff consistently scored highly, achieving an average of 84% in 2008/09. Our compliance audit scores, that measure our legal and safety performance, improved from 80 to 92%.

Distribution We made significant changes to our logistics operations during the year as part of a long-term programme to radically improve the operating efficiency of our supply chain. These changes benefited costs this year, but will have a more significant impact in 2009/10 and beyond.

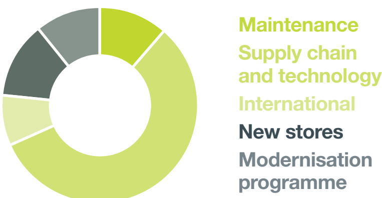
Group capital expenditure 2008/09

£652m
-38.2%



Group capital expenditure 2009/10

c £400m



Key actions included changes to the management structure of logistics to bring GM and Food together, renegotiation of our key third party logistics contracts, rationalisation of our warehouse network, the introduction of mechanisation in two of our food warehouses, and the streamlining of our international distribution systems.

Marketing Our marketing costs were 8.6% lower in 2008/09 at £127.4m and should be lower again in 2009/10. We will continue to be more effective in our targeting and use of this spend.

Support We reduced spend in support areas by 2.4% to £391.6m, through disciplined control of expenditure and reduction in wasted activity.

During the year we made additional changes that will reduce our cost base in 2009/10. We closed 26 of our smaller, under-performing stores in order to focus on sites better suited to our customers needs. We also reduced headcount across our Head Offices by 15%, redeploying as many colleagues as possible; and made changes to our UK defined benefit pension scheme. These actions together with ongoing tight cost control mean that we expect costs in 2009/10 to be 1% below 2008/09 (excluding bonus).

Investing in the business

Following significant investment in the business over the last three years, we reduced capital expenditure to £652m in 2008/09 from over £1bn in 2007/08.

Stores We opened 75 stores during the year in out-of-town, retail park and high street locations, while continuing to review the portfolio to ensure it is working to its fullest potential. These openings included our 100th BP Simply Food store, with our franchise 'travel hubs' continuing to perform well in service stations, train stations and airports. We also improved the look and feel of 24 stores, with 80% of our portfolio now in the new modernised format. We will complete the remaining 20% of the portfolio in the next few years.

IT We are delivering new tills and point of sale software, which will speed up customer transactions and allow store colleagues to spend more time on the shop floor and less time carrying out office duties. We are also improving our trading and administration systems.

Logistics Construction is underway on a distribution centre in Bradford that will open in late 2010 – consolidating our stock holdings and improving our speed and flexibility in getting product into stores. Following two trials we are also investing in mechanising our food distribution centres to improve accuracy and efficiency in picking chilled goods.

International We are investing in systems and infrastructure so that goods produced overseas can now be transported directly to all of our markets without the need to first come through the UK. This will dramatically reduce export costs and speed up distribution.

We will spend c£400m in 2009/10, shifting the focus of our capital expenditure from our property portfolio, where we have made considerable investment over the last three years, to our IT and supply chain infrastructure.

This will support our international expansion plans and our continued growth online. It will also increase efficiency in the supply chain leading to lower costs, as well as better product availability in-store.

Managing through the recession
by Ian Dyson, Group Finance and Operations Director

Balance sheet management

We took a number of actions to improve our cash flow in 2008/09. In addition to reducing capital expenditure to £652m from over £1bn in the previous year, we generated a working capital inflow of £194.0m and raised £58.3m from the disposal of non-trading stores. As a result we generated a net cash inflow of £107.5m after paying interest, tax, dividend and share buy back of £661.2m. In addition we agreed certain changes to the property partnership with the pension fund that provide us with discretion around the annual payments from the partnership to the fund. This gives us additional cash flow flexibility and reclassifies the obligation from debt to equity.

As a result of our good cash flow management and the changes to the property partnership, net debt at year-end was down to £2.5bn from £3.1bn at the end of 2007/08.

Like many businesses, during 2008/09 we took steps to manage the cost of providing our defined benefit pension scheme. We wanted to ensure that pensions can be paid out to members when they need it and at a price we can afford. From 1 October 2009 only pay increases up to 1% will count towards the pensions of our existing members. Amendments were also made to the early retirement factors for members who joined the scheme before 1 January 1996 and are still active in the scheme. These changes reduced the Group's pension liabilities by £231.3m.

The retirement benefit valuation showed a deficit of £152.2m under IAS 19. The triennial actuarial valuation of the fund is underway with the results expected by the end of the calendar year. This valuation will form the basis of funding discussions with the pension trustee.

Looking forward, and with the economy still fragile, further strengthening of our balance sheet is a priority for the Group. We want to retain our investment grade credit rating, we want the ability to continue to invest in our business, and we will need to continue to manage our pension obligations.

In view of these requirements, the Board has taken the decision to re-base the Group's dividend payment to 15.0p per share from the current level of 22.5p per share, a reduction of 33.3%. This will be achieved through a 33.1% reduction in the 2008/09 final dividend to 9.5p per share, followed by a reduction in the 2009/10 interim dividend to 5.5p per share. Having re-based the dividend to 15.0p per share, the Board's policy regarding future dividends is to re-build cover towards two times and thereafter, to grow dividends in line with adjusted earnings per share.

Outlook

The economy remains uncertain and we will continue to manage accordingly, focusing on margins, costs and cash flow so that we maximise our profits in the short term, but also position our business to move forward in the medium to longer term.

Ian Dyson Group Finance and Operations Director

Net debt
£2.5bn

125 YEARS OF SERVICE

1939 At the outbreak of World War II M&S stores totalled 234. By 1945 over 100 of these had been damaged by bombs and 16 had been completely destroyed.

During World War II 1,500 of M&S' 2,000 male employees fought in the war earning a total of 124 medals and distinctions and all of our employees took part in fire watch duty every night, with specialist training in first-aid and anti-gas precautions.

Our key performance indicators

Financial performance

Group revenue

£9,062.1m
+0.4%

£m	05/06	06/07	07/08	08/09
UK	7,275.0	7,977.5	8,309.1	**8,164.3**
International	522.7	610.6	712.9	**897.8**
Total	7,797.7	8,588.1	9,022.0	**9,062.1**

Adjusted Group operating profit*

£768.9m
-29.4%

£m	05/06	06/07	07/08	08/09
UK	790.1	956.5	972.9	**652.8**
International	65.7	87.5	116.4	**116.1**
Total	855.8	1,044.0	1,089.3	**768.9**

Performance against Our Plan

1 Grow our core UK business

UK Market share Clothing and footwear

Analysis: During the year we held our volume market share, but value share was down. See page 26 for full details.

Source: Fashiontrak

Value market share

10.7%

2008/09 **10.7%**
2007/08 **11.0%**
2006/07 **11.1%**
2005/06 **10.4%**

Volume market share

11.2%

2008/09 **11.2%**
2007/08 **11.2%**
2006/07 **10.7%**
2005/06 **10.1%**

UK Market share Food

Analysis: Our market share was marginally down reflecting the impact of the downturn, and our position in the market as the UK's premium food retailer. See page 32 for our clear plan for improving our performance in Food.

Source: TNS Worldpanel data.

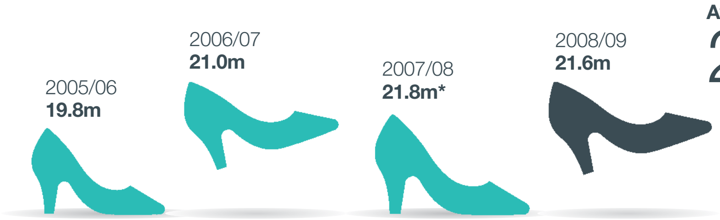
3.9%

2008/09 **3.9%**
2007/08 **4.3%**
2006/07 **4.2%**
2005/06 **4.1%**

Average weekly UK footfall

Analysis: Approximately half of our UK stores are fitted with entrance cameras that record customer visits. This known footfall is analysed so that we can establish the ratios between the visits and sales, and then apply this to stores without cameras. A total average footfall figure can then be calculated.

*2007/08 adjusted to 21.8m from 21.4m as a result of more accurate data.



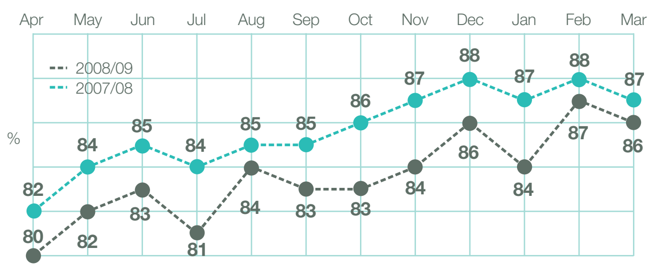
Average weekly footfall

21.6m

UK mystery shopping programme

Analysis: Each of our stores is anonymously visited once a month – twice in the case of our larger flagship stores – by a mystery shopper who evaluates service quality. In 2008/09 this was the equivalent of approximately 6,326 visits. Scores for each question are validated through an online customer survey.

*Reduced average score reflects a review of the mystery shopping programme to further challenge staff with a more robust questioning and scoring system. New areas of focus included the way store staff greeted customers, managed tidiness in-store and guided customers to fitting rooms etc.



Visits completed

6,326
average score 84%*

Adjusted Group profit before tax*

£604.4m
-40.0%

2008/09	£604.4m
2007/08	£1,007.1m
2006/07	£965.2m
2005/06	£751.4m

Group gross margin

37.2%

2008/09 **37.2%**
2007/08 **38.6%**
2006/07 **38.9%**
2005/06 **38.3%**

Adjusted earnings per share*

28.0p

2008/09 **28.0p**
2007/08 **43.6p**
2006/07 **40.4p**
2005/06 **31.4p**

*The adjusted profit measures are stated before property disposals and exceptional items.

2 Build our M&S Direct business

M&S Direct sales

Analysis: We are building M&S Direct as part of our commitment to become a multi-channel retailer and to reach our target of £500m annual sales by 2010/11.

£324m
+19%

3 Expand our International business

International revenue as proportion of Group revenue

Analysis: We are broadening our revenue base in some of the world's most exciting markets, with a view of our International business contributing between 15% and 20% of Group revenues by 2010/11.

9.9%
+2.0% pts

4 Strengthen our UK property portfolio

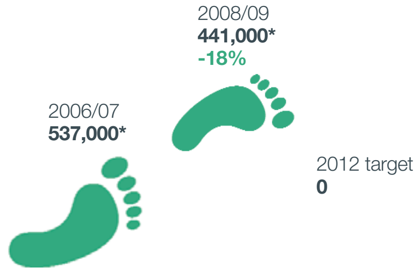
Analysis: We have recently undertaken one of the UK's biggest store investment programmes – modernising and expanding our existing footage, with 80% now complete, and increasing the number of stores we have to 668. Although we will continue to invest in our property portfolio and continue the refurbishment over the next few years, the bulk of capital expenditure in 2009/10 will now be focused on the IT and logistics programmes. We will continue to review our KPI in this area.

5 Integrate Plan A across the business

Become carbon neutral CO_2 emissions tonnes

Analysis: We calculate carbon emissions from our UK and Republic of Ireland stores, offices, warehouses, business travel and logistics so we can monitor our progress towards becoming carbon neutral.

*This year, figures were recalculated using Defra's 2008 conversion factors and benefited from the inclusion of green electricity tariffs.



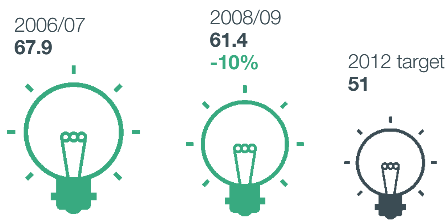
Send no operational waste sent to landfill tonnes

Analysis: We are aiming to ensure that M&S operations in the UK and Republic of Ireland (stores, offices and warehouses) will send no waste to landfill by 2012.

*The 2008/09 figures have been rebased using a more accurate calculation of store bin weight.

Improve energy efficiency (stores) kWh/sq ft

Analysis: We are monitoring the amount of energy used in our stores with a view of reducing by 25% per square foot of floor space by 2012. Gas usage included in this year's figure has been adjusted using standard degree days, to reflect the cold winter of 2008/09.



Our brand
by Steven Sharp, Executive Director of Marketing

Steven Sharp Executive Director of Marketing

This has been another year about listening and responding to our customers. Nowhere is this more visible than in our marketing campaigns. These have focused on reassuring our customers they are getting M&S **'Quality Worth Every Penny'**, as well as reaffirming that M&S is a brand our customers can trust to do the right thing. Although we reduced our marketing spend in 2008/09, we delivered campaigns that our customers could relate to in a downturn, while reaffirming our quality credentials.

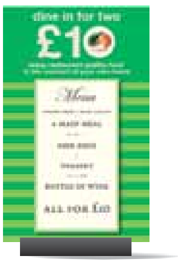
Your M&S

In 2004 we introduced *Your M&S* to reflect the unique position M&S holds in British hearts and minds. Our customers are passionate about M&S and almost everyone has an opinion about us.

When times are tough, showing our customers that we continue to put the *'Your'* in *Your M&S* is crucial to retaining their loyalty and affection. They want to see that we are keeping faith with them by developing exciting and iconic products; ensuring our stores are easy to shop in and offer an enjoyable experience; and perhaps most importantly, by demonstrating that we listen to their feedback in the actions we take.

Listening and responding

The one clear message from our customers during the year is that they were feeling the pinch and wanted us to give them a helping hand. Firstly, we saw an opportunity to draw on our value credentials and give them restaurant quality food at a really affordable price, and in the comfort of their homes. The result was our 'Dine in for Two for £10' campaign introduced last autumn.



Also in Food, our 'Wise Buys' campaign, discussed in further detail by John Dixon on page 33, gives customers value without compromising on the quality or the sourcing of our products.

Other key promotions included 'Dress for Less' and our surprise 'One Day Christmas Spectaculars'. Our Spectacular events proved useful in kicking off the festive shopping season at a particulary difficult time.

These campaigns resonated with our loyal customers while encouraging new shoppers into our stores.

125 YEARS OF VALUE

Below: Dress for Less customers could mix and match five investment pieces to create five different outfits without breaking the bank.

Business with heart

In our 125th year, we have the good fortune of being an incredible brand, with a rich history. We will continue to talk to our customers and stay true to our founding principles of **Quality, Value, Service, Innovation** and **Trust**.

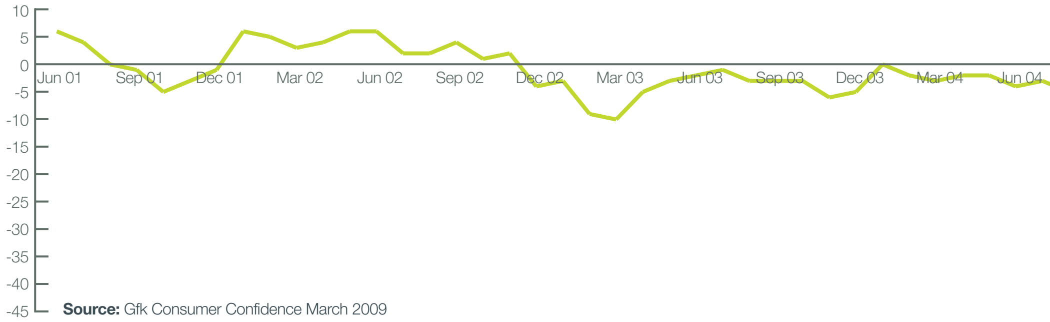
As we move into 2009/10, we speak plainly to our customers through our advertising emphasising **'Quality Worth Every Penny'**.

Steven Sharp Executive Director of Marketing

Our marketplace

Right: Consumer confidence The consumer confidence index is at its lowest level since records began.

Consumer confidence index



Source: Gfk Consumer Confidence March 2009

MARKET FOCUS: M&S RESPONSE

Above: Portfolio – fronted by Marie Helvin – is designed for our core customer.

Overview

We believe in giving our customers what they want and that means anticipating different trends as well as recognising and reacting to broader external issues such as the economy. By doing this we keep half a step ahead of our customers, any more and we will be too far ahead, any less and we would be running to catch up. Striking this delicate balance is considered so important at M&S that we set up a dedicated team of people to do just that.

Since 1999 the Customer Insight Unit (CIU) has been tracking trends in the marketplace. With the analysis it produces through research, market data and by evaluating customer behaviour – it informs and influences decisions within the business. For example through talking to our older female customers the CIU was able to identify a gap in our current offer and pin-point what we needed to do to fill it. By determining exactly what this customer wanted – stylish, flattering and smart co-ordinates – the CIU could then brief our womenswear team, who responded, and our new *'Portfolio'* collection was born.

The following piece distils some of what the CIU has been telling us about the marketplace. With the insight it provides, we can continue to deliver everything that goes into creating *Your M&S*.

MARKET FOCUS: M&S RESPONSE

Above: Something for everyone – from 5 pairs of socks for £3.50 to a £499 luxury wool suit. We have listened to our customers' concerns about budgets and have re-evaluated our value ranges and introduced clear pricing points to direct customers to the price bracket that best suits them. When appropriate we have introduced promotions on some lines – such as a free shirt and tie with a suit – and discounted others. All without compromising on the high quality and stylish ranges that are synonymous with our brand.

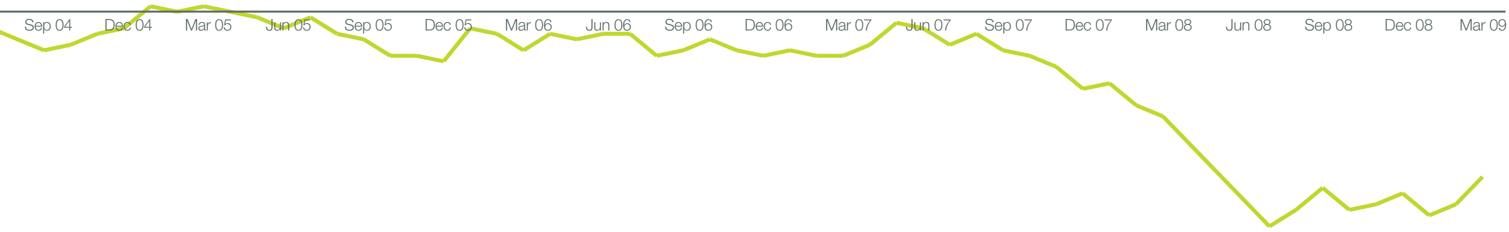
Clothing

The clothing market faced a difficult year. In this highly competitive sector several factors are driving shopping trends on the High Street.

Older customers, who are more cautious about spending, are increasingly buying on a 'needs' basis or replacing staples with investment pieces. They are looking for clothing that lasts beyond the current season, which can be dressed up or down and accessorised.

Additionally, the economic climate has forced customers to consider carefully before buying, prompting retailers to introduce promotions and discounts to entice them in, especially during Christmas. This resulted in customers widening their store choice so they could cherry pick the best offers, and use deals to 'trade up' to better quality items for less money.

Under-35 customers are more unpredictable in their approach to spending. While spending initially slowed at the start of 2008/09, they quickly returned to the impulse shopping that characterised their spending before the credit crunch. They tend to buy for the moment and gravitate to cheap fashion items – cutting back spending in other parts of their lives so they can afford to shop.



MARKET FOCUS: M&S RESPONSE

Top: Our Improve Don't Move campaign was a direct response to the housing market slowdown, and provided a strong uplift to core home goods sales.

Above: Our Wise Buys label is now on more than 500 products, from ready meals to fresh fruit and veg, so our customers can economise – not compromise.

Home

The general slowdown in the housing market and a freeze in mortgage lending have prevented people from moving, encouraging them to make the most of their current homes. This has led to many High Street closures which further impacted on consumer confidence.

So while spending on 'big ticket items' such as furniture and white goods has fallen, there has been a marked rise in home improvements goods to spruce up the home. Entertainment goods such as televisions, laptops and video gaming consoles sold well in 2008/09, reinforcing the trend to stay in – although in the early months of 2009/10 many retailers have reported a softening of sales in this category.

Food

Customers are experimenting with food shopping both in terms of the supermarkets where they shop and the type of food that is bought. They are relying on supermarkets to guide them to smart choices and to clearly offer unbeatable value. This desire for low cost food has spurred many supermarkets to reposition themselves as 'discount' providers – seducing customers with one-off offers or multi-buys.

Key trends include:

Customers trading down either to a different supermarket, or switching to own label or value ranges within their favoured supermarket.

Rising raw material costs are filtering through to the supermarkets with price inflation now being passed on to customers. Customers are attempting to off-set this through clever shopping, by making use of deals.

Customers are treating themselves less. When they do, they are seeking out comfort food, or they are indulging in restaurant quality ready meals.

Cooking from scratch has become increasingly popular as a way to enjoy great food at home and to budget more effectively.

Online

Although online continues to be a key growth area for retailers, conversion rates slowed during the year, with customers increasingly using websites to browse and look for a bargain. To convert these browsers to buyers, online retailers offered free delivery and online deals. Websites continued to evolve, to satisfy customer demands for a more personal and engaging experience. Established players are being challenged by specialist players such as ASOS and Net-a-Porter that sell well-known brands.

Our heritage
125 years of M&S

125 YEARS OF QUALITY

Above: In the lab In 1934 we were the first British retailer to set up a Scientific Research Laboratory to pre-test garments and develop innovative new fabrics. Our Food Technology department followed in 1946. Both departments continue today as we test and develop everything from shrinkage and colour-stay in clothing to texture and taste in food.

Over the last 125 years... we have built *Your M&S* into a brand that is the envy of businesses worldwide. Our five founding principles – **Quality, Value, Service, Innovation** and **Trust** – are central to everything we do, and ensure our offer remains as relevant as ever for each new generation of customers.

Celebrating 125 years
Throughout 2009/10 we will celebrate our 125th anniversary in different ways with our customers and employees. We are resurrecting old product favourites such as Eccles Cakes, as well as giving a modern twist to classic fashion, with our Dresses of the Decades. We are especially proud of our partnership with the University of Leeds that will showcase our extensive archive collection to the public for the first time.

Quality
We earned our reputation for quality by establishing strict criteria that we continue to follow today. In 1926 we adopted the revolutionary policy of buying directly from our manufacturers, which enabled us to get involved in the production process and more closely influence price, quality, and design.

125 YEARS OF SERVICE

Below: Self service The revolutionary 'self-service' food hall was trialled in the Wood Green store in 1948 allowing customers to browse and shop the aisles for the first time, rather than being served from behind counters.

Value
'Don't Ask the Price it's a Penny' was our first value slogan, propped up on Michael Marks' Penny Bazaar stall in the Kirkgate Market in Leeds. We have continued to offer value for every purse – good, at the opening price point, through to better and best at the more luxurious end of our ranges.

Service
Our broad customer demographic gives us a unique position in the UK. We have never been complacent about this and strive to offer great customer service, so we can meet the nation's every need. In 1935 we introduced the first M&S Café, and we are now the UK's fourth largest coffee shop chain. Fitting rooms were first installed as a trial in our Plymouth store in 1977 and we branched out to the Internet in 1999.

125 YEARS OF INNOVATION

Above: International recipes In 1974 we delivered sweet and sour pork and chicken korma to the British family table when we became one of the first retailers to sell Chinese and Indian recipes.

Innovation
From crease-free linen and machine washable silk, to selling the UK's first Iceberg lettuce in 1980 – where M&S leads, others follow. In 1968 we began selling 'avocado pears'. The name caused confusion though, with customers serving them as a dessert with custard. We quickly dropped the 'pear' and issued instruction on how to prepare the avocados as part of a salad. Today we continue to innovate, with new ranges such as Cook Asian 1234.

Trust
At M&S we have always nurtured the belief that business conducted ethically and responsibly can deliver benefits. For example in 1975 Marcus Sieff, then Chairman, wrote to *The Times* detailing how we had reduced energy consumption by £500,000. Over the years customers have come to rely on us to do the right thing, a responsibility we do not take lightly. Plan A builds on this heritage and goes back to the belief that being responsible can also be profitable.

1

How are we investing in and growing our core UK retail business?

Kate Bostock Executive Director of Clothing

Womenswear: It has been a challenging year in womenswear, but we remain the number one brand on the High Street. We continued to develop our brands, with particular focus on improving our value, while injecting newness and style across our ranges. However, our core female shopper approached the economic downturn with caution, cutting back on her spending. This impacted on our womenswear figures with volume market share down to 9.2% from 10.0% last year, and value market share down to 10.5% from 11.1%.

Womenswear value market share
10.5%
-0.6% pts

Womenswear volume market share
9.2%
-0.8% pts

A year in review

In a year of tough trading conditions M&S has continued to produce clothes for 'Every Woman, Every Time'. We remain flexible to respond to catwalk trends and create fast-fashion ranges for the under-35 woman, shown by our collaboration with Patricia Field – one of the most high profile launches of the year.

We also continue to produce classic tailoring for our older customers. This year we launched our 'Portfolio' range in 190 stores, aimed at 40+ women and bridging the gap between our 'per una' and 'Classic' sub-brands.

With the retirement of George Davies the womenswear team will now evolve the 'per una' brand, launching the new collection in-store for autumn. With all parts of our clothing business now under one management team, we are better able to share best practice across our business units, adopt a consistent approach to pricing, and leverage our scale in the buying process to ensure the best possible value. It also means we can eliminate duplication across our ranges and create clothes to hit all price points. This positions us well to tackle the challenges ahead.

Our brand strategy

We began a strategic review of our womenswear brands two years ago. The aim was threefold: to clearly segment all our brands in line with our clear customer profiles; to keep our brands fresh; and to offer great quality and value at all price points.

We have made progress on each of these aims. We have defined our brands and also signposted our 'shops' (see below). These mini departments provide all of the other essentials such as footwear and accessories – needed to provide a full lifestyle choice for our customers, as well as covering seasonal or special occasion pieces such as Holiday and Cashmere.

We are continuing to focus all of our ranges so that each brand stands for something unique and addresses different age and style needs. We know that there are still some areas that need to be simplified; being clear about each brand will enable us to do this.

OUR 'SHOPS': WOMENSWEAR

ACCESSORIES	KNITWEAR
CAREERWEAR	LINEN
CASHMERE	MATERNITY
COATS	PETITE
FOOTWEAR	PLUS
HOLIDAY	

125 YEARS OF INNOVATION

Right: 'per una' In November 2008, George Davies – the innovative founder of 'per una'– retired as part-time Chairman of the brand. In his seven years of working with M&S, George built 'per una' into a significant brand and encouraged younger shoppers into our stores to buy the 'per una' label.

per una

Our brands

We have edited our main range so that all of our garments are now clearly identifiable as one of the M&S branded ranges. As we went through this process it was clear that we were left with a gap in casualwear. To address this, we will launch the Indigo collection (see below).

'Classic' is aimed at our mature customers who want co-ordinated designs that are comfortable and feminine.

'Portfolio' is our new collection for our core customer. Launched as a small collection in January, sales have been encouraging. We are confident we have the right product – with smart tailoring, coordinated soft separates, more sleeves, modest necklines and flattering skirt lengths – and we will be putting greater depth behind the collection, growing it to a full lifestyle brand.

'per una' is our most feminine brand. It is bold and colourful and features plenty of detail. Now that it is under the direction of our womenswear team we will be working closely with our customers to better develop the brand.

'Indigo' will be home to our remaining casualwear ranges, including essentials and denim.

'Autograph' includes Essentials, Weekend and Occasions, and is our biggest category. It is defined by luxurious fabrics and a high level of detailing, but its signature pared-down look means it remains contemporary and smart, ideal for careerwear.

'Limited Collection' is our fashion-forward brand. Fashion must-haves and newness is the DNA, with new stock phased in weekly.

BRAND FOCUS: WOMENSWEAR

CLASSIC CO-ORDINATED AND FEMININE
PORTFOLIO CLEAN STYLE FOR THE OVER 40s
PER UNA FEMININE AND PRETTY
INDIGO CASUAL, SPORTS AND DENIM
AUTOGRAPH SIMPLE, HIGH-QUALITY LUXURY
LIMITED COLLECTION FAST FASHION

Value

Fashion and clothing is about affordability as well as style. We strive to deliver on both these aspects as illustrated by our 'Dress for Less' campaign. Fronted by Myleene Klass, the campaign shows our customers how to achieve five different looks from five wardrobe staples, costing just £15.00.

In all of our departments, and within all of our brands, we offer a clear pricing hierarchy so that shoppers can see whether they are shopping from our 'good', 'better', or 'best' ranges. For example a basic cotton blend white shirt from our Careerwear shop, which would fall under our 'good' pricing point, costs £7.50; a pure cotton shirt with pleating detail, also from Careerwear, costs £15.00 and is an example of a 'better' pricing point; while a long sleeved pure cotton shirt from 'Autograph' costs £29.50 and is an example of a 'best' pricing point.

To achieve better pricing, but without compromising on quality or design, we have been focused on what we call 'garment engineering', as a way of working with our suppliers to reduce the cost of clothes without reducing quality. For instance by asking our fabric suppliers to increase the width of their weave, we can get more from a roll of fabric.

125 YEARS OF INNOVATION

Below: Zandra Rhodes for M&S Notable fashion designer Zandra Rhodes, created a number of vibrant and iconic prints for an exclusive summer 2009 collection in womenswear, accessories, holidaywear and lingerie. Key items include jumpsuits in spiral and rose prints, a luminous snakeskin print cut-out swimsuit and butterfly print scarves.

125 YEARS OF INNOVATION

Left: 1960s Our iconic red boots encapsulated the style of the swinging sixties.

Core UK business: Womenswear continued

125 YEARS OF INNOVATION

Below: Flower power When Sex and The City stylist Patricia Field produced her capsule collection for M&S, her clothes flew off the rails, with the famous corsage dress selling out on the first day.

125 YEARS OF QUALITY

Right: Dresses of the decade Our 125th anniversary gives us a chance to reflect on fashions of years gone by. To mark this occasion we have created five dresses of the decades – a nod to fashion of bygone years, brought up to date with a modern twist.

125 YEARS OF VALUE

Below: UnLimited potential We attracted an additional 20% – 200,000 – new customers from the under-35s into womenswear in the last quarter of 2008/09.

Responding to customers

Knowing our customers is fundamental to the way we develop products. We constantly review our clothes through focus groups, across core ages and among different lifestyles. For example we work closely with the Womens' Institute. This is best shown by the creation of 'Portfolio', which directly responds to customers asking for clothes that better suit older tastes. We have similarly consulted with customers on the evolution of the 'per una' brand. Consultation does not stop when we have launched a range, as we regularly return to our customers to get feedback.

Improving availability

We want our customers to always find what they are looking for – availability is vital to delivering the best service. To address this we are updating our stock planning systems so we can replenish sizes or colours before we run out. This is also helped by the speed and flexibility of our buying departments, which can now buy additional items more quickly and efficiently.

Refreshing our ranges

We used to buy clothes twice a year for the spring/summer and autumn/winter seasons. This meant we spent almost 100% of our seasonal buying budget, giving us no flexibility if trading or the weather suddenly changed.

With the help of our suppliers we have now increased our buying to 10 times a year – holding back 25% of our budget to spend 'in season'. In its simplest form, it is about having the flexibility to buy much closer to the season so we can react more quickly to trends, or buy transitional products between seasons, such as cardigans if the summer suddenly turns, or mac coats if it rains. It also helps us to be faster at turning around new fashions, encouraging customers to 'see it, like it, buy it' because it will be gone within four weeks and replaced by the next new range.

'Limited Collection' is designed to be first to translate catwalk trends in line with the High Street. We source from Turkey, Morocco, Italy and Spain – with the latter two key for sourcing footwear and accessories for 'Limited Collection'. These markets offer much shorter lead times, so that we can get new products into our stores every week.

Looking ahead

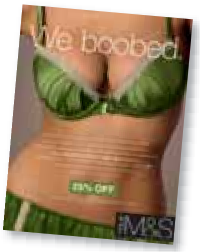
The womenswear team has been significantly strengthened in 2008/09 by a number of new appointments. With the right team in place and with all of womenswear now under the same management team, we are well placed going forward. We are now in a position to pull the clothing strategy together, maximising the best opportunities and using the best learnings from all parts of the clothing business.

Our brands remain exclusive to us, which means we can ensure they all do a different job from each other. We can stock products that appeal to women of different ages and with different tastes.

We remain aware of the wider economic downturn and will continue to pursue the best value clothes and accessories for our customers. At the same time we will continue to produce a confident fashion offering; deliver on-trend items for our younger customers; produce new garments quickly; and deliver the classic basics that our customers keep coming back for.

125 YEARS OF INNOVATION

Below: We boobed It's true… our larger bras cost more money to make, and we felt it was right to reflect this in the prices we charged. We were wrong, and have since reduced the price of our larger bras by up to £2.

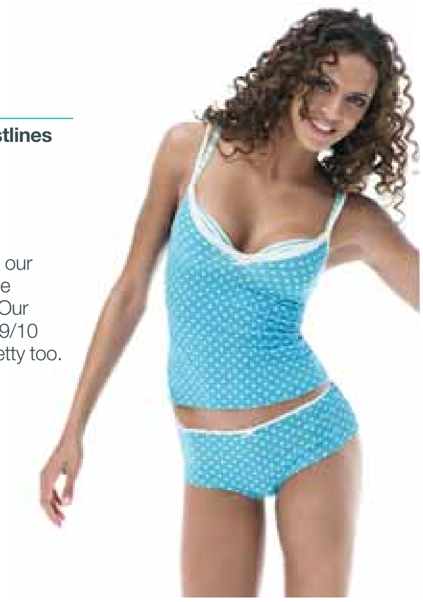


125 YEARS OF INNOVATION

Number of inches taken off British waistlines

250,000

Left: We're famous for our shapewear, with our magic knickers taking 250,000 inches off the waistlines of British women last Christmas. Our shapewear is obviously effective, but in 2009/10 we'll be focused on making it stylish and pretty too.



Lingerie value market share

25.2%

+0.4% pts

Lingerie volume market share

19.1%

+1.2% pts

BRAND FOCUS: LINGERIE

ADORED CLASSIC, COMFORTABLE STYLES
AUTOGRAPH HIGH QUALITY SOPHISTICATION
BODY SOLUTIONS MODERN AND SLEEK
CERISO TRENDY, FUN AND FLIRTY
LIMITED COLLECTION MIX & MATCH FASHION
PER UNA FEMININE AND PRETTY

125 YEARS OF QUALITY

Above: Vintage style During 2008/09 sales of the teddy and corsetry rose as women – and men – rushed to buy into the trend for yesteryear fashion. Luxurious silk bras and basques in feminine, dusky shades, and beautiful champagne-coloured silk and lace pieces, flew off the shelves.

Lingerie: In an increasingly competitive market, M&S lingerie is still the UK's first choice. Over the year we grew our value market share to 25.2% from 24.8% and volume share to 19.1% from 17.9%. By reducing our lead times to just eight weeks we have been able to stay a step ahead of the market and refresh our ranges regularly. This strategy will continue in 2009/10.

Our brands

The slogan 'Every Woman, Every Time' continues to encapsulate our approach to lingerie. M&S remains a destination shop for every British woman's lingerie needs: we sell nearly two pairs of knickers every second; 28 million pairs of tights every year; and one in three British women wear an M&S bra. We were also In Style magazine's Best Shop for Lingerie in 2008.

We have continued to refresh and broaden our ranges during the year to ensure our brands offer a well-balanced collection to suit different needs and tastes. As part of our segmentation work we have reduced duplication and filled gaps in ranges. By simplifying our lingerie offer, our branding now clearly signposts each collection.

'Adored' classic feminine styles in soft fabrics that offer exceptional comfort. *'Autograph'* a sophisticated collection that is beautifully designed and finished. *'Body Solutions'* modern and streamlined, this beautifully soft lingerie gives a sleek silhouette. *'Ceriso'* fun, flirty and inspired by catwalk trends. *'Limited Collection'* fashionable styles in stretchy fabrics designed for mixing and matching. *'per una'* pretty everyday styles in soft fabrics and feminine colours.

Availability

High sales volumes mean we have to manage our stock tightly, ensuring we never sell-out of key lines. This is especially the case for products such as opaque tights – where sales have grown by 50% on the year. Hosiery is a proven key footfall driver, with customers buying stockings and tights likely to buy something else while in-store.

Newness

Over the past year we have worked with our manufacturers in Sri Lanka, China and Turkey to enable us to make bras in just eight weeks, reducing a typical 20-plus week lead time. This is a milestone for us, with the quicker turnaround time giving us greater flexibility to produce fashion-forward items, and respond to customer demand.

Innovation

Cellulite-busting tights and a memory foam bra are just two of the innovative additions we made to our lingerie collection this year. We will continue to innovate, taking a more rigorous and methodical approach so that we phase-in key innovations on a quarterly basis throughout the year.

Looking ahead

Our approach to lingerie is about being clear and confident. Attention will be focused on branding and segmentation, as well as value and availability, to ensure we have the right product for every customer.

Core UK business
continued

125 YEARS OF QUALITY

Right: High fashion, low price We continue to collaborate with designers to bring high fashion style to the High Street, including Jeffrey West shoes, and Mark Powell's ready-to-wear suit. In autumn 2008, Take That signed on as the face of our Autograph suit range, featuring designs by Savile Row tailor – Timothy Everest.

Menswear value market share
10.1%
-0.4% pts

Menswear volume market share
12.9%
-0.2% pts

BRAND FOCUS: MENSWEAR

AUTOGRAPH SHARP AND CONTEMPORARY
BLUE HARBOUR SMART BRANDED STYLES
NORTH COAST CASUAL AND STYLISH
COLLEZIONE WELL-CUT ITALIAN TAILORING

125 YEARS OF VALUE

Above: Suitable style Style doesn't always cost, as the Scotland national football team proved. They signed a two-year deal with M&S to kit them out off the pitch – their navy three button 'Ultimate Suit' cost just £149 each.

Menswear: We have retained our number one position in menswear in spite of challenging market conditions. Volume market share fell 0.2% to 12.9%, while value share was down 0.4% at 10.1%. As in womenswear we have continued to simplify our brands, so each is distinctive in its offer. We know we have work to do to strengthen our menswear business, which is why we have gone back to the things that make us a destination shop for our customers: value, innovation and availability.

A clear offer
Our menswear customer is predominately female, accounting for more than 60% of sales, and influencing a further 34% of purchases. She buys on a 'needs' basis and wants to quickly find what she is looking for. In response we have provided a clear menu of menswear brands and have a defined strategy to take each of them forward over the coming year.

'Autograph' which offers sharper styles and contemporary designs, will grow to include more casual separates. We will also expand our Autograph Essentials offer of footwear and underwear. *'Blue Harbour'* will go back to its roots and deliver the smarter, sharper clothes that the brand was originally famous for. *'North Coast'* which sat under the Blue Harbour umbrella, is now a standalone brand. We will continue to develop its casual look, with a very different signature style to Blue Harbour. *'Collezione'* offers classic pieces in well-cut Italian fabrics. We have identified a similar gap in our menswear offer as the one we saw in womenswear, which led to the launch of *'Portfolio'*. To meet this need we will re-vamp *'Collezione'* to make it more appropriate for our 40+ customers and include more core classic items and coordinates.

Value
An expectation that M&S represents good value is core to the shopping decisions of our male customers, who account for the remaining 40% of menswear sales. Aside from a desire to buy investment pieces, our male customer is almost always drawn to the best deal, which is why our recent deals and offers in formalwear of a free shirt and tie with every suit, were snapped up.

Innovation
Whether it is our water repellent 'Stormwear™' or our climate control underwear developed in conjunction with NASA, innovative products always sell well in menswear. We have kitted out the British and Irish Lions in our new 'Ultimate Suit' for their tour of South Africa over the summer. The suits use revolutionary technology to ensure the pure wool jacket and trousers keep their shape, the lining remains cool, the exterior is water repellent, and the ties are stain resistant.

Additionally, the launch of our miracle no-crease linen, produced by our oldest textile supplier in Italy, proved the new and old blend perfectly at M&S.

Looking ahead
We are confident of the adjustments we are making to our brands in menswear, and the first changes will be visible in stores by autumn 2009. Although the menswear market is relatively small, with fewer players than the womenswear market, we see an opportunity to take a bigger share by growing our casualwear, footwear and accessories offer.

125 YEARS OF TRUST

Below: Growing up green As part of our Plan A commitment we have expanded our offer to include Fairtrade organic babygrows. This year we will deliver an entire school uniform made out of recycled materials.

125 YEARS OF QUALITY

Below: Kids with character Character clothing such as 'Thomas the Tank Engine' continues to be a best-seller in kidswear. In the year ahead we will expand our range to coincide with new films, introducing 'Hello Kitty', 'Ben 10' and 'Transformers'.

Kidswear value market share

5.4%

+0.6% pts

Kidswear volume market share

5.9%

+0.7% pts

Kidswear: Last year we set out our long-term goal to win back our market leading position in kidswear. In a tough economic climate we have grown our market share to 5.4% by value, up 0.6%pts, and to 5.9% by volume, up 0.7%pts, putting us fourth in the market overall, the highest level in seven years. When it comes to children – we are confident that we are reclaiming our position as the destination store for style, quality and value.

125 YEARS OF SERVICE

Below: Cross-shopping We're making progress in encouraging customers to not only shop within, but across departments, with parents now also buying toys, books and baby furniture. The success of our schoolwear has also encouraged parents to shop our 'Everyday Casualwear' section.

Brand clarity

Busy parents who do not have the time to browse, tell us they want an easy layout and good product availability so they can quickly pick up what they need. As in womenswear and menswear we have focused on making our brands clear and cutting out duplication. In kidswear our brands are:
'Everyday Casualwear' for wardrobe basics; *'Autograph'* for something a bit more special for boys and girls; and *'Limited'* for more fashionable items.

Quality and style

We regularly run focus groups with children and their parents to make sure we deliver exactly what they want. In addition to the hard-wearing washable fabrics that parents look for, fashion also plays a part. Our kidswear needs to be on-trend, as in womenswear and menswear, with products in bright colours with plenty of detail. Newness – or refreshed ranges – are also important and we have been working with our suppliers to ensure we get new products into store every month.

Value

Customers know M&S provides value that they can trust. This is clearly demonstrated in schoolwear where we offer great value at a starting price point of £6.50 for an entire uniform, including a 100% cotton jumper, a polo shirt, and a crease resistant skirt or pair of non-iron trousers. As the UK's number one schoolwear provider, we stand by our commitment to never compromise on fit, quality, or on our ethical standards. Parents who want to pay a bit more can upgrade to our 'better' range of uniforms, offering extra detailing, our innovative water repellent and stain resistant 'Stormwear™', or blazers made from recycled bottles.

M&S for all ages

Our newborn range is selling well, standing us in good stead to build strong relationships with parents as their children grow. We are also working to deliver desirable clothing at the other end of the age spectrum, and will this year introduce tailoring for boys including the first ever sixth form suit.

Looking ahead

We know there is a strong opportunity for continued growth across all ages, and we will not be satisfied until we are back in the number one position. We will build on the achievements of the past year by putting more emphasis on availability and by improving our 'Essentials' range of socks and underwear, as well as nightwear, footwear and accessories. Kidswear will increasingly get more space in-store, and, since we know time is precious for parents, we will improve our online offer to ensure access to the full range.

BRAND FOCUS: KIDSWEAR

EVERYDAY CASUALWEAR SIMPLE BASICS
AUTOGRAPH SPECIAL PIECES
LIMITED CASUAL AND STYLISH

Core UK business
continued

125 YEARS OF INNOVATION

Left: Start from scratch The launch of Cook Asian 1234 bridges the gap between scratch cooking and prepared meals. Customers can rustle up a fresh healthy meal for two for just £6.99, using four core products with a potential of 110 combinations.

John Dixon Director of Food

Food: Over the last year we have concentrated on what M&S does best: offering our customers the very best quality food at outstanding value. Although sales for the year were level at £4.25bn, the changes we have made to increase innovation, improve our on-shelf availability, and reduce our prices, whilst maintaining outstanding quality, are beginning to bear fruit and should continue to deliver improvements in the year ahead.

UK Food sales
£4.25bn

Food value market share
3.9%
-0.4% pts

M&S has always been committed to offering the freshest, best quality food, with a particular focus on healthy eating, innovation and ethical sourcing. These values remain at the core of our business. However, we recognised that against a background of unprecedented economic conditions on the High Street, we needed to give our customers more of the products they want, at better value.

The foundations we are putting in place in our Food business will stand the test of time. While economic conditions may dictate some tactical decisions, they will be consistent with our long-term strategy. That is why we are rebuilding M&S Food using the founding principles of our business: **Quality, Value, Service, Innovation** and **Trust.**

Quality
M&S has always been synonymous with the highest quality food. It is our core point of difference in the marketplace. Customers continue to recognise this. For example in a recent Watchdog survey of more than 36,000 people, M&S came out top for quality food, beating all other supermarkets.

During the year we launched 'Top Marks' as a way of highlighting to customers those products that have been independently judged as being the best in the market. 'Top Marks' draw attention to products that have won awards, received positive press reviews, or have been independently quality tested.

Our customers know that all the food they buy from us is quality assured. But we are constantly finding new ways to improve our offer. All of our fresh beef, pork, chicken, turkey and salmon are already sourced in the UK and this year we extended our sourcing so that it is local to individual M&S stores. For example we have just begun regional sourcing of chicken for Scottish stores. This strategy runs through the very heart of a Food business that is founded on ethical sourcing, the highest standards of products and raw materials, provenance of its ingredients and supports British farmers.

Our wine range is widely recognised as having improved significantly over the last few years; work recognised in 2008 at the most important and coveted industry awards. M&S won both 'Supermarket of the Year' and 'Wine Merchant of the Year' at the International Wine Challenge, and was voted 'Supermarket of the Year' by Decanter Wine Magazine.

Value
In a challenging market, outstanding value is a fundamental requirement for our customers. We are listening and responding.

During the course of the year we undertook a number of major pricing initiatives as the first and most obvious response to the economic climate. 'Wise Buys', 'Family Favourites for £4' and the 'Dine in for two for £10' promotions work in combination to offer our customers the chance to buy great food on a regular basis, and at outstanding value.

125 YEARS OF VALUE

Above: Pure and simple Our new Simply range of sandwiches launched in February with the 75p Jam Sandwich.

125 YEARS OF INNOVATION

Below: The real McCoy We're banishing the misconception that lambrusco is cheap, fizzy and flavourless, having dragged that 70s favourite into fashion again. Derived from grapes grown by the Medici family in the Emilia Romagna region of northern Italy, our red lambrusco – Autentico-Reggiano Lambrusco – is fuller in taste and goes well with our meaty Italian range.

125 YEARS OF VALUE

Below: Take the cake Sex and the City came to the High Street in April with the launch of the M&S cup cakes, which cost £2.99 for four. The range of cakes was the result of extensive tasting and research in New York.

The 'Wise Buys' label is now on 500 everyday products – some 10% of our food range – from staples such as milk and eggs, to ready-meals such as lasagne. The competitive prices reassure our customers that they can economise at M&S, without compromising on quality.

As the credit crunch worsened, we recognised that people were likely to dine out less and instead eat more from home. In anticipation of this trend we introduced our 'Dine in for two for £10' promotion, where customers can enjoy a restaurant-quality three-course meal with wine. The success of 'Dine in' is demonstrated by significant increases in footfall from both regular and occasional M&S customers. As a result we continue to look at new variations on the same theme to deliver something special such as 'Dine in for two for Valentine's Day at £20', which included a red rose or the 'Dine in for four for Mother's Day at £15'.

Our business philosophy is that our products should always be made with the very best ingredients. So while we may reduce the prices of products or deliver unbeatable promotions, we will never compromise on the quality of the product.

Service

Over the last few months we have improved on-shelf availability by restructuring and increasing the number of people in our trading teams, so that there is a greater focus on getting the right products to the right stores, to meet customer demand. We appreciate that every store is different in terms of local customer preferences and we need to make sure we accommodate as many of these local tastes as possible.

However we still have significant work to do, with much of our future capital investment focused on system developments to further improve on-shelf availability and reduce food waste.

Delivering great service is about ensuring customers have the right information to make informed choices about the food they buy. This was highlighted by the National Consumer Council that recognised our efforts to help customers make an informed choice about their diet, using the front of pack traffic light labelling on over 800 of our products, or choosing to eat our healthier options, identified by the Eat Well sunflower.

Great service is also about reformulating product recipes to improve health and quality, while reducing the levels of potentially harmful or unhealthy ingredients. For example, by working with the Hyperactive Children's Society we have already removed artificial colours and flavours from all our children's product ranges. This was so well received that we have extended this policy to cover all of our food ranges, as well as removing hydrogenated vegetable oils and continuing to make significant reductions in salt levels. We use only free range eggs whether they are in their shells or as an ingredient in all our other foods such as cakes and pasta.

In a significant step for the business, we initiated a trial of 350 branded food products in North East England in July 2008. The decision comes in direct response to customer feedback that they wanted the convenience of picking up a jar of Marmite or tube of toothpaste with their regular M&S shop. The trial has been well received by our customers and colleagues alike, and was extended to 23 stores in the South East to further gauge customer reaction. Selling these products increases customer convenience, and we plan to update further on this trial later in 2009/10.

BRAND FOCUS: UK FOOD

REGIONAL RANGES ITALIAN, INDIAN, CHINESE
COOK! SCRATCH COOKING
COOK ASIAN 1234 FRESH AND EASY
GASTROPUB HEARTY GOURMET FOOD
COUNT ON US TASTY HEALTHY OPTIONS

PROMOTIONS FOCUS: UK FOOD

WISE BUYS GREAT VALUE STAPLES
FAMILY FAVOURITES CLASSIC BRITISH FOOD
DINE IN A TREAT FOR TWO

Core UK business:
Food continued

125 YEARS OF M&S

Above: Food for thought We are celebrating our 125th anniversary with a collection of forgotten favourites – perfect for afternoon tea. Customers can enjoy a slice of classic cakes such as Madeira and Cherry Genoa and a cup of special blend Gold Label tea.

125 YEARS OF INNOVATION

Below: Free range pasta Our new Italian range sticks to those values that our customers expect from us, such as using free-range eggs in our pasta and substituting fresh local UK produce wherever possible.

125 YEARS OF VALUE

Right: Flower power Our M&S serene bouquet for £35 was rated the number one choice for Mother's Day by consumer watchdog Which.co.uk

Innovation

Innovation is fundamental to our Food strategy. We want to excite our customers with new products and ranges, and encourage them to come back time and time again.

In October 2008 we relaunched our Italian range, a clear example of M&S innovation at its best. Our team travelled to Italy to create the new range, which draws on local expertise, uses more authentic ingredients, and goes back to traditional cooking methods and recipes. The relaunch has been a great success with average growth of 15% on the year.

In March 2009 we launched two major innovations: Cook Asian 1234 and Bakery Cup Cakes. Both of these ranges are first to the market and are showing impressive early sales. Such is our confidence in these ranges that they have featured heavily in our recent television and poster advertising campaigns as great examples of all that is good in our Food business.

We have long held a reputation for innovation, by improving on classic recipes as well as developing new ingredients. Our Chopin potatoes are a great example of this. We developed this new variety of potato to be naturally creamy in flavour, reducing the need to add butter, and securing it 'Product of the Year' at the Annual Produce Grower of the Year Awards.

Trust

The awards we have won in 2008/09 are a testament to the quality of our product, the consistency with which we approach our Food business, and therefore the trust our customers place in us.

125 YEARS OF TRUST

Below: Say cheese! M&S won more than 400 dairy awards in 2008/09 including seven gold awards at the prestigious Nantwich Cheese Show.

For example we won the '2008 RSPCA Good Business Award' for food and the '2008 Compassion in World Farming Compassionate Supermarket of the Year Award', for our commitment to animal welfare.

It is important that our customers trust M&S which is why we are as transparent as possible in our business dealings and our interaction with customers. This goes to the heart of what we do; from clearly labelling our healthy eating products and nutritional content of our products, to our supplier relationships. We have established an in-house ethical supplier exchange where we have trained over 1,000 suppliers on our ethical standards.

We continue to support farmers with the M&S Milk Pledge, which in addition to paying farmers a fixed and industry leading price for their milk, rewards them for good performance on animal welfare. We have extended this pledge to our lamb farmers and are working to extend to farmers in other markets as quickly as possible.

Looking ahead

Listening to our customers and responding to their needs is central to our Food strategy. Our renewed focus on our five principles of **Quality, Value, Service, Innovation** and **Trust** will enable us to build on the progress made in the second half of 2008/09. We are confident that we can strengthen our position as the most trusted food retailer offering the highest quality food, representing excellent value for money for our customers.

125 YEARS OF INNOVATION

Below: Sweet dreams We introduced two ranges of nursery furniture in January 2009 – the Ruby and Oscar collections – which consist of a cot bed, changing unit and double wardrobe.

UK Home sales
£471.3m
+1.1%

Home: Our Home business remains one of the fastest growing parts of our Group and one we have identified as having even higher growth potential. Our trusted reputation saw new customers gravitate to us during the year. So although the economy presented challenging conditions, our sales were up 1.1% on the year, despite Easter falling into the 2009/10 financial year.

BRAND FOCUS: HOME

BEAUTY	CROCKERY
FURNITURE	GIFTS
SOFT FURNISHINGS	TECHNOLOGY

125 YEARS OF VALUE

Below: M&S Energy Launched in October 2008, M&S Energy rewards customers with vouchers for reducing their energy consumption. More than 65,000 accounts have already been opened with us.

125 YEARS OF TRUST

Above: Plugged in Seven of the top 10 best-selling home products are bought in our technology department.

Improve don't move

Our customers trust the M&S brand, particularly when buying investment pieces such as beds and sofas. And in recent times, as customers have tightened their belts and the housing market has slowed, customers have also increasingly turned to M&S for homeware. We acknowledged this trend and introduced our 'Improve Don't Move' campaign. As a result sales of items such as crockery, cushions and soft furnishings were strong, with customers knowing they could buy well-priced and lasting pieces to spruce up their homes.

Our locations

There are now 64 M&S stores that sell furniture but almost all of our 293 main chain-stores offer homeware and gifts. The number of furniture stores will increase as part of our modernisation programme – albeit at a slower rate, given our decision to pull-back on capital expenditure. Home will have more floor space in our new stores, with an example being Westfield in London.

We are also opening more standalone Home stores. In March we opened Cardiff Capital, the third standalone store and the first to include a food hall and 80-seater M&S Café. It joins our existing standalone home stores in Lisburn in Northern Ireland, and Barton Square in Manchester.

We will continue to open more standalone Home stores, with three planned this financial year in Cheltenham, Tunbridge Wells and Aberdeen.

Expanding the range

We continue to add new products and ranges to our home offer as a way of introducing our brand to new customers. This year we launched nursery furniture, white goods and M&S Energy.

Beauty

Our Beauty business has long been known for its quality make-up, fragrances and toiletries – in fact we sell 33 tonnes of Magnolia talcum powder every year. We are now also establishing a name for ourselves as experts in skincare – with M&S Formula Instant Fix Midnight Beauty Cream short-listed in the 2009 UK Beauty Awards for 'Best New Skincare Product'. At the same time as innovating our ranges, we will also be improving the position of our Beauty offer in-store and further clarifying our brands of 'Autograph', 'Essential Colours', 'Formula', 'Florentyna' and 'per una'.

Looking ahead

We have a real opportunity to continue to grow our Home business. Encouraging greater shopping across departments by attracting food and clothing customers is an important part of our Home strategy going forward, and something we will achieve through our promotional plan and improved store layouts. Also important is the development of our website so we can showcase our products online for those customers who cannot get to one of our stores.

2

How are we driving our M&S Direct business?

Carl Leaver Director of M&S Direct, International & Home

M&S Direct: It has been another successful year for M&S Direct. Sales rose 19.0% to £324.4m and are on target for £500m by the end of 2010/11. We launched a number of new initiatives to improve the breadth and convenience of our online service. We also experienced our single biggest ever online trading day with the 'One Day Christmas Spectacular'. All of which have contributed to our growing share of the online market.

M&S Direct sales
£324.4m
+19.0%

A year in review

M&S Direct is central to our commitment to becoming a multi-channel retailer. It goes beyond merely selling our products online; encompassing our Home catalogue, flower and wine delivery, Food to Order party catering service and lunchtogo, which delivers lunchtime platters. It facilitates a dialogue with customers through initiatives such as customer reviews and feedback, and increasingly integrates our stores with our website. For example customers can now redeem gift cards online, or subscribe to SMS alerts to find out about offers and promotions.

Sales from our website were up 34%, outpermorming the online market. Our online clothing market share increased to 5.3% from 4.5% (Fashiontrak). The traffic to the site grew by 36% over the year.

During this year we continued to extend and innovate our online offer, launching international delivery, a Wine Club, and 3,000 premium white goods. We've also focused on providing an engaging shopping experience through initiatives such as Your M&S TV, hosting nine channels of interviews and catwalk videos.

Ultimately M&S Direct will offer greater choice and flexibility for customers, as we provide the convenience to order online and collect in-store and vice versa.

A multi-channel business

Last summer we launched our Food to Order catering service, which enables customers to make their food selection online and then pick up in-store.

We will make even greater strides to become more convenient for our customers with the introduction of the next phase of this service. An in-store collection service for general merchandise will be trialled in 50 UK stores in autumn 2009.

FOCUS: M&S DIRECT

HOME CATALOGUE
WEBSITE
FLOWER DELIVERIES
WINE CLUB
FOOD TO ORDER PARTY CATERING
LUNCH TO GO
BUSINESS SOLUTIONS
HAMPERS

125 YEARS OF VALUE

Left: Deal of the Day Our daily web offers – Deal of the Day – has increased sales 100 fold on some products, like our opening price point womens' mac for £29.50

125 YEARS OF SERVICE

Below: lunchtogo We're keeping energy levels up for two premiership football clubs by providing healthy food on training and match days through lunchtogo. Their nutritionists and chefs sought us out because of the high quality and nutritional value of our food.

125 YEARS OF QUALITY

Below: Made to Measure Our bespoke Made to Measure shirts have beaten the most exclusive tailors in the world for quality and fit. Consumer watchdog Which? found our £30 service was twice as good as the Savile Row versions costing more than £135.

125 YEARS OF INNOVATION

Above: What's on the box? Over 140,000 minutes of video have been viewed through Your M&S TV since it launched in February 2009.

Customers will be able to order online and then pick up in-store. As well as order in-store for pick-up in-store or delivery to home. It will give all of our customers access to the full M&S range from their local stores, and the convenience of picking items up at a time that suits them.

International delivery

Sales of M&S lingerie in France and home furnishings in Spain have soared this year after the launch of our international delivery service in November 2008. The service gives UK customers an opportunity to send M&S clothes and lingerie, as well as selected beauty products and home accessories to friends and family in France, Germany, Spain, the US, Canada, Australia and New Zealand.

M&S is the first British retailer to deliver internationally to New Zealand, and one of only a few that ships to Australia and Canada. It underlines our commitment to grow sales of M&S Direct and build on our momentum overseas. We will be extending the delivery service to more than 70 additional countries this autumn 2009.

Wine Club

Boasting an online catalogue of more than 550 wines and a string of awards, the launch of our Wine Club in November seemed the logical next step. Early signs are encouraging, with almost 4,000 subscribers receiving a case of wine on a quarterly basis. Wines, which are delivered free, are hand-picked by our team of specialists. They also include tasting notes and can be enjoyed while viewing instructional 'tasting videos' online.

Reviews and ratings

The ability to contribute reviews and ratings has provided customers with an independent verification of the goods they are shopping for. Since the service was launched in June 2008, reviewed products have received an average rating of 4.1 out of 5. As a result, sales of well-received products have increased by as much as 20%.

Looking ahead

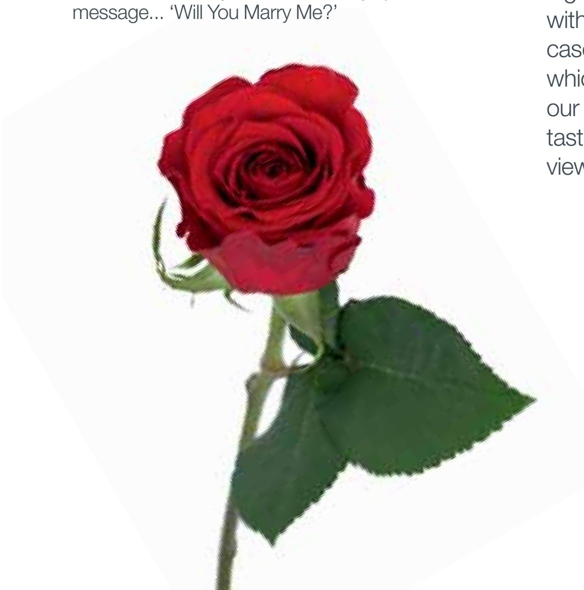
Our focus remains squarely on improving our online shopping experience and on integrating our sales channels to give our customers greater flexibility. The look and feel of the site is critical to providing customers with what they want, and we will refresh our website this year. We will offer more opportunities to interact with our customers by building on the success of ratings and reviews, and Your M&S TV. We will also improve our online advertising partnerships so customers are better directed to promotions when seeking a deal.

125 YEARS OF SERVICE

Below: Hitting home Technology, household electricals and home accessories were key drivers of Home sales online. To shop online go to **marksandspencer.com**

125 YEARS OF TRUST

Below: Popping the question Six bouquet orders this Valentine's Day contained a very special message... 'Will You Marry Me?'



3

How are we expanding our International business?

M&S International sales
£897.8m
+25.9%

M&S International as a share of Group revenue
9.9%
+2.0% pts

125 YEARS OF QUALITY

Right: Local tastes Customers across the globe can't get enough of our redcurrant puffs – a popular pastry in the Asian market.

125 YEARS OF INNOVATION

Below: Plan A-rt In July 2008 we launched Plan A in Hong Kong. Working with WWF, the Hong Kong Youth Arts Foundation and a number of celebrities, we created five innovative art pieces representative of the five pillars of Plan A.

M&S International: In 2007/08 we announced our plan to grow our International business to between 15 to 20% of total Group revenues by 2012. Our strategy remains unchanged, although we are adapting our plans as the economy dictates. We are on course to reach our target, with sales up 25.9%.

Our plan

There are five key elements to our International growth strategy:

- Growing our equity partnerships in line with our revised business model;
- Expanding our footprint into new markets and within markets where we already operate;
- Achieving operational excellence;
- Driving brand integrity and awareness; and
- Finding innovative ways to grow our food offer.

Our business model

In 2007/08 we made significant changes to our business 'ownership' model. While expansion in previous years has been primarily through franchising, we are now placing a stronger emphasis on expanding through partly-owned subsidiaries and on a wholly-owned basis. Expanding in this way has proved successful in emerging markets, where our subsidiaries in Southern and Eastern Europe performed well for the year. We also continue to run a thriving franchise business, which gives us further flexibility to select the most appropriate model on a market-by-market basis.

Expanding our footprint

We opened 32 new stores during the year taking our total International store count to 296. Now in 40 territories, we have continued our strategy of closing smaller stores to concentrate our efforts on premium locations. This means we now have a total of 3.3m sq ft in our International portfolio, including new stores in Libya, Montenegro, and most notably in China where we opened a 40,000 sq ft flagship store in Shanghai. We plan to grow our International selling space by 20% next year with around 50 new stores opening across Europe, the Middle East and India.

Improving operations

During the year we also made significant changes to our 'operational' model so that we can do business more efficiently. The launch of our International Range Planner is the result of a year's work and will revolutionise the way we approach range buying and store cataloguing globally. We know that it is never a case of one size fits all, and are confident these changes will ensure we accurately stock the sizes and styles appropriate for customers in our different markets.

Our International supply chain now includes regional hubs in Hong Kong, Singapore, Sri Lanka and Istanbul. These changes make distribution more efficient and cost-effective, helping us get the latest trends into our international stores more quickly.

Additionally, we are in the process of implementing a new SAP finance and operating system in China and Hong Kong, which will be rolled-out through the rest of our International business, improving effectiveness through better management information and new processes. As in the UK it will support our teams in delivering improved supplier management.

The Far East

There are clear signs that the economic downturn is being felt in Asia. Despite this, our Shanghai store is performing well, following some early problems importing food, which were quickly resolved.

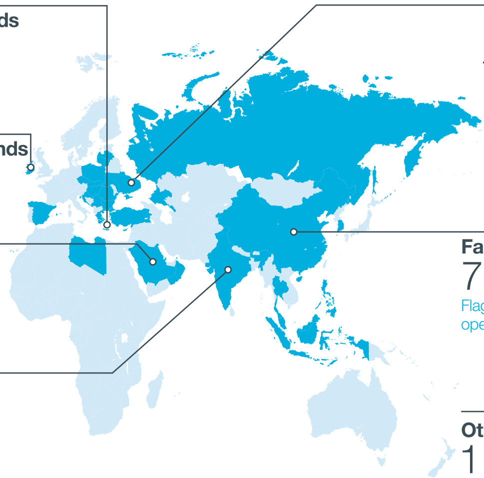
Our International operations

Mediterranean and Islands
21 stores
Including a new store in Marbella

Ireland and Channel Islands
28 stores
1 new store in 2008/09

Middle East
20 stores
3 new stores opened in 2008/09, with 4 planned in 2009/10

Indian subcontinent
14 stores
First non-franchised store opened in Mumbai in April 2009



Southern and Eastern Europe
136 stores
23 stores opened in the region

Far East
76 stores
Flagship store in Shanghai opened in August 2008

Other: Bermuda
1 store

125 YEARS OF QUALITY

Above: Shanghai store Trading over four floors, our Shanghai store has one of the widest food ranges of M&S International stores, with 1,000 lines including a full wine shop, grocery products and frozen lines.

125 YEARS OF QUALITY

Below: Chilled to frozen During the year we introduced our ready-meals to 27 of our International stores. The meals are especially frozen and include Chicken Kiev and our chocolate melting middle puddings. We are now extending the range and the number of countries stocking these products.

We will continue to grow in a measured way, learning from each market before ramping up expansion. We are adapting our ranges, introducing smaller sizes in womenswear and shorter shirt sleeves in menswear, as we do in Hong Kong.

Our strategy requires us to make tough commercial decisions and be disciplined. While we are expanding in China, earlier in the year we closed our stores in Taiwan where our trial did not perform to a level that warranted further investment.

Elsewhere the response to lower pricing gives cause for encouragement, despite trading conditions. Our franchise businesses in Indonesia and Thailand in particular have seen very positive growth.

Southern and Eastern Europe

The market in Eastern Europe traded well up to last summer – but softened in patches thereafter. Our strongest market was Russia, where we opened four new stores, and achieved high like-for-like sales growth. The Czech Republic and Poland also held up well, although have softened since Christmas. In October we brought the Polish franchise business into our Czech subsidiary for £1.9m. We opened two stores in Poland, five stores in the Czech Republic, and three in Slovakia during the year.

We have made strong operational improvements in Greece with our subsidiary partner Marinopoulos Group. We have improved the breadth of our ranges and lowered prices as well as instigated plans to tighten up supply chain performance. These actions have helped mitigate against the weak consumer market and the impact of recent unrest in Athens, as well as support the growing business with six new stores opened during the year.

Ireland and the Channel Islands

In the Republic of Ireland, one of our most extensive overseas markets, we opened a 14,000 sq ft store in Killarney, taking the total portfolio to 18. However trading conditions remained tough as a result of worsening economic conditions.

Indian subcontinent

As reported last year, while we have traded in India for a number of years through a franchise agreement, in view of the long-term opportunity, we set out to find a partner who could help us grow in the market. In April 2008 we formed a 51:49 subsidiary with Reliance Retail and on 31 March 2009 acquiring Supreme Tradelinks, our former franchise partner, and its 14 M&S stores. In April 2009 we opened a new store in Mumbai. We remain on track to open 10 to 15 stores within the next two years.

Middle East

The Middle East bucked the general trend, and performed strongly through the year. Conditions have worsened recently but a phased opening programme of four new large stores will ensure that the business continues to grow through 2009/10.

Mediterranean

Our franchise partner in Gibraltar is opening a 10,000 sq ft store in Marbella, selling the full range of M&S clothing, as well as homeware and food. The store, which will service the large expatriate community, will open in September.

Looking ahead

The bursting of the property bubble and a weak pound will benefit our International business. This means that in the short term we will continue to secure stores on more favourable rental terms, extending our footprint at comparatively reasonable costs. Most of our overseas businesses buy from us in sterling, which makes products cheaper for them, so they can pass that saving on to the customer. As in the UK our long-term plan will be flexed to accommodate the changing market environment.

4

How are we strengthening our UK property portfolio?

Total space (14.9m sq ft)
+5.6%

Total stores
668

New stores
75

125 YEARS OF INNOVATION

Above: At home with M&S At 35,000 sq ft, our new home store in Cardiff Capital includes a 6,000 sq ft food hall – so customers can buy the fridge, and the groceries to fill it. We will open three new home stores in Tunbridge Wells, Aberdeen and Cheltenham.

Property and store environment: We remain committed to our plan to invest in our store portfolio through modernising and expanding existing stores, while also extending the brand into new markets. We had an active year in 2008/09 but as with other areas of the core UK business, we have reduced our capital expenditure. In the short-term, we are focused on delivering additional space and modernising key stores while ensuring our future pipeline remains strong.

Our property and store plan is to:

- Expand and modernise our city centre stores;
- Continue to extend our existing out-of-town stores while opening new stores where appropriate;
- Continue to improve our presence in retail parks;
- Invest in our High Street stores; and
- Build on the success of Simply Food.

We have achieved a great deal over the last 12 months, opening 75 new stores including two new flagship stores in Colliers Wood and Westfield. We also remodelled a further 24 stores bringing 80% of the portfolio into the modernised format. We continue to build on the significant investment we made in our property portfolio over the last three years to ensure our stores are in the best shape possible for the future.

We have revised down capital expenditure in property for 2009/10. Although we will continue to operate across the five areas of the plan, we will be giving stronger emphasis to extending larger stores and opening new stores in retail parks.

In 2008/09 we closed 26 stores, 24 of which were Simply Food stores that were either too small to act as a sufficient pull for footfall, or in markets too small to sustain them. We took these decisions in order to continue to manage costs tightly and focus our investments on sites that better suit our customers' requirements.

Expanding and modernising our city centre stores

Modern stores run more efficiently, but they also ensure customers enjoy their shopping experience. They are designed to be bright and contemporary, with easy to shop food halls, efficient systems and a range of hospitality options.

As one of the anchor stores at Westfield in London, we went to great lengths to design a high specification store, fitting for one of Europe's biggest retail developments this decade. The store is designed to offer M&S customers an unrivalled shopping experience with a boutique style layout of our clothing brands, improved navigation, and a full complement of hospitality options including a new M&S Café format. As ever, attention was also given to green features such as solar panel lighting and energy saving systems for refrigeration and heating, in line with Plan A.

We are now able to take much of this specification and incorporate it in our modernisations across the country, for instance in Liverpool and Leeds which will be remodelled in the coming year.

125 YEARS OF TRUST

Below: Green design We have taken best practice from our eco stores and are applying this to all our new developments. Features include energy efficient escalators and daylight sensors in our window displays, which are being introduced in 80% of our new builds and remodels.

125 YEARS OF QUALITY

Below: Westfield style Unveiled by Twiggy and Erin O'Connor, our Westfield store includes appetising new features such as a cheese shop and Mediterranean deli.

FOCUS ON: PROPERTY

- TOTAL UK PORTFOLIO OF **668** +46
- PREMIERE **10** 0
- MAJOR **43** +3
- RETAIL PARK **29** +2
- HIGH STREET **209** -4
- OUTLETS **39** +6
- SIMPLY FOOD (wholly-owned) **156** -11
- SIMPLY FOOD (franchises) **182** +50

125 YEARS OF SERVICE

Above: Fancy a cuppa? Our M&S Cafés form the fourth largest take-away coffee chain on the High Street, and have proven so popular that we now see an opportunity to expand the floor-space devoted to our M&S Cafés in many of our new developments.

Extending our out-of-town stores

We have extended a number of out-of-town stores allowing us to offer a greater selection of products to our customers. Culverhouse Cross in Cardiff, Brooklands and Tamworth were all extended in the year.

Better presence in retail parks

We have been monitoring a growing trend for customers to travel to retail parks where they can park and shop at a leisurely pace. In response we increased our presence on retail parks in 2008/09 with three key openings in Malvern, Aintree and Cardiff Capital. Since the year-end, we have opened in Swindon Orbital and Longwell Green in Bath.

Investing in our High Street stores

We continually review our High Street stores to ensure they are the right size and in the right location.

In the last year we relocated in Wrexham and Luton and consolidated two stores into one at Worcester. We have modernised a number of stores including Worthing and King's Lynn. We have also closed two under-performing stores in Woking and Bracknell. We will continue the process of flexing our store portfolio in 2009/10 to ensure we give our customers stores where they want them, and at a size that accommodates a wide variety of products.

Building on the success of Simply Food

We now have more than 300 wholly-owned and franchised Simply Food stores in the UK. We opened 13 standalone Simply Food stores in 2008/09 in locations including Epping and Dunblane. They join our franchise 'travel hubs' which continue to work well, as reflected in Waitrose's decision to enter this space in partnership with Welcome Break.

We reached the 100-store milestone with our BP service station franchise this year and opened the successful M40 Beaconsfield services in March.

Hospitality

In everything we do, we strive to offer something special – the M&S point of difference. Our cafes and restaurants are no exception, and during the year we broadened our offer so that our customers can choose from a coffee or a snack to a sit down meal. This not only provides an enjoyable store experience for our customers, but encourages them to spend longer in our stores. For many it also tempts them to try new things that they can then pick up in our food hall.

At the same time we are increasing other in-store food options by introducing deli counters, as well as improving our cheese counters and in-store bakery. This builds on our reputation for offering premium fresh produce, and our commitment to provenance – knowing where every ingredient in every product has been sourced.

Looking ahead

Our long-term strategy remains in place. We will continue to improve our retail space by increasing and extending into new locations and markets, as well as continuing the refurbishment programme over the next few years. But we will also continue reviewing under-performing stores to ensure we are working the portfolio to its fullest potential.

5

How are we integrating Plan A across every aspect of our business?

Commitments
100

Commitments achieved so far
39

Achieved commitments that now go even further
24

OUR PLEDGE: BY 2012 M&S WILL:

CLIMATE CHANGE BECOME CARBON NEUTRAL WITH MINIMAL OFFSETTING

WASTE SEND NO WASTE TO LANDFILL FROM OUR OPERATIONS

SUSTAINABLE RAW MATERIALS EXTEND SUSTAINABLE SOURCING

FAIR PARTNER SET NEW STANDARDS IN ETHICAL TRADING

HEALTH HELP CUSTOMERS AND EMPLOYEES LIVE A HEALTHIER LIFESTYLE

Plan A: Our five year 'eco plan', launched in January 2007, addresses the key social and environmental challenges facing our business and the world. Plan A marries our efforts to reduce our environmental impact and to achieve a true point of difference, while at the same time meeting our corporate and business requirements to reduce costs throughout our operations. We pledged to meet 100 separate Plan A commitments within a five-year time-frame, and are pleased to report that in just two years 39 commitments have been achieved.

In our second year of Plan A we have proved that being green is not only the right thing to do, but that it presents a compelling business case. In 2007 we were prepared to invest £200m into Plan A, but in just two years we have achieved a cost positive position – in spite of the tough economic conditions of the past year.

Plan A has inspired us to find new ways of working. Efficiencies are coming from all areas of the business from reducing our packaging and waste, to working with our suppliers to find new and better ways of doing business. It proves that this economic period has become an accelerator for our Plan A initiatives, with businesses having to approach things in a new way.

Customers attitude

Recent reports show that the green agenda continues to grow in importance despite the economic downturn and pressures on household budgets (Source: Ipsos MORI). At M&S we have identified an increase in the number of our customers who say they will take environmental action 'if it's easy', while at the same time seeing a decrease in those who say 'what's the point?' or 'I can't make a difference'.

It is not only the normal buying metrics such as price, quality, style, durability and fashionability, which resonate with our customers, but also ensuring all these things are underpinned by sustainability. This sets us apart from our competitors and reassures our customers that they can trust us to do the right thing.

We are continuing to push hard to reduce, reuse, recycle and reinvent to become more efficient across our operations. The following review highlights some of our Plan A successes over the past year, as well as new initiatives for the year ahead.

Climate change

To reach our goal of making our UK and Republic of Ireland operations carbon neutral by 2012 we are improving our energy efficiency and increasing our use of renewable electricity. In the last year we've reduced our net CO_2 emissions by 18%, and our energy efficiency in stores has now improved by 10%.

In February 2009 we signed the UK retail sector's biggest renewable energy contract. The six-year deal with npower will provide M&S with enough renewable energy to ultimately power all our stores and offices in England and Wales. In March 2009 we then signed with EDF to supply renewable energy to our Scottish operations.

Reduction in food carrier bag use in 2008/09

-387 million

-83%

and as a result raised £1.2m for Groundwork UK

125 YEARS OF SERVICE

Below: Reducing packaging Since 2006/07 we have reduced our non-glass food packaging by 12%. Projects included reducing pizza packaging by 62% (480 tonnes) and taking the equivalent of three double-decker buses worth of packaging out of our Easter Eggs. Max the Bunny was reduced by 90%.

Before

After

125 YEARS OF INNOVATION

Below: Hanger recycling We have rationalised the number of different hangers we have to make reuse even easier. In 2008/09 we increased the number of clothing hangers collected for reuse or recycling to around 125m.

The npower deal also underlines our commitment to work with local communities to encourage small third-party suppliers to develop renewable electricity. M&S buys, through npower, any renewable electricity generated by farmers (see above).

The 'Plan A way to save' campaign is a collection of simple green changes designed to save family households up to £1,000 a year. Measures include encouraging washing at 30°C and 'Love Food, Hate Waste', which can save customers up to £600 a year by cutting down on food waste.

Our two pioneering eco factories in Sri Lanka were developed in partnership with suppliers MAS Holdings, a new lingerie factory operating exclusively for M&S, and Brandix, an existing casualwear factory that has been upgraded to eco status. They are now hitting their targets, achieving 50% less water use than factories of a similar scale. While MAS Holdings was designed to be carbon neutral from day one, Brandix has also seen a 78% reduction in its carbon footprint.

These are in addition to the 150,000 sq ft Westbridge eco factory in Wales – responsible for producing all of our UK furniture ranges – and our new supplier eco factory in China that opened in May 2009. It is the country's first eco clothing factory, with a green roof, low energy lighting and a 'water curtain' for cooling the factory. All of which will help reduce electricity use by about 50% compared to similar sized factories.

These factories establish a benchmark we can share with other manufacturers across the world.

Waste

This year we retendered our waste contracts for stores and GM distribution centres. This contract includes a plan to achieve our ambition of zero waste to landfill by 2012.

125 YEARS OF INNOVATION

Below: Wind power Scottish farmer Grant Mackie was one of the first farmers to benefit from the move to develop renewable power from small third-party generators. He launched the first M&S turbine on his Aberdeenshire farm in 2007 and now has three wind turbines. Now 31% of our electricity comes from renewable sources.

We produced around 116,000 tonnes of waste of which 41% was recycled.

One of our most high profile initiatives is our 5p carrier bag charge. Profits fund local environmental projects run by our partner Groundwork UK. Carrier bag usage in our food halls is down 83%, saving over 387 million carrier bags from landfill. In the process we have helped raise £1.2m for Groundwork to create Greener Living Spaces in 46 local neighbourhoods.

The M&S and Oxfam Clothes Exchange is a unique partnership that has been a remarkable success. Over 875,000 customers have now donated 3.2m garments to their local Oxfam stores, in return for a £5 M&S discount voucher to spend on purchases of £35 or more. Their efforts have saved 1,500 tonnes of clothing from landfill, helped Oxfam to raise £1.9m, and given our customers the opportunity to save over £4.4m.

Sustainable raw materials

Innovation is key to ensuring that our key raw materials come from the most sustainable sources available to us.

As the winner of the 'RSPCA Good Business Award' in 2008, for both our Food and fashion business, we continue to push ahead on animal welfare. We are trialling free range pork in 100 stores, and we guarantee that for all of our pork, no farrowing crates are used at birth, and that no pigs have been castrated, had their tails docked or their teeth clipped.

There is also a clear plan to better understand our impact on the global freshwater supply. Together with WWF and our suppliers, we are undertaking a water footprint assessment of our supply chain so that we can reduce our water impact during the product sourcing and production stages. So far this has involved five crops – strawberries, tomatoes, lettuce, potatoes and roses – and raw materials including cotton and leather.

Integrating Plan A
continued

125 YEARS OF TRUST

Below: Strength in numbers From WWF and Groundwork to WRAP and Oxfam, our partners are vital to the way we do business. By recycling 175 tonnes or Christmas cards, the equivalent of 9 million cards, our customers have helped us to plant trees across the UK with the Woodland Trust.

125 YEARS OF INNOVATION

Below: Walk this way We again supported 'Beefy's Great British Walk' for childhood leukaemia. The former cricketer started each of the nine legs of his walk at one of our stores, raising £24,000 – which M&S matched.

125 YEARS OF INNOVATION

Above: Supporting cancer charities The Prostate Cancer Charity supports the 35,000 men affected by prostate cancer each year. During March 2009 we donated 10% of the sales from 'Autograph' underwear to the charity. The campaign was fronted by Channel 4 News' anchorman Jon Snow, his cousin, presenter Peter Snow and Peter's son Dan. Funds support the UK wide helpline staffed by specialist Prostate Cancer nurses.

During the year we launched the Fern Collection which is produced using timber sourced from sustainably managed forest and Fairtrade certified covers. The Fern furniture is also filled with a combination of Ecoflex foam – a castor oil based foam containing 20% renewable resources – and fibre made from 80% post-consumer waste. This includes plastic drink bottles, 122 of which are used to make every two-seater sofa.

Fair partner

Plan A is not only becoming ingrained in the way we do business and in the way we interact with our customers; it is also integrated into the way we conduct our day-to-day business with suppliers. As a fair partner we're committed to improving the lives of the hundreds of thousands of people in our supply chain and local communities.

Work on three garment factories in Bangladesh – part of our Ethical Model Factories – helps us to do this, by creating sustainable ways of improving the livelihood of those who work in the factories. By providing workers rights, supervisor and production training we are ensuring long-term improvements in labour standards and establishment of a living wage.

But setting new standards as a fair partner is not just about helping overseas. M&S prides itself on our work at home in the UK.

Marks & Start is our flagship community programme and is the country's largest company-led work experience programme. Some 705 work placements were given out last year. We have also completed a successful year with Breakthrough, the breast cancer charity. Since 2001 we have raised a staggering £11m – making us their largest corporate partner.

Health

M&S has long led the way in food innovation, which is now more important than ever in helping our customers and employees lead healthier lifestyles.

Our current focus is on natural enrichment for instance the inclusion of probiotics in food such as yogurts and by feeding omega to salmon. We have identified what people are missing in their diets and are finding a way to put these essential vitamins back in.

This builds on our commitment that all of our food is now entirely free of artificial flavours and colourings. We have also continued to expand our 'Eat Well' healthier options, reduce salt, and eliminate hydrogenated fats. We have reduced the level of saturated fats by 70% across our range of crisps, and by 30% across our range of sandwiches. We now meet over 67% of the FSA's salt targets for 2010.

125 YEARS OF TRUST

Above: Fairtrade Since Plan A was launched we've sold nearly 13 million Fairtrade certified cotton garments and home products – as well as 100% Fairtrade tea, coffee, bagged sugar and conserves.

125 YEARS OF SERVICE

Right: Eat Well Healthier food ranges now comprise 30% of our total food offer.

125 YEARS OF INNOVATION

Below: Award winning Awards underline our achievements as an ethical and responsible retailer. Accolades include: winner of the Business in the Community 'Excellence Awards' and 4th global brand in the Covalence ethical ranking.

Business in the Community

Visit the Plan A website at plana.marksandspencer.com

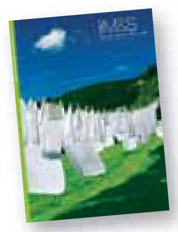
Looking ahead

We made considerable progress with Plan A during the year. The high street has provided some challenging conditions, but has also given us an opportunity to approach things in a new way.

Plan A differentiates M&S in the market. With our commitment to producing quality goods, we are helping to dispel the myth that being environmentally and ethically sound is a more expensive way to live and shop.

Plan A is a journey. We know we still have some way to go before we achieve our five-year targets. But already it is embedded in our culture and evident in how we do business. We will continue to innovate; develop and maintain partnerships; play a key role in local communities; and, perhaps most importantly, listen to what our customers want and communicate with them every step of the way. Doing the right thing.

Find out more Read our How We Do Business Report 2009 at **www.marksandspencer.com/annualreport09**



125 YEARS OF INNOVATION

Left: Fair partner We're improving the livelihoods of those who work in our Ethical Model Factories in Bangladesh, as well as our Green Factories in Sri Lanka.

Our people
Being an employer of choice

125 YEARS OF SERVICE

Above: Mystery shopping M&S stores are anonymously visited once a month – twice in the case of larger flagship stores – by mystery shoppers who evaluate service quality. In 2008/09, that was the equivalent of 6,326 visits, with staff achieving an above average 84% score.

125 YEARS OF SERVICE

Below: Cycling Sam Sam Worton was a warehouseman in the Nottingham store for more than 32 years. He was given his nickname when he cycled to every M&S store in the country – a journey that took all his holidays for five years between 1950 and 1955. He visited 243 stores from Aberdeen to Truro and covered a distance of 7,173 miles.

Attracting and retaining the industry's best talent is at the heart of our Human Resources strategy – and even more so when the economy is tough. In 2008/09 we introduced new development programmes tailor-made for growing tomorrow's leaders. We also reinforced lines of communication between management and colleagues at every level of the business, so we could provide reassurance through this difficult period. All of which underpin our strategy of being an employer of choice, since we know that great people make a great business.

Our people

Retail is the largest private sector employer in the UK, and M&S is a significant contributor towards this. We employ around 73,000 people in the UK and a further 5,000 worldwide. We have one of the lowest employee turnover rates in UK retail, at 23% for customer assistants and 12% for management. Around 44% of our people have been with us for over five years and 26% for more than 10 years.

Developing our people

We have redesigned our learning and development programme to identify and train the next generation of leaders, as well as to ensure talented people within our business are given the right sort of training and encouragement to develop.

Lead to Succeed – Our flagship leadership programme Lead to Succeed targets the development of the 300 most senior M&S people. It is designed to identify and develop people for succession and is built around our M&S brand values – Quality, Value, Service, Innovation and Trust.

Line managers – Phase one of a new line management development programme has been launched. This is designed to develop the 2,000 line managers who are critical to the motivation and retention of talent across the business.

Academies – We have developed our GM and Food academies so we continue to innovate as a business. Staff attend a variety of master-classes, from improving their core buying capabilities and range planning in GM to their culinary and tasting skills in food.

International – We have concentrated on training managers who are building our overseas businesses to encourage consistency of the M&S brand, taking into account local and cultural differences.

Your M&S Career Path – All of our UK and Republic of Ireland employees are supported by Your M&S Career Path training and learning programmes. In-store, our customer assistants complete a thorough induction of up to 26 weeks and work through four possible levels of coaching cards. In addition, section managers and store managers receive targeted workshops, designed to improve selling and cost management skills.

Rewarding our people

The M&S benefits package remains one of the best in the retail sector. New membership to the final salary pension scheme closed in 2002, but we offer a generous retirement plan where M&S matches employees contributions by up to 12%.

One in three employees (26,000) participated in our Sharesave Schemes in 2008/09. There was a 21% increase in employees joining Sharesave over the previous year due to our low share price as well as employees coming out of options with a higher price. We are pleased that so many employees want to invest in the business and believe in its prospects for growth.

We have a number of initiatives designed to make people feel well-cared for. For example we run two-year breast screening cycles. Some 27,000 were screened in the cycle that ended in February 2009, and a further 13,400 women will be screened in the new programme starting this year.

EMPLOYEE FOCUS

- **216** GRADUATES RECRUITED
- **705** MARKS AND START PLACEMENTS
- **26** EMPLOYEE VOLUNTEER AWARDS
- **612** EMPLOYEES CELEBRATED 25 YEARS WORKING FOR M&S
- **44** EMPLOYEES CELEBRATED 40 YEARS WORKING FOR M&S
- **165,000** HOURS OF TRAINING
- **1,029** PEOPLE ATTENDED 330 WORKSHOPS IN OUR FOOD AND GM ACADEMIES
- **40,000** GREAT SERVICE AWARDS FOR STAFF WHO HAVE EXCELLED IN THEIR ROLE

125 YEARS OF INNOVATION

Above: There's no accounting for taste In his 12 years at M&S, Simon Allison has gone from sampling sandwiches and sushi to pet food. He now manages a team of 10, who develop our grocery, household goods, savoury snacks, beer, spirits and wine. In his words, everything you need for the party, and to clean up afterwards.

The M&S twist Flora Benenson was recruited in 1932 as champion of the Staff Welfare Service. In a report to then Chairman, Simon Marks, she says: "The youngsters should be allowed to use record players in the luncheon breaks and even given facilities to 'twist' if they would like to..."

Communication

We have had to make some difficult decisions this year, and we recognise that it is more important than ever to clearly communicate with our employees. We have a range of channels to do this:

The **Top 100 briefing** is designed to deliver Head Office messages to the top managers.

Director Breakfast meetings have been increased so that colleagues in-stores can meet the leaders of different business units.

In-store listening groups ensure issues can be communicated to Head Office; and

Quarterly results broadcasts to all M&S employees to keep them abreast of Company performance.

Additionally we communicate with all of our employees through the M&S intranet and employee magazine. The annual employee opinion survey, Your Say, which has a response rate of over 90%, looks at a range of issues from job satisfaction to management performance. We now have three sets of results – from 2006 to 2008 – to compare and we can see trends emerging showing us where we are making progress and where we need to do better. Our overall positive score for 2008 remained consistent with previous years at 70% and we will be striving for the same when the 2009 results are in.

Representing staff views

More than 3,500 elected employee representatives from every part of the business sit on our Business Involvement Groups (BIG). In this challenging year BIG has played an increasingly important role in representing colleagues views on matters relating to work and employment. Critically, BIG led the consultation process for stores and Head Office, successfully submitting counter proposals on behalf of employees that were accepted by the business and resulted in changes to Company proposals.

BIG Business Involvement Groups

125 YEARS OF TRUST

Below: Your views BIG represent staff views at a local, regional and national level.

Additionally, BIG developed initiatives to improve overall business profitability and efficiency; for example focusing on 'fill' productivity – the process of getting stock onto shelves. Working with store colleagues, BIG developed ideas to simplify the fill process which has helped contribute to £4m in savings and to noticeably strengthen product availability in stores.

Looking ahead

Despite the tough trading conditions, there is much to look forward to in the months ahead. Our employees will join in our anniversary celebrations, and are in the midst of a major fundraising challenge to raise £1.25m for local charities in just 125 days. Colleagues in every store and office have selected their charities and are coming up with creative ways to reach our target, so that we can give something back to the communities that have supported us through the years. We look forward to tallying the results in September 2009.

Our business relies on people, and we have worked hard to earn the reputation of an employer of choice. We have a clear plan in place to ensure we recruit, train, retain and develop talent, and in turn create a high performance business. These initiatives have been designed, developed and are now being implemented to build for the future. They will stand the test of time.

Financial review

Revenues

Total revenues were up 0.4% driven by new space in the UK and a strong performance in our International business.

UK revenues were down 1.7% in total with a like-for-like decline of 5.9%, reflecting the deterioration in market conditions and consumer spending. During the year, we added 5.6% of space (on a weighted average basis), representing 7.0% in Food and 5.0% in General Merchandise.

International revenues were up 25.9%. This performance reflects continued strong growth in our franchise business, in particular in the Middle East, Russia and Turkey, and the impact of the investments in Greece and the Czech Republic.

Operating profit

Operating profit before property disposals and exceptional items was £768.9m, down 29.4%.

In the UK, operating profit before property disposals and exceptional items was down 32.9% at £652.8m. Gross margin was 1.7 percentage points down on the year at 41.3%. General Merchandise gross margin was down 0.7 percentage points at 51.9%, reflecting further improvement in primary margin offset by higher promotions and markdowns. Food gross margin was 2.35 percentage points lower than last year at 31.5% reflecting investment in price realignment and increased promotional activity, along with the planned growth in franchised Simply Food stores.

UK operating costs were up 4.3% to £2,743.4m. A breakdown of UK operating costs is shown below:

	52 weeks ended		
	28 March 2009 £m	29 March 2008 £m	% increase/ decrease
Retail staffing	**863.3**	847.5	+1.9
Retail occupancy	**948.0**	841.4	+12.7
Distribution	**410.3**	383.8	+6.9
Marketing and related	**127.4**	139.4	–8.6
Support	**391.6**	401.1	–2.4
Total before bonus	**2,740.6**	2,613.2	+4.9
Bonus	**2.8**	16.8	–83.3
Total including bonus	**2,743.4**	2,630.0	+4.3

Retail staffing costs remained tightly controlled despite growth in space, reflecting improved productivity whilst at the same time improving customer service levels. The increase in retail occupancy costs reflects space growth and higher energy costs as well as the increased depreciation related to the modernisation and space expansion programmes. Distribution costs rose due to higher fuel costs, as well as volume growth in M&S Direct and furniture deliveries. Reduction in marketing expenditure reflects fewer campaigns including reduced TV coverage. Support costs, which include non-store related overheads, were down 2.4% due to ongoing cost saving initiatives.

We will be paying a bonus of £2.8m for 2008/09 (last year £16.8m). The level of bonus payment reflects performance against our original operating plan.

The UK operating profit includes a contribution of £24.8m (last year £28.3m) from the Group's continuing economic interest in M&S Money.

International operating profit before property disposals was broadly level at £116.1m (last year £116.4m). Owned store operating profits were £45.8m, up 2.9%, reflecting the acquisition of our previously franchised businesses in Southern and Eastern Europe. As a result of this change franchise operating profits were down 2.2% to £70.3m.

Profit on property disposals

Profit on property disposals was £6.4m (last year £27.0m). This includes the proceeds from the sale of our old stores in Edinburgh and Derby where we relocated to new premises.

Exceptional items

Exceptional charges of £135.9m (last year nil) relate to changes announced in January 2009, including the head office restructuring programme, closure of 26 non-strategic stores and the rationalisation of the logistics network.

The exceptional pension credit of £231.3m (last year £95.0m) has arisen due to the changes made in the terms of the UK defined benefit plan relating to how members' future benefits build up. Employees' annual increases in pensionable pay have been capped to 1%, and early retirement benefits for members who joined the scheme before 1996 amended. The credit reflects the impact of adjusting the projected final pensionable salaries.

Net finance costs

	52 weeks ended	
	28 March 2009 £m	29 March 2008 £m
Interest payable	**(166.0)**	(119.3)
Interest income	**14.6**	5.5
Net interest payable	**(151.4)**	(113.8)
Unwinding of discount on partnership liability to Marks and Spencer UK Pension Scheme	**(38.0)**	(27.3)
Pension finance income (net)	**35.4**	58.9
Fair value movement on financial instruments	**(10.5)**	–
Net finance costs	**(164.5)**	(82.2)

Net interest payable was up 33.0% at £151.4m reflecting an increase in the average net debt over the year. Net finance costs were up £82.3m after pension finance income of £35.4m (last year £58.9m), and the unwinding of the discount on the partnership liability to the pension scheme. The Group's average cost of funding was up marginally to 6.1% (last year 5.9%).

Taxation

The taxation charge is based on the full year pre-exceptional effective tax rate of 27.0% (last year 27.0%).

Earnings per share

Adjusted earnings per share from continuing operations, which excludes the effect of property disposals and exceptional items, decreased by 35.8% to 28.0p per share. The weighted average number of shares in issue during the period was 1,573.2m (last year 1,671.3m).

Dividend

The Board has taken the decision to rebase the Group's dividend payment to 15.0p per share from the current level of 22.5p per share, a reduction of 33.3%. This will be achieved through a 33.1% reduction in the 2008/09 final dividend to 9.5p per share, followed by a reduction in the 2009/10 interim dividend to 5.5p per share. Having re-based the dividend to 15.0p per share, the Board's policy regarding future dividends is to re-build cover towards two times and, thereafter, to grow dividends in line with adjusted earnings per share.

Share buyback

Since 29 March 2008, we have bought-back 10.9m shares for cancellation, for a consideration of £40.9m. This now takes the total of shares bought back as part of the buy back programme announced in November 2007 to 136.6m representing 8.0% of the shares in issue in July 2007.

Capital expenditure

	52 weeks ended	
	28 March 2009 £m	29 March 2008 £m
Modernisation programme	**216**	536
New stores	**150**	203
International	**40**	48
Supply chain and technology	**188**	162
Maintenance	**58**	106
Total capital expenditure	**652**	1,055

Capital expenditure was £652m compared with £1,055m last year. Since March 2008 we have added 5.6% of trading space, representing over 623,000 square feet. This included the opening of two major flagship stores in Colliers Wood, South London and the new Westfield Centre at White City, West London, as well as improving the quality of space in a number of major out of towns and city centre stores through store extensions. We stepped up the investment in our supply chain and technology in line with our strategy to build an infrastructure fit to support the future growth of the business.

Cash flow and net debt

	52 weeks ended	
	28 March 2009 £m	29 March 2008 £m
Cash flow from operations	**1,371.9**	1,236.0
Capital expenditure and disposals	**(604.1)**	(927.4)
Interest and taxation	**(265.7)**	(250.3)
Dividends and share issues	**(349.3)**	(312.0)
Share buyback	**(40.9)**	(555.9)
Other movements	**(4.4)**	(107.9)
Net cash flow	**107.5**	(917.5)
Opening net debt	**(3,077.7)**	(1,949.5)
Partnership liability to the UK Pension Scheme	**539.6**	(199.0)
Exchange and other non-cash movements	**(60.2)**	(11.7)
Closing net debt	**(2,490.8)**	(3,077.7)

The Group reported a net cash inflow of £107.5m (last year outflow £917.5m). Cash inflow from operations increased by £135.9m, reflecting a working capital inflow of £194.0m compared with an outflow of £170.9m last year. Capital expenditure, net of disposals, was £604.1m (last year £927.4m) reflecting further investment in our modernisation programme as well as new space growth. We generated £58.3m during the year from disposal of properties and equipment.

As part of actions taken to better manage our debt and balance sheet, the Group agreed changes to the property partnership with the pension fund on 25 March 2009. These changes make the annual distributions to the pension scheme at the discretion of the Group in relation to financial years 2010/11 onwards. This discretion is exercisable if the Group does not pay a dividend or make any other form of return to its shareholders. As a result, the distributions to the pension fund in 2009 and 2010 remain as financial liabilities while the remaining balance of £571.7m is now an equity instrument. £539.6m of this was previously included in net debt. The Group's interest charge will therefore no longer reflect the unwinding of the discount from 2010/11. The valuation of the pension asset relating to the interest in the property partnership remains unchanged reflecting amounts that would accrue to the pension fund on a deferral.

Pensions

At 28 March 2009 the IAS 19 net retirement benefit deficit was £152.2m (29 March 2008 surplus of £483.5m). The decrease in value is largely due to the impact the economic downturn on the market value of the pension asset portfolio, partly offset by a decrease in inflation and the exceptional pension credit.

Corporate governance

Overview

What is our approach to governance?

Leadership and governance go hand in hand in a successful company. For both to work well you need a clear plan of what you want to achieve. There are different ways to secure good governance:

– what you achieve in practice is as important as the formal structures;
– a strong relationship between management and the Board is important, with trust, challenge, a common goal and good information flows between them; and
– it's not just about the Board – it's about how governance is understood and acted on throughout the business – 'from the boardroom to the shop floor'.

"We have one of the most trusted brands on the high street. We need a clear plan, inspired leaders and motivated employees, all focused on giving customers what they want at M&S." Sir Stuart Rose, Chairman

We recognise that our current Board structure is out of line with the Combined Code in that Sir Stuart Rose combines the roles of Chairman and Chief Executive. We understand the concerns of our shareholders but believe that we still can – and do – maintain robust governance while at the same time benefiting from having Stuart at the helm.

"As Deputy Chairman I lead on governance; together with Stuart and our Board colleagues, we are guardians of the M&S brand." Sir David Michels, Deputy Chairman

As long as we have robust governance and make sure that appropriate challenge to the executive is in place, we believe the right balance can be maintained.

This report sets out how we achieve this and how M&S governance adds value to the business.

Board effectiveness

How does the Board demonstrate independence?

We are putting particular emphasis on making sure that our independent review of the executive is effective.

We have strengthened the role of the Deputy Chairman to address concerns over the combined role. He leads on all governance matters, which includes engaging shareholders on their views, chairing the Nomination and Governance Committee and conducting the review of Board performance.

The Board has a clear majority of independent directors – with six out of 10 being fully independent. All our non-executives have been appointed since 2004 and have an average tenure of less than three years each.

It's also a question of mindset – our Board combines a broad range of skills, experience and personalities which secures the necessary level of challenge and insight to enhance executive performance.

We are conscious of the need to give sufficient time for questions and debate in the boardroom so discussion does not get curtailed.

The non-executives have the opportunity to influence the agenda. An ongoing timetable of executive updates is kept under review and strategic discussions were brought forward to respond to the current economic climate and changing needs of our customers.

The governance committees carry out detailed independent oversight on behalf of the Board to ensure we have the appropriate processes in place for succession, remuneration and audit.

The non-executives get good, direct access to the management team through presentations at Board and committee meetings, the Board's strategic session in February and ad hoc meetings at their request.

Our Group Secretary supports both the Chairman and the Deputy Chairman in carrying out their governance accountabilities. He also makes sure the non-executives get the information and access to people they need. He is supported by the corporate governance group which makes sure that the role of governance is understood throughout M&S. On 8 July 2009 the Group Secretary, Graham Oakley, will retire and will be succeeded by Amanda Mellor, current Head of Investor Relations.

"I am constantly aware of the need to be independent and to ask the challenging question – it's in the best interests of M&S." Steven Holliday, Non-Executive Director

"I have direct access to the Audit Committee Chairman. The Committee supports me in making sure that management responds to our findings and that internal audit is effective." Mark Fensome, Head of Internal Audit

"I am pleased that my colleagues and I can be forthright in the boardroom. Our Board culture supports this." Jan du Plessis, Non-Executive Director

How does the Board keep fully informed?

We have a comprehensive but efficient committee structure to help keep the Board fully informed.

Activity reports from the Nomination and Governance, Remuneration and Audit Committees are given on pages 58 to 60. The committee chairmen report to the full Board on the outcomes of each meeting. With so much detailed work being delegated to the committees, it is essential that time is given to keeping all directors up to date and to give them opportunities to ask questions.

The following committees also support the Board in fulfilling its governance accountabilities:

Executive Committee – to develop and implement Board strategy and react to operating and financial performance

Customer Insight Unit – to analyse marketplace trends and customer views to influence business decisions

How We Do Business Committee – to implement Plan A, our 100 social, environmental and ethical commitments

Business Involvement Groups – to represent employee views to management to influence business decisions

Capital Approval Committee – to approve capital expenditure within Board limits and optimise investment

What does governance mean to us?

For M&S, governance is about making sure that:
- we are taking the business in the right strategic direction;
- the executives are leading and managing effectively and are accountable;
- the Group has appropriate controls in place and our risks are managed; and
- we are 'doing the right thing' for our shareholders and our wider stakeholders.

How do we make this happen?

The independent non-executive directors, led by the Deputy Chairman, keep M&S governance under review to ensure that appropriate safeguards are in place to protect shareholder interests.

We believe that good governance has four fundamental components:
- **leadership** – clear and well-communicated;
- **challenge** – focused and effective;
- **oversight** – active and comprehensive; and
- **questioning** – rigorous and sustained.

To achieve this the Board needs to:
- demonstrate **independence** to bring fresh perspectives and hold management to account;
- seek full **information** to form views, question management and take strategic decisions; and
- act **responsibly** to make sure our governance is robust and we protect the reputation of M&S in everything we do.

Fire, Health & Safety Committee – to ensure the safety and wellbeing of our employees, customers and visitors

Information Security Committee – to ensure adherence to a business wide information security policy

Business Continuity Committee – to improve our response to any major incident affecting premises or systems

"On the M&S Board we encourage innovative thinking and continual questioning to make sure we meet customer expectations for the next 125 years." Martha Lane Fox, Non-Executive Director

"The Board is keen to hear direct from us on the major initiatives in our areas. This reinforces the relationship between management and the Board." Darrell Stein, Director of IT and Logistics

"We have more than 3,500 employees elected by colleagues to represent their interests. The Board wants to keep in touch with employees, especially during the current economic slowdown." Malcolm Heaven, National Chair of BIG

How does the Board act responsibly?

Responsibility is a core part of governance for us in two respects. The Board must meet its accountabilities to wider stakeholders. And our employees must play their part by acting responsibly at all times.

The Board has a clear view of its accountabilities. As part of our active debates around succession and leadership development, we have established that our primary role as directors is to make sure that:
- our **investors** are rewarded with profitable returns;
- our **customers** experience Quality, Value, Service, Innovation and Trust every time they visit M&S;
- our **employees** are proud to work at M&S;
- our **suppliers** are engaged in profitable partnerships; and
- our **communities** and the **environment** benefit from our sustainable business.

The Board's challenge is to make sure this is put into practice and embedded in the M&S culture so that our employees understand their responsibilities.

Our history provides strong foundations that underpin our brand values. We must preserve these and build on them to continue to keep them relevant to doing business today.

During the year the Board has:
- reinvigorated our brand values and the business initiatives that underpin them to make sure they meet customer expectations;
- reaffirmed our 100 Plan A commitments on the most important social, environmental and ethical challenges facing our business;
- launched our 'Lead to Succeed' programme to help our senior people understand the unique nature of M&S leadership;
- conducted a root and branch review of our Code of Ethics, which sets out how we behave with our stakeholders and outlines our principal policies. Our senior people are accountable for ensuring this is understood and followed in their areas; and
- initiated a number of projects to celebrate our 125th Anniversary with our customers, employees, suppliers, communities and shareholders. We are taking this opportunity to reflect on our past, look forward to our future and be proud to be part of M&S.

"We have strengthened our governance of Plan A during the year. Controls have been improved, clear KPIs defined and support has been established throughout the business. The Board and Audit Committee are in regular touch with our progress." Richard Gillies, Director of Plan A

"Plan A has attracted significant interest from a wide range of stakeholders. It has got serious traction throughout the Company. Despite a tough year, leadership is sticking to its guns." Jonathon Porritt

Corporate governance
continued

Board effectiveness continued

Of course good governance is also a matter of the Board working effectively as it goes about meeting its accountabilities. To this end we have undertaken a thorough review of both the Board and its governance committees and given particular weight to induction and succession planning. This matters to us – a strong Board makes a significant difference to a company's ability to create value. The annual performance review is an important element of the Board's activities to review and improve its performance continually.

What did the Board do during 2008/09?

During 2008/09 we acted decisively to meet the challenge of the global economic downturn, taking steps to manage costs tightly and respond quickly to the changing needs of our customers. Our current priorities place a greater emphasis on managing our business through the current downturn, underpinning our strong financial position and continuing to invest for the long term, to be well placed when the market improves. In November 2008 we announced six priorities:

Our priorities
- retain our market leading position in general merchandise;
- improve our performance in food;
- drive our international business;
- optimise margins and tightly control costs;
- maintain a strong balance sheet; and
- uphold high ethical standards.

In May 2009 we announced that we have completed a major review to drive M&S through its next phase of development and launched a change programme under the banner '2020 – Doing the Right Thing'.

The Board met 10 times during the year (see attendance table on page 60) and at every meeting received an update on current trading, operational and financial performance from the Chairman and the Finance and Operations Director. Directors received a monthly Group Results booklet summarising financial results for the Group against the current operating plan. It also contained information on interest expense, cash flow and net debt, balance sheet, inventories, capital expenditure, investor relations and competitor news.

The Board received regular updates from the Chairmen of the Audit; Remuneration; Nomination and Governance; and Capital Approval Committees on activities during the year and an annual update from the Chairmen of the How We Do Business Committee and the Fire, Health & Safety Committee. At each Board meeting the Group Secretary reported on governance.

Executive Committee members attended Board meetings to give updates on progress in their respective areas during the year. The Head of our Customer Insight Unit gave regular updates to the Board on latest market share data and customer feedback on M&S products and the service they received in stores.

The Board held an offsite meeting in February 2009 to consider the mid to long-term retail landscape, presented by independent advisers, and strategic opportunities presented by the Executive Committee.

During the year separate meetings were held by the non-executive directors to consider the process and timetable for succession to Chief Executive. This would allow for the first assessment of internal candidates after they had had experience in their new roles for a reasonable period.

How did the Board review its performance?

In June 2008 we published our Governance Framework containing individual profiles for Board members and terms of reference for the Board and its Committees, against which performance could be measured. In November 2008 the Board agreed that external review of its performance would not be good use of funds at this time, given our own internal resource, but that an external review of our internal process would help us to make sure that our approach to the annual assessment is thorough.

Sir David Michels, Deputy Chairman, led the 2008/09 Board review, assisted by Alison Houston, our Head of Board Performance. In December 2008 each director had a one to one discussion with the Deputy Chairman, enabling him to highlight particular issues or themes to be reviewed.

In February 2009 each director completed a questionnaire electronically to rate performance across the highlighted areas. An unattributed executive summary was then distributed to all directors and discussed at the Board meeting in March 2009.

The 2008/09 review has confirmed that:
- whilst the Board had committed additional time to strategic development and brought forward its deliberations to respond to the changing economic climate, the balance of time spent on strategic and operational issues still needed to be monitored;
- succession planning and leadership development required sustained focus to identify and develop leaders of tomorrow. The appointment of Jan du Plessis as a non-executive director had enhanced the independence, skills and experience on the Board; and
- information presented to the Board on wider stakeholders was helpful. This included regular presentations on customer sentiment and the competition which gave a valuable insight into the market and behaviours using independent analysis.

External review During 2008/09 we worked with external consultants who advise companies on how to get the best value out of governance. We used their online tool with electronic questionnaires for the Board and committee reviews and to produce the executive summary of the results.

In April 2009 they analysed with us the results of our Board assessment, gave us feedback on our process and reviewed the action plans we have set ourselves as a result. We are also discussing with them ways of benchmarking the progress we make on those actions during 2009/10.

Board committee performance The Nomination and Governance, Remuneration and Audit Committees have each conducted reviews of their own performance as described for the Board. More information is given in their respective reports on pages 58 to 60.

CELEBRATING 125 YEARS – 1884–2009

The Company has come a long way since 1884, but the values on which Michael Marks built his Penny Bazaar are just as true: **Quality, Value, Service, Innovation** and **Trust.**

We are recognising the importance of our corporate archive and relocating it to Leeds, the Company's original home. We are working with the University of Leeds to open an exhibition to the public on their campus in June 2009 and preserve and relocate our complete archive by 2011.

We have created ranges of products for our customers to buy during 2009, inspired by archive products and designs.

We have also set ourselves the challenge to raise £1.25m over 125 days for local charities by September 2009.

Our corporate archive at the University of Leeds will:

– provide business information internally for commercial gain;
– promote our reputation externally via our heritage;
– provide access for our customers, employees and academia; and
– preserve our past for future generations and enable us to learn lessons for the future.

Individual performance The Chairman has reviewed the performance of the executive directors individually against set objectives. Remuneration is directly linked to these reviews and is determined by the Remuneration Committee.

Our Governance Framework gives particular emphasis on governance accountabilities for the Chairman, Deputy Chairman and non-executive directors during the tenure of combined Chairman and Chief Executive. The Deputy Chairman has reviewed the performance of the Chairman against these accountabilities and business objectives and confirms that he continues to demonstrate effective leadership.

The Board has determined that each non-executive is independent in character and judgement; makes an effective and valuable contribution to the Board, and demonstrates commitment to the role, including giving sufficient time to M&S.

Induction and ongoing development On appointment, the Head of Board Performance met with our new non-executive director, Jan du Plessis, to agree a customised induction programme which included individual meetings with business unit directors and store managers to gain an understanding of their respective operations. He has also met with a representative body of shareholders to listen to their respective views on Marks & Spencer.

The Group Secretary is an important resource to the non-executives to make sure that timely information is given to them to enable full and proper consideration of agenda items. He also keeps the directors informed on governance, regulation and legislative change through his written report to each Board meeting.

Our online Board portal provides easy access to information for directors to carry out their duties and for ongoing development.

What is the Board's focus for 2009/10?

Good governance is a matter of continuous development. We are not standing still.

We are putting in place our Board Action Plan for 2009/10. In May 2009 the Board discussed the findings from its Board review and agreed actions for 2009/10 within three key areas:

1. An independent Board: harness the experience and talent of the non-executive directors to invest in the business for the long term, to be well placed when the market improves;
2. An informed Board: improve the depth and breadth of information given to the Board to facilitate robust decision-making during the economic downturn;
3. A responsible Board: reinforce our brand reputation and stakeholder relationships for the long term success of M&S through our brand values (how we differentiate M&S), Plan A (how we do business) and our Code of Ethics (how we behave).

We are now developing an approach to monitoring the progress we make on these actions.

How did we comply with the Combined Code?

The governance rules which apply to UK companies listed on the London Stock Exchange are found in the Combined Code on Corporate Governance (the 'Code') which was updated by the Financial Reporting Council in June 2008.

Throughout the year ended 28 March 2009 the Company complied with all Code provisions with the exception that from 1 June 2008 the role of Chairman and Chief Executive has been exercised by the same individual, Sir Stuart Rose (A.2.1). We plan to revert to recommended best practice no later than July 2011.

Corporate governance
continued

From the boardroom to the shop floor

Governance is not just about the Board – it's about how governance is understood and acted on throughout the business. The Board sets out the Company's values and standards to make sure our people understand and meet our obligations to shareholders and wider stakeholders.

Brand values

Our employees are focused on meeting our customers' expectations every time they shop with us and we aim to live up to these values in everything we do.

Quality
– Deliver high standards consistently
– Act with pace, be decisive and enthusiastic
– Take responsibility for your own performance and take action to improve your development

Value
– Strive to deliver value for money
– Look for opportunities to increase profit
– Challenge yourself and others to be more efficient

Service
– Deliver great service to customers and colleagues
– Have a 'can-do' attitude
– Do what you say you'll do

Innovation
– Recognise trends and take action
– Look for ways to do things better
– Be open to new ideas
– Be willing to step outside your comfort zone

Trust
– Act with integrity
– Think and act as one team
– Listen and consider the input of others
– Challenge constructively and deal with conflict effectively
– Celebrate achievement

Leadership development and succession planning

During the year there was enhanced focus on succession within the Company through presentations at the Nomination and Governance Committee.

We are continuing to identify and develop internal talent, as well as bringing in new people, to make sure we have the right skills in key areas of business focus.

During the year we launched our Lead to Succeed development programme built around our brand values. This is designed to help our senior leaders to develop themselves, lead their teams and our organisation to drive business success. It is a critical component of our future people strategy.

Business Involvement Group

Our Business Involvement Groups ('BIG') are the Company's network of elected employee representatives who represent their colleagues in every store and every business area in the UK.

Through the BIG network the Company informs, involves and consults with employees who have the chance to voice their opinions and ideas, get answers and have their views represented when the business considers changes that affect them.

Over 3,500 BIG members have continued to play a key role in a wide variety of business changes, in what has been a very challenging year.

Code of Ethics

'Doing the right thing' helps us maintain trust in the M&S brand. We all have a responsibility to protect the Company's reputation in everything we do.

Our Code outlines the behaviours that M&S expects when we deal with our customers, colleagues, shareholders, suppliers, communities and the environment.

It also provides a link to our key policies and sets out how employees can raise their concerns.

"The Top 100 Briefings and Director breakfasts introduced this year have brought managers and employees together more regularly to make sure information flows both ways, from the boardroom to the shop floor." Nayna McIntosh, Director of Store Marketing and Design

"Lead to Succeed is bringing to life our M&S brand, helping our senior people to understand the unique nature of leadership in M&S." Tanith Dodge, Director of Human Resources

"The business has had to take some difficult decisions this year, including the restructuring of head office. My role in the consultation process was to ensure the views of colleagues affected by the proposed changes were fairly represented." Ann Govier, member of Corporate BIG

Accountability and audit

The Board's objective is to achieve success for M&S 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.

In doing so, the directors recognise that creating value is the reward for taking acceptable risks.

The Board has overall accountability for the Group's approach to assessing systems of internal control and risk, and for monitoring their effectiveness. Independent assurance is provided by the external auditors and internal audit, who present their findings regularly to the Audit Committee on behalf of the Board.

Internal control and risk assessment are designed to manage, rather than eliminate, the risk of failure to achieve corporate objectives. Accordingly, they can only provide reasonable but not absolute assurance against material misstatement or loss.

Internal control

The Board maintains control and direction over appropriate strategic, financial, operational and compliance issues. It has put in place an organisational structure with formally defined lines of responsibility and delegation of authority.

There are also established procedures for financial planning, capital expenditure, information and reporting systems, and for monitoring the Group's businesses and their performance.

Plans and policies

- communication of the Group's strategy, objectives and targets, values and standards;
- 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 and development 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 director 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.

Risk assessment

Every six months the Board reviews the Group Risk Profile – the tool that drives risk assessment and action planning. This is supported by an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. See the table of principal risks and uncertainties on pages 56 and 57.

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 financial statements. It has been regularly reviewed by the Board and accords with the Internal Control Guidance for directors on the Combined Code produced by the Financial Reporting Council.

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 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.

Corporate governance
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
Economic downturn Our current priorities place a greater emphasis on managing our business through the downturn, underpinning our strong financial position and continuing to invest for the long term, to be well placed when the market improves.		
Strategy We fail to set the strategic direction to balance short-term and long-term profitability	Adverse effect on financial results	– Short-term priorities announced in November 2008 – Significant cost saving initiatives announced in January 2009 – Increased Board discussion concerning strategy with dedicated away-days in 2009
Finance We fail to protect brand and profitable revenues whilst driving cost savings	Adverse effect on financial performance and brand reputation	– Regular monitoring of key brand/profit indicators – Regular monitoring of key service and compliance measures to ensure operating standards in our stores are maintained
We fail to react to changes in foreign currency exchange or inflation rates	Adverse effect on operating costs or accounting impact on operations	– Progressive hedging policy – Close liaison with suppliers to mitigate adverse currency impact – Continued drive of economies of scale
We fail to maintain cost efficient funding	Increased costs and tighter conditions Adverse effect on business and financial results	– Ongoing tight cash flow, working capital and cost management – Tight stock management – Quarterly cash forecasting and tight management of payment terms – Tight control of capital expenditure – Proactive engagement with funding providers and credit agencies – Development of suite of future funding options if and when necessary
We fail to respond to/recover from key counterparty failure	Disruption to supply chain resulting in financial loss Adverse effect on financial performance and brand reputation	– Open and frequent dialogue with our key suppliers on their ability to continue to trade
We fail to react to changes in pension funding requirements	Adverse effect on financial condition	– Continuing dialogue with Trustee to identify appropriate long-term funding solutions
People As we continue to grow our business and invest for the future, it's important we keep strengthening our team at every level from the shop floor to the boardroom.		
We fail to attract, develop and retain talent with the correct skills to succeed into senior positions	Inability to develop and execute business plans Competitive disadvantage	– Increased responsibilities for the executive team to support succession plans and appointment of separate Chairman and CEO by July 2011 – New 'Lead to Succeed' leadership programme to develop and fast track current and potential leaders for tomorrow – Bonus plans linked to individual performance being introduced in 2009/10
We fail to retain the confidence and motivation of our employees	Poor employee morale	– Improved communication at all levels to keep employees engaged and motivated – Tracking of employee satisfaction surveys and resulting actions – Tracking of customer perceptions of service and resulting actions

Risk	Impact	Examples of mitigating activities
Product We are the UK's leading retailer of high quality, great value clothing, food and home products, which are all sourced and made responsibly.		
Clothing We fail to maintain clothing market share We fail to maintain appropriate inventory levels We fail to respond to market trends and consumer preferences	Adverse effect on financial results Adverse effect on market share and customer loyalty	– Better segmentation of our offer across Clothing – Improved cataloguing by demographic and customer profiling – More excitement and newness – Tight management of terminal stocks and slower moving lines – Better management of ways and choice – Strong price architecture – driving Good, Better and Best – Increased efficiencies across our supply chain: better sourcing, faster to market, economies of scale on fabric – Continual review of customer feedback via Customer Insight Unit – Plan A initiatives, eg ethical sourcing
Food We fail to strike the right balance between delivering short-term profit and protecting longer term business growth We fail to halt the decline in market share We fail to maintain product standards	Adverse effect on financial results Adverse effect on market share and customer loyalty Adverse effect on brand reputation	– Continued investment to improve value perceptions with customers without compromising quality – Improved promotional stance and execution – Good pipeline of innovation to maintain our market differentiaion – Focus on improved availability and waste – Continual review of customer feedback via Customer Insight Unit – Plan A initiatives, eg differentiated raw materials
Selling channels We have ambitious plans for our M&S Direct and International businesses as part of our commitment to broadening our multi-channel offer.		
M&S Direct We fail to meet customer expectations when they buy online	Adverse effect on financial results Adverse effect on market share and customer loyalty	– Clear multi-channel strategy (including in-store collection) leveraging our online proposition with our well established retail footprint and marketing activities – Programme to refresh website 'look and feel' and functionality – Focus on improved order fulfilment and customer service – Extended product ranges and customer base
International We fail to grow our international business through franchise operations, partnerships and wholly-owned businesses	Adverse effect on financial results Adverse effect on brand reputation	– Further business development with our partners in India and Central and Eastern Europe – Ongoing review of new markets – Continued growth of our franchise business – New systems/processes to support international trade
Reputation We are proud of our brand values of Quality, Value, Service, Innovation and Trust which differentiate our products and services. We all have a responsibility to protect the Company's reputation in everything we do.		
Plan A We fail to maintain momentum for Plan A in the face of current trading priorities and cost efficiencies Our suppliers fail to meet our ethical standards	Adverse effect on stakeholder trust and confidence Adverse effect on brand reputation Adverse effect on financial performance	– Governance in place to achieve our commitments, including Director of Plan A and clear accountabilities within executive team – Performance reporting developed and increased assurance delivered – Plan A integrated into day-to-day operation including Plan A champions throughout head office and stores – Open dialogue with stakeholders developing our mutual understanding of the challenges we face – Monitoring of our Global Sourcing Standards
Business interruption We fail to recover from a major incident (eg pandemic flu, terrorism, key system failure) which severely impacts our ability to trade	Adverse effect on financial results Adverse effect on stakeholder trust and confidence	– Introduction of Business Continuity ('BC') Committee, as recommended by the Audit Committee, to give greater impetus to existing BC plans to improve our readiness to respond in each business area – Regular reports to the Fire, Health and Safety ('FHS') Committee and to the Board on our FHS performance and culture and increased focus on FHS risks and management KPIs

Corporate governance
continued

Committee effectiveness

The Nomination and Governance Committee

"We need to maintain the right skills and experience on the Board and to develop tomorrow's leaders, to ensure the continued success of M&S."
Sir David Michels, Committee Chairman

Committee membership On 28 March 2009 the Nomination and Governance Committee comprised Sir David Michels (Deputy Chairman and Committee Chairman), Sir Stuart Rose (Executive Chairman) and all five independent non-executive directors: Jeremy Darroch, Martha Lane Fox, Steven Holliday, Louise Patten and Jan du Plessis, who joined the Committee on 1 November 2008 when he was appointed to the Board. Lord Burns chaired the Committee until 1 June 2008 when he retired from the Board.

The Group Secretary acts as secretary to the Committee and ensures that it receives information and papers in a timely manner to enable full and proper consideration of agenda items agreed in advance.

Our activities during the year During 2008/09 the Committee held two formal meetings (see attendance table on page 60). In September 2008 the Board extended its remit to the consideration of wider governance issues and the new conflicts of interest provisions of the Companies Act 2006.

The Deputy Chairman has also held separate meetings on a regular basis with both the Chairman and the non-executives to consider the process and timetable for succession to Chief Executive and to make sure our governance is working.

Leadership development and succession In September 2008 the Committee received a presentation from the Director of Human Resources on senior succession planning, focusing on the business unit directors below the Board. This followed its meeting in June 2008 which reviewed roles below this level. The bench strength in key areas of the business was discussed and opportunities to further develop senior management for future leadership positions. This would involve career opportunities that retain and develop our best people and enable them to gain broad experience across the Group.

During the year we announced changes to the management team to make sure we have a proper mix of upcoming talent, combining new recruits and existing employees. Further consideration was also given to how we induct people into Marks & Spencer to give them the best start.

Board composition On 16 October 2008 we announced the appointment of Jan du Plessis as a non-executive director on 1 November 2008. Jan brings a wide range of international business experience and brand knowledge to the Board. He also refreshes the skills and experience of the Audit Committee. His appointment followed a search by an external consultancy commissioned by the Committee. The candidates were shortlisted by the Chairman and the Deputy Chairman and the preferred candidate then seen by a wider group of directors before being recommended to the Board for appointment.

All directors seek shareholder election at their first Annual General Meeting following appointment and thereafter offer themselves for re-election at least every three years. We announced last year that Sir Stuart Rose will seek re-election each year during his tenure as Executive Chairman.

At our 2009 AGM, in addition to Stuart and our new non-executive director, Jan du Plessis, the following directors will seek re-election: Sir David Michels, Jeremy Darroch and Louise Patten, who are the chairmen of our principal board committees.

Committee performance review In February 2009 Committee members completed a questionnaire electronically to rate their performance. An unattributed executive summary was then distributed to all members for discussion.

The 2008/09 review has confirmed that:
- there is a robust process in place to identify and develop leaders of tomorrow; and
- we are on track to be able to separate the roles of Chairman and Chief Executive by July 2011.

The Committee has set itself some key actions for 2009/10 to:
- keep under review the ongoing development of leadership to meet the successional needs of the business;
- continue to review internal and external candidates for the separate roles of Chairman and Chief Executive; and
- keep the governance structure under review to make sure it adds value to the Company's performance.

The Remuneration Committee

"We pay for performance, to reward our leaders for delivering success for the business and our shareholders."
Louise Patten, Committee Chairman

Committee Membership On 28 March 2009 the Remuneration Committee comprised four independent non-executive directors: Louise Patten (Committee Chairman), Martha Lane Fox, Steven Holliday and Sir David Michels.

The Group Secretary acts as secretary to the Committee and ensures that it receives information and papers in a timely manner to enable full and proper consideration of agenda items agreed in advance in its annual meetings planner.

The remuneration of the non-executive directors is determined by the Chairman and the executive directors.

Our activities during the year During 2008/09 the Committee held four meetings (see attendance table on page 60). Its activities during the year included:
- a review of the total reward framework for directors and senior managers;
- salary and benefit reviews for directors and senior managers, including all packages for joiners and leavers;
- agreement to all share plan awards and vestings;
- target setting for bonus and share incentive plans;
- a review of investor feedback on the 2008 AGM vote on remuneration (87.16% in favour); and

– a review of guidelines from advisory bodies and institutional investors on executive remuneration.

Further information on the Committee's activities is given in the Remuneration report on pages 62 to 71.

Committee performance review In February 2009 Committee members completed a questionnaire electronically to rate their performance. An unattributed executive summary was then distributed to all members for discussion.

The 2008/09 review has confirmed that:
– the Committee has confidence in the alignment of senior remuneration with the Company's strategic aims;
– all targets set (both financial and non-financial) are sufficiently challenging; and
– the Committee understands and monitors investor concerns and receives sufficient information, advice and support to assist its decision-making.

The Committee has set itself some key actions for 2009/10 to:
– set a senior remuneration framework that continues to ensure 'pay for performance'; and
– make sure that the reward framework remains aligned to the business strategy.

The Audit Committee

"We need robust reporting and controls. Our oversight of management and financial reporting enables us to give shareholders the necessary assurances."
Jeremy Darroch, Committee Chairman

Committee membership On 28 March 2009 the Audit Committee comprised five independent non-executive directors: Jeremy Darroch (Committee Chairman), Martha Lane Fox, Steven Holliday, Sir David Michels and Jan du Plessis, who joined the Committee on 1 November 2008 when he was appointed to the Board.

The Board has satisfied itself that at least one member of the Committee has recent and relevant financial experience and is confident that the collective experience of Committee members enables it to be effective. The Committee also has access to the financial expertise of the Group, its external and internal auditors and can seek further professional advice at the Company's expense, if required.

The Group Secretary acts as secretary to the Committee and ensures that it receives information and papers in a timely manner to enable full and proper consideration of agenda items agreed in advance in its annual meetings planner.

Our activities during the year During 2008/09 the Audit Committee met five times (see attendance table on page 60) to coincide with key dates in the Company's financial reporting and audit cycle. In September 2008 the Committee decided to increase the number of times it met during the year from four to five times to give more time to review with management the findings of internal audits relating to key business processes and the principal risks facing the Group.

In October 2008 the Committee reviewed and updated its terms of reference in line with new Financial Reporting Council Guidance on Audit Committees.

Its activities during the year included a review of:
– finance reports and accounting policies relating to full year and half year results;
– engagement letter and Audit Engagement Policy for the external auditors;
– reports from the external auditors on the major findings from their audit work;
– internal audit reports on reviews of key business areas and processes, undertaken as agreed in advance by the Committee;
– internal controls and risk management;
– tax risk management;
– going concern and counterparty risks;
– property values;
– code of ethics and whistleblowing;
– directors' travel and expenses;
– reports from management on e-commerce, finance processes and business continuity;
– progress against Plan A targets for carbon emissions, energy efficiency and waste to landfill; and
– assurance programme for our How We Do Business Report (Plan A and CSR).

At the end of each meeting the Committee held separate meetings with the external and internal auditors, without management present, to discuss matters relating to their respective areas and any issues arising from their audits. These discussions, together with respective audit findings and stakeholder feedback, assisted the Committee in determining the effectiveness and objectivity of external and internal audit.

External auditors The external auditors, PricewaterhouseCoopers LLP ('PwC'), 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.

The Committee keeps under review the independence and objectivity of the external auditors and the effectiveness of the audit process. It has reviewed and updated the Auditor Engagement Policy which requires prior Committee approval for certain engagements. On occasions, the nature of 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.

Corporate governance
continued

Arrangements have been made, in conjunction with PwC, for audit partner rotation in accordance with the recommendations of the Auditing Practices Board. In 2008/09 Stuart Watson succeeded Ranjan Sriskandan, who had been in place since 2003/04, as lead audit engagement partner.

The Committee has recommended to the Board that PwC be proposed for reappointment by shareholders at the AGM on 8 July 2009 when the Committee Chairman will be available to answer any audit-related questions.

As authorised by shareholders at the AGM on 9 July 2008, the Committee determined the level of audit and non-audit fees for 2008/09 for the external auditors on behalf of the Board. Details are given in note 4 to the financial statements.

Internal audit 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 internal audit each year on the department's work and findings and regular updates on specific issues. The Committee monitors and assesses the role and effectiveness of internal audit on behalf of the Board.

In January 2009 the Committee approved proposals for structural changes to internal audit as part of the Head Office review. Internal audit will continue to focus on key business risks. Senior management will update the Audit Committee directly on the controls and risk management systems operating in their areas of responsibility.

Committee performance review In February 2009 Committee members completed a questionnaire electronically to rate their performance. An unattributed executive summary was then distributed to all members for discussion.

The 2008/09 review has confirmed that:
- the Committee focuses its time effectively on the priority issues and the extra meeting has enabled more direct input from senior management; and
- The Committee's increased oversight of risks has enabled it to gain a greater understanding of management's response to the economic downturn.

The Committee has set itself some key actions for 2009/10 to:
- increase focus on risk assessment and mitigating controls by management to achieving financial and non-financial KPIs during the economic downturn;
- spend more time directly with senior management to hear how they are responding to audit findings; and
- challenge the risks and controls relating to the development of financial and other IT systems to make sure our investment is well spent.

Board and Committee attendance

On 28 March 2009 the Board comprised 10 directors as set out below. Jan du Plessis joined the Board as a non-executive director on 1 November 2008. Lord Burns retired as Chairman on 1 June 2008, when Sir Stuart Rose was appointed Executive Chairman and Sir David Michels was appointed Deputy Chairman. Steven Esom retired as an executive director on 1 July 2008. See individual committee reports on pages 58 to 60 for details of their membership.

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

Name of director	Board		Nomination and Governance Committee		Remuneration Committee		Audit Committee	
	A	B	A	B	A	B	A	B
Chairman								
Sir Stuart Rose	10	10	2	2	–	–	–	–
Deputy Chairman								
Sir David Michels	10	10	2	2	4	4	5	5
Executive directors								
Kate Bostock	10	10	–	–	–	–	–	–
Ian Dyson	10	10	–	–	–	–	–	–
Steven Sharp	10	10	–	–	–	–	–	–
Non-executive Directors								
Jeremy Darroch	10	10	2	2	–	–	5	5
Martha Lane Fox	10	10	2	2	4	4	5	5
Steven Holliday(1)	10	9	2	1	4	4	5	4
Louise Patten	10	10	2	2	4	4	–	–
Jan du Plessis	6	6	0	0	–	–	2	2

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 meetings of the Board and Nomination and Governance Committee on 25 June 2008 and the Audit Committee on 29 October 2008 due to overseas business commitments with National Grid. Steven reviewed the relevant papers and provided comments in advance to the Chairman, or Committee Chairman as appropriate.

2 Lord Burns attended the Board meetings held on 6 and 19 May 2008.

3 Steven Esom attended the Board meetings held on 6 and 19 May and 25 June 2008.

Relations with shareholders

Institutional investors

Our Deputy Chairman, Sir David Michels, maintains regular contact with principal investors and representative bodies and met more frequently with them during 2008/09 to keep the Board informed on their governance views. We understand shareholder concerns on the combined role of Chairman and Chief Executive, which is why we are making sure our governance is robust.

The Board also receives independent feedback on investor relations through an annual presentation by independent advisors. This contains major investor views on Company management and performance based on the results of an extensive survey undertaken in April.

Our executive directors also play a role in our relationship with institutional investors, meeting with them throughout the year. All of the executive directors also attend our full and half year results presentations.

As the focal point of contact for investors, brokers and analysts, our investor relations team met with representatives from over 250 investment institutions during 2008/09. Although many meetings were in the UK, the team also travelled extensively throughout Europe and North America.

Private investors

We make special efforts to make sure communications and policies are appropriate for our private investors as they own a high percentage (c30%) of our shares.

We include a postage paid topics card with the AGM Notice of Meeting so that shareholders can make their views known to us. The three most frequently raised topics are addressed at the AGM and a summary of all comments is provided to the Board and directors of each business unit. Throughout the year shareholders can also email the Chairman with their comments, write to us or call our telephone helplines.

As many shareholders are also customers, shareholder vouchers were once again distributed with our January dividend. In addition to our registered shareholders, we saw an increased level of nominee participation this year helping us to distribute even more vouchers to indirect investors.

Annual General Meeting

Our AGM is one of the most well attended meetings from the top 350 UK listed companies, regularly attracting over 1,500 people. Shareholders who are unable to attend are encouraged to lodge their vote in advance of the meeting electronically or by using the proxy card sent with the Notice of Meeting. In 2008 89% of the proxy votes received were lodged electronically through the CREST system. We also provide online voting for private investors at sharevote.co.uk.

Prior to the meeting an exhibition is hosted by our senior retail and business managers. The meeting commences with a business presentation and then the Chairman, and other members of the Board, answer questions raised by shareholders. All directors attend the meeting, including the chairmen of the Nomination and Governance, Remuneration and Audit Committees.

Shareholders are then invited to vote on the resolutions by poll, using the electronic Vote Now system. 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. The indicative result is screened at the meeting with the final results announced via the London Stock Exchange.

For more information on the resolutions being proposed at this year's AGM, see the enclosed Notice of Meeting booklet. This includes the Company's response to a resolution requisitioned by the Local Authority Pension Fund Forum on the combined role of Chairman and Chief Executive, which the Board recommends that shareholders vote against as it is not in the best interests of the Company.

Electronic communication

Following consultation in January 2008, the principal method of communicating with our shareholders is via our corporate website. In recognition of this, extensive work has gone into the redesign and development of **marksandspencer.com/thecompany** which now provides increased functionality and a wealth of up-to-date and historical information.

Webcasts of both our annual results in May and our half year results in November, together with 'News Alert' emails throughout the year, allow us to communicate globally with all stakeholder groups.

Corporate website

There is a wealth of information online, including:
www.marksandspencer.com/thecompany

- A detailed account of how we have applied the Code's principles and how we comply with its provisions;
- Latest M&S news and press releases;
- Annual Reports and investor presentations;
- Our Governance Framework which contains individual Board profiles; matters reserved to the Board and terms of reference for its Committees;
- Our Auditor Engagement Policy for the external auditors
- Our Code of Ethics;
- Our Articles of Association; and
- Our response to the FRC's latest consultation on the effectiveness of the Combined Code.

Governance of the Group pension schemes

The Group operates a defined benefit scheme for all employees with an appointment date prior to 1 April 2002 and a defined contribution scheme open to those joining the Company on or after 1 April 2002. More information is given in note 11 on pages 92 to 94.

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

In March 2009 the Trustee Board carried out a review of its own performance through questionnaire responses and one-to-one discussions with the Trustee Chairman. In May 2009 the Trustee Board reviewed the key findings and agreed actions for 2009/10.

In February 2008 the Trustee Board appointed KPMG LLP as its external auditors following a review process.

Remuneration report

The significant change in the economy has impacted not only on the performance of the Company, but also the decisions taken by the Remuneration Committee during the year. Based on the Company's performance in 2008/09 and current market conditions, no salary increases or annual bonus payments were awarded to executive directors during the year. Looking ahead, we will continue to ensure 'pay for performance' is central in all our decisions. For maximum bonus to be earned in 2009/10, executive directors will have to achieve an additional 'stretch' target, which is above that for the rest of the Company, and is approximately 40% greater than the operating plan target. Furthermore, at least 90% of the operating plan target must be achieved before any bonus payment against individual objectives is made. This, together with the challenging Performance Share Plan targets, means that the senior remuneration strategy remains highly geared towards share incentive plans, continuing to align executive directors' reward to that of shareholders.

Louise Patten Chairman of the Remuneration Committee

This Remuneration report has been prepared on behalf of the Board by the Remuneration Committee. The Committee adopts the principles of good governance as set out in the Combined Code and complies with the Listing Rules of the Financial Services Authority, the relevant schedules of the Companies Acts and the Directors' Remuneration Report Regulations 2002. These regulations require the Company's auditors to report on the 'Audited Information' in the report and to state that this section has been properly prepared in accordance with these regulations. For this reason, the report is divided into audited and unaudited information, and is subject to shareholder approval at the Annual General Meeting (AGM) on 8 July 2009.

Part 1: Unaudited Information

Remuneration Committee

Who are the members of the Remuneration Committee?

The following independent non-executive directors were members of the Committee during 2008/09 and continue to be members:

	Period	
Member	From	To
Louise Patten (Chairman since 1 January 2007)	1 February 2006	To date
Martha Lane Fox	1 June 2007	To date
Steven Holliday	15 July 2004	To date
Sir David Michels	26 May 2006	To date

The Committee met four times during the year under review and attendance at the meetings is shown in the attendance table on page 60.

What is the remit of the Remuneration Committee?

The remit of the Committee covers the total remuneration of the Executive Chairman, executive directors and other senior managers. The full terms of reference for the Committee can be found on the Company's website, with the key responsibilities summarised as follows:

- setting a senior remuneration strategy that ensures the most talented leaders are recruited, retained and motivated to deliver results;
- ensuring that the remuneration for the Executive Chairman, executive directors and senior managers reflects both their individual performance and their contribution to the overall Company results;
- determining the terms of employment and remuneration for the Executive Chairman, executive directors and senior managers, including recruitment and termination terms;
- approving the design and targets for any annual incentive schemes that include the Executive Chairman, executive directors and senior managers;
- agreeing the design and targets, where applicable, of all share incentive plans requiring shareholder approval;
- assessing the appropriateness and subsequent achievement of the performance targets related to any share incentive plans; and
- selecting and appointing the external advisors to the Committee.

The Committee continued to retain the services of Hewitt New Bridge Street as external advisors. It also seeks internal support from the Executive Chairman, Group Secretary, Director of Human Resources and Head of Senior Remuneration. They attend the Committee meetings by invitation but are not present for any discussions that relate directly to their own remuneration.

The Committee also regularly reviews external data produced through several surveys and bespoke benchmarking data, including those published by Hewitt New Bridge Street, Monks PwC, Towers Perrin and Watson Wyatt.

What have been the key activities of Remuneration Committee during the year?

In line with its remit, the following key issues were addressed by the Committee during the year:

– approval of the 2008 Directors' Remuneration report and review of the final outcome of AGM voting for the report;

– review of all share plan performance measures against 2007/08 year end targets. Agreement to the full vesting of the 2005 Performance Share Plan and Executive Share Option awards;

– agreement to bonus payments made in July 2008 for senior managers below Board level;

– review and approval of all awards made under the Performance Share Plan and Deferred Share Bonus Plan, taking into account the total value of all awards made under these plans;

– review of and agreement to all executive director and senior manager joining and leaving arrangements, covering all elements of their reward package;

– review of director shareholding guidelines and achievement of these for each executive director;

– half year review of Performance Share Plan awards against target, including ratification of vesting levels for 'good leavers' from the Company;

– review and approval of the total reward framework for directors and senior managers, including long-term and short-term incentives and any associated performance measures;

– consideration of advisory bodies and institutional investors guidelines on executive compensation for 2009;

– annual review of executive directors' and senior managers' base salaries and benefits;

– ratification of any salary increases for senior managers in line with Company principles;

– design and targets for the 2009/10 Annual Bonus Scheme;

– consideration of the targets to be applied to the 2009 Performance Share Plan; and

– review of Committee performance in 2008/09.

Senior remuneration framework

How is the senior remuneration framework aligned to Company strategy?

Alignment of senior remuneration to Company strategy is fundamental to the role of the Committee. The Company's overall plan and objectives are explained earlier in the Annual Report and it is the Committee's role to ensure that our remuneration framework motivates senior managers to deliver these objectives. The Company must be able to recruit and retain leaders who are focused and driven to deliver these business priorities. Incentive plans need to be effective not only in producing financial results but should also drive behaviours that uphold the Company's high ethical standards, for example through individual objectives.

The Committee has the discretion to take into account performance on environmental, social and governance matters when setting the remuneration of the Executive Chairman and executive directors. However, the Committee has decided not to take these into specific account in setting performance targets for 2009/10 in the belief that the structures in place already encourage and reward appropriate behaviours and that relevant operational controls relating to such matters currently exist. These matters are an integral part of individual objectives.

What are the key elements of remuneration for executive directors?

The key elements of remuneration are:

– salary and benefits;

– Annual Bonus Scheme with compulsory deferred shares; and

– Performance Share Plan (PSP).

The Committee considers these components in total to ensure there is the correct balance between reward for short-term success and long-term growth.

Remuneration report
continued

For executive directors, the key elements of remuneration can be summarised as follows:

	Policy	Delivery
Base Pay	Reviewed against: – salary levels in comparably-sized companies and major retailers; – economic climate, market conditions and Company performance; – the level of pay awards in the rest of the business; and – the role and responsibility of the individual director.	– monthly in cash – reviewed annually with any increases normally awarded from 1 January
Benefits	– provided on a market competitive basis – aligned to total reward structure for all employees – affordability	– Group's Pension Scheme – no executive directors are members. They receive a 25% salary supplement in lieu of pension – life assurance cover – car or car cash allowance plus driver – All-employee share schemes (Save As You Earn) – employee product discount

Annual Bonus Scheme: with compulsory deferral into shares	– drive profitability and sales across the whole organisation
	– stretching targets required to achieve maximum payment
	– Group PBT with an individual performance element
	– aligned to shareholder interests
		– bonus potential of:
		  – 60% of salary for 'on-target' performance
		  – 250% of salary for 'maximum' performance
		– compulsory deferral of 60% of bonus earned into shares
		– shares vest after three years, with no further performance condition other than continued employment

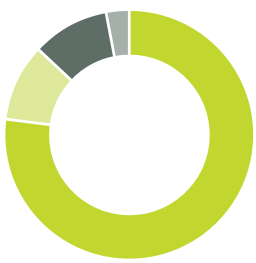
Performance Share Plan	– primary long-term incentive – link individual reward with long-term growth in the Company – aligned to shareholder interests – targets based on EPS over a three-year performance period	– annual awards – normally up to 200% of salary with up to 400% of salary in exceptional circumstances – awards vest after three years based on achievement of performance targets

What is the expected value of future annual remuneration package for executive directors?

The following charts show the total remuneration package split between pay at risk and fixed pay for 'on-target' and 'maximum' performance.

'On-target' performance

'Maximum' performance



The value placed on long-term incentives comprises the expected cash value to executive directors 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. The charts apply to all executive directors as they have the same package for pay at risk and pension supplement.

What are the pay and benefits received by the Board?

Executive directors' remuneration

Salary

Taking into account the Company's performance in 2008/09 and current market conditions for base pay, the Remuneration Committee agreed not to award any salary increases to executive directors in January 2009. Base salaries for each of the executive directors have therefore not increased during the year. This is against an average salary review for the rest of the business of 3.3%. Current annual salaries for executive directors are shown in the Contract terms table on page 67.

Benefits

Executive directors receive a 25% salary supplement in lieu of membership of the Group's Pension Scheme, with life assurance provided through a separate policy. Further details of the Group's Pension Scheme available to other employees can be found in note 11 to the financial statements on page 92 of this Annual Report. Each executive director also receives a car or car cash allowance and is offered the benefit of a driver. The value of the benefits and allowances for each director is shown within the Directors' emoluments table on page 69. Employee product discount is also received but no specific value is placed on this all-employee benefit.

Deputy Chairman's remuneration

The fees for the Deputy Chairman are determined by the Executive Chairman and executive directors and are paid monthly in cash. The fee reflects the level of commitment and responsibility of the role, and is inclusive of all committee memberships and Sir David Michels' continuing role as Senior Independent Director. The fee has not increased since his appointment to the role in June 2008 (£245,000, as reported in last year's Remuneration report). The fee is not performance related nor pensionable and there are no other benefits other than employee product discount.

Non-executive directors' remuneration

The fees for non-executive directors are determined by the Executive Chairman, Deputy Chairman and executive directors and are paid monthly in cash. Fees are set at a level that ensures the Company can attract and retain individuals with the necessary skills, experience and knowledge so that the Board is able to discharge its duties effectively. The fees recognise the responsibility of the role, the time commitment required, and are not performance related nor pensionable. There are no other benefits other than employee product discount.

A review of non-executive director fees was carried out in February 2009 which indicated that the fee levels were appropriate for the role in the current market. No increases were therefore made to either the basic annual fee or for any Committee Chairman or membership. The current fees are as follows:

– basic annual fee:	£55,000
– Committee Chairman:	£12,000*
– Committee member:	£6,000*

* Audit and Remuneration Committee only.

The Directors' emoluments table on page 69 shows the fees paid during the year to each non-executive director.

What are the current short-term and long-term incentive schemes?

Annual Bonus Scheme – short-term incentive
Deferred Share Bonus Plan – long-term incentive

The Annual Bonus Scheme is reviewed each year and is designed to drive profitability and sales across the whole organisation. The bonus potential for executive directors is 60% of salary for 'on-target' performance and 250% of salary for 'maximum' performance. For all senior managers, there is a compulsory deferral into shares. Further details of the Deferred Share Bonus Plan can be found in note 12 to the financial statements on page 97 of this Annual Report.

Bonus scheme outcome for 2008/09

The targets for 2008/09 were extremely demanding in another very challenging trading year for the retail sector. The stretching Profit before tax (PBT) target set at the start of the year was not achieved and therefore the executive directors will not receive any bonus payment based on this measure. 50% of Kate Bostock's bonus was based on profit and sales targets in Clothing, and as these targets were also not met, she will not receive this element of her bonus payment for 2008/09. While the Company has delivered over £1.6bn in profits over the last two years, no executive director bonuses have been earned. This demonstrates that targets are demanding and have not been subject to downward review during the bonus period in either year.

Bonus scheme for 2009/10

The scheme will have the same 'on-target' and 'maximum' bonus potentials as in 2008/09 at 60% and 250% of salary respectively. PBT will continue to be the main target, with 75% of the executive directors' bonus based on this measure. The remaining 25% bonus potential will be based on individual director objectives aligned to the Company's strategic priorities. However, no individual element can be earned unless 90% of 'on-target' PBT has been achieved. This policy for individual objectives aligns executive directors, senior managers and other employees within the Annual Bonus Scheme.

The PBT targets have been set based on the consensus of analysts' profit forecasts and the Company's own internal operating plan. At 90% of 'on-target' PBT, 11.25% of salary becomes payable, rising to 45% of salary for achieving 'on-target' PBT. In order for the maximum bonus to be earned, executive directors will be required this year to achieve an additional 'stretch' target, which is above that for the rest of the organisation, and is around 40% greater than the 'on-target' PBT. As noted previously, 60% of any bonus earned is deferred into shares for three years with no further performance conditions.

Remuneration report
continued

Performance Share Plan (PSP) – long-term incentive

This continues to be the primary long-term incentive for executive directors and senior managers in the Company. The plan normally allows awards up to 200% of salary, although up to 400% of salary may be awarded to recognise exceptional performance or to address key retention issues. The performance targets are based on adjusted earnings per share (EPS) over a three-year period.

Performance Share Plan Outcome 2008/09

The minimum EPS target of RPI+5% over the three-year performance period for awards made in 2006 has not been achieved and so no shares under this PSP award will vest in July 2009.

Performance Share Plan Awards 2009/10

The Committee has again this year reviewed alternative performance measures for this plan, considering in each case the current economic climate and their alignment to business strategy. The Committee concluded that EPS is still the most effective measure of management performance, being easy to understand and a transparent measure of the Company's success and shareholder return.

The targets for 2009 awards will remain unchanged from last year (as shown in the table below) as the Committee believes that the achievement of these targets will reflect significant long-term growth by the Company in a challenging and uncertain economic climate.

As indicated in last year's report, fewer awards in excess of 200% of salary were made in 2008 (three awards compared to four in 2007). In all cases, these were made to ensure the retention of key individuals. In 2009, the Committee will only consider awards in excess of 200% of salary where there is evidence of exceptional performance, or retention issues due to the current vesting forecast for existing PSP awards. Should any awards over 200% of salary be made, the principle of more stretching targets will apply, and the Committee will review the Company's actual performance over the three-year period, as well as EPS performance, to satisfy itself that the vesting of these awards is reasonable. The targets for all awards are:

	Average Annual EPS Growth in excess of inflation (RPI)		
Award	20% vesting	100% vesting	Adjusted EPS for start of scheme
2006	5%	12%	31.4p
2007[1]	4%	10%	
	4%	12%	40.4p
2008[1]	3%	6%	
	3%	8%	43.6p
2009[1]	3%	6%	
	3%	8%	28.0p

1 The lower range is for awards up to 200% of salary and the upper range is for awards between 200% and 400% of salary.

Executive Share Option Scheme – long-term incentive

No grants have been awarded under the Executive Share Option Scheme for 2008/09. The scheme was adopted at the 2005 AGM, but there is currently no intention to use the scheme on a regular basis. The Committee will continue to review the use of the scheme and may grant awards if appropriate.

All outstanding awards met their performance targets in previous years and are exercisable by participants. Executive directors have options granted in 2004 under the 2002 scheme as shown in the Directors' Share Option Schemes table on page 71.

All-Employee Share Schemes – long-term incentive

Executive directors can participate in Sharesave, the Company's Save As You Earn (SAYE) scheme which is open to all employees. The current scheme was approved by shareholders for a 10 year period at the 2007 AGM. The level of employee participation in the scheme is highlighted on page 46 of this Annual Report.

The scheme is subject to HMRC rules which limit the maximum monthly savings to £250. 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.

All executive directors have options granted in 2008, at a 20% discount on the share price at the start of the scheme. The details of the options granted are shown in the Directors' Share Option Schemes table on page 71.

What is the current dilution of share capital by employee share plans?

Awards granted under the Company's Save As You Earn scheme and the Executive Share Option scheme are met by the issue of new shares when the options are exercised. All other share plans are met by market purchase shares when the awards vest. The Company monitors the number of shares issued under these schemes and their impact on dilution limits. The Company's usage of shares compared to the relevant dilution limits set by the Association of British Insurers (ABI) in respect of all share plans (10% in any rolling ten year period) and executive share plans (5% in any rolling 10 year period) was 9.65% and 3.03% respectively on 28 March 2009.

Contracts

What are the current service contracts and terms of employment for directors?

Executive directors

Sir Stuart Rose was appointed Executive Chairman on 1 June 2008.

All executive directors and senior managers have service contracts which 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 equal to the contractual notice entitlement of 12 months' salary and specified benefits. For 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 share schemes ceases on termination.

Deputy Chairman

Sir David Michels was appointed Deputy Chairman on 1 June 2008, and continues in his role as Senior Independent Director. He has an agreement for service which can be terminated on six months' notice by either party (previously three months).

Non-executive directors

Jan du Plessis joined the Board on 1 November 2008. Non-executive directors have agreements for service with the Company for an initial three-year term, which can be terminated on three months' notice by either party.

Directors retiring from the Board during the year

Lord Burns retired formally as Chairman on 1 June 2008, with his retirement having been announced in March 2008. His agreement with the Company required a 12 month notice period and contained a phased payment clause. Lord Burns agreed to commence the 12 monthly payments in lieu of notice from the date of announcement in March, with 10 monthly payments to be made post his retirement date. The final payment was made in March 2009. The details of his payments are set in the Directors' emoluments table on page 69.

Steven Esom retired from the Board on 1 July 2008. On termination of his service contract, the Company acted in accordance with the phase payment clause in commencing the 12 months' payment in lieu of notice. The details of the monthly payments made in 2008/09 are included in the Directors' emoluments table on page 69. The final payment will be made in June 2009, subject to continued evidence of duty to mitigate the loss of employment.

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

	Date of appointment	Notice period/ unexpired term	Basic salary/fee £000	Committee member fee £000	Committee chair/SID fee £000	**Current annual salary/fee £000**
Chairman						
Sir Stuart Rose	31/05/2004	12 mths/6 mths	1,130	–	–	**1,130**
Deputy Chairman						
Sir David Michels	01/03/2006	6 mths/6 mths	245	–	–	**245**
Executive directors						
Kate Bostock	10/03/2008	12 mths/6 mths	500	–	–	**500**
Ian Dyson	27/06/2005	12 mths/6 mths	675	–	–	**675**
Steven Sharp	08/11/2005	12 mths/6 mths	565	–	–	**565**
Non-executive directors						
Jeremy Darroch	01/02/2006	3 mths/3 mths	55	6	12	**73**
Martha Lane Fox	01/06/2007	3 mths/3 mths	55	12	–	**67**
Steven Holliday	15/07/2004	3 mths/3 mths	55	12	–	**67**
Louise Patten	01/02/2006	3 mths/3 mths	55	6	12	**73**
Jan du Plessis	01/11/2008	3 mths/3 mths	55	6	–	**61**

From 1 June 2008 for Sir Stuart Rose as Executive Chairman and Sir David Michels as Deputy Chairman.

What are the executive directors' external board appointments?

The Company recognises that executive directors may be invited to become non-executive directors of other companies and that these appointments can broaden their knowledge and experience to the benefit of M&S. The individual director retains the fee, the details of which are shown below for this financial year:

	Company	**Fee £000**
Sir Stuart Rose	Land Securities Group plc	**55**
Steven Sharp	Adnams plc	**27**

In addition, Steven Esom was a non-executive director of Carphone Warehouse plc. For the period 29 March 2008 – 1 July 2008 (when he was an executive director of M&S) his fees totalled £13,000.

Remuneration report
continued

Directors' interests

What are the directors' interests in the Company?

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 Options Scheme and shares awarded under the Performance Share Plan and Deferred Share Bonus Plan are shown in Part 2 of this report. Further information regarding employee share option schemes is given in note 12 to the financial statements on page 95 of the Annual Report.

There have been no changes in the directors' interests in shares or options granted by the Company and its subsidiaries between the end of the financial year and 5 May 2009, one month prior to the Notice of the Annual General Meeting. No director had an interest in any of the Company's subsidiaries at the beginning or end of the year.

	Ordinary shares as at 29 March 2008	**Ordinary shares as at 28 March 2009**
Sir Stuart Rose	750,416	**1,224,284**
Sir David Michels	28,750	**113,984**
Kate Bostock	71,086	**140,039**
Ian Dyson	100,000	**237,906**
Steven Sharp	83,643	**238,210**
Jeremy Darroch	2,000	**2,000**
Martha Lane Fox	15,000	**20,100**
Steven Holliday	2,500	**2,500**
Louise Patten	8,000	**8,000**
Jan du Plessis	–	**20,000**

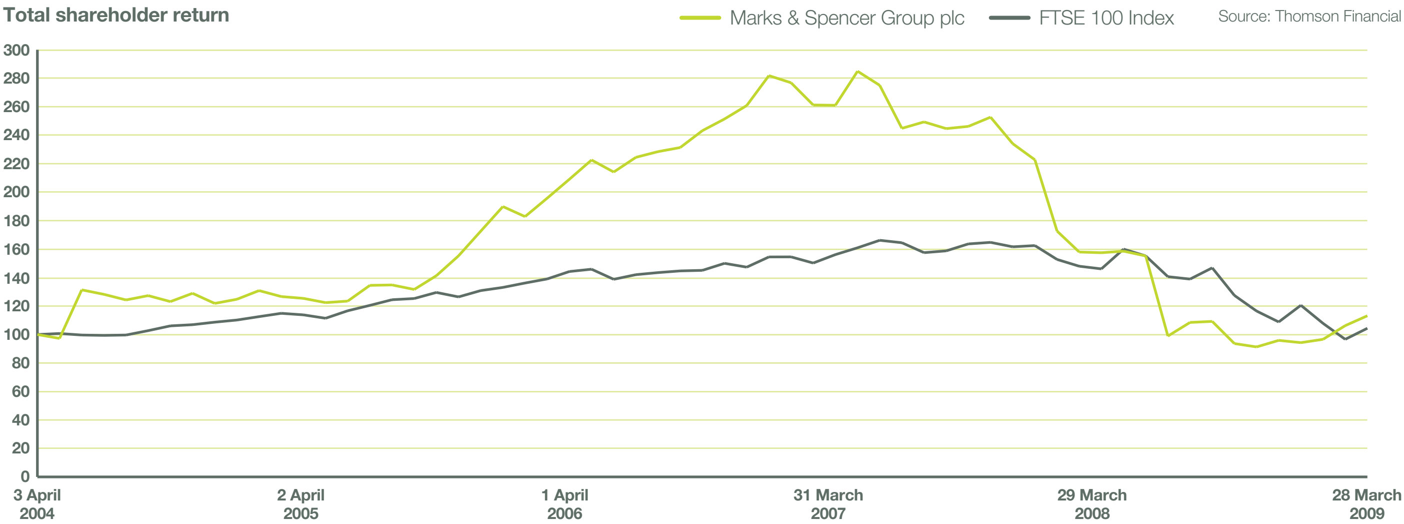
What is the shareholding policy for executive directors?

From 1 June 2002, the Committee agreed that all executive directors are required to hold a minimum percentage of their salary (200% for the Executive Chairman and 100% for all other executive directors) within a five-year period from the date of their appointment. The relevant salary is at date of appointment and the share market value is measured at the current date. All executive directors currently have met, or are on target to meet, their required shareholding.

Total shareholder return

The 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.

Total shareholder return



The above graph looks at the value, at 28 March 2009, of £100 invested in Marks & Spencer Group plc on 3 April 2004 compared with the value of £100 invested in the FTSE 100 Index over the same period. The other points plotted are the values at the intervening financial period-ends.

Part 2: Audited information

Directors' emoluments

	Salary/fee £000	Cash allowance[4] £000	Benefits[4] £000	Dividend equivalents[5] £000	Bonus £000	Termination payments £000	**Total 2009 £000**	Total 2008 £000
Chairman								
Sir Stuart Rose[1]	1,130	302	45	288	–	–	**1,765**	1,375
Deputy Chairman								
Sir David Michels[2]	217	–	–	–	–	–	**217**	79
Executive directors								
Kate Bostock[3]	500	128	18	71	175	–	**892**	39
Ian Dyson[1]	675	186	5	143	–	–	**1,009**	698
Steven Sharp[1]	565	141	33	143	–	–	**882**	701
Non-executive directors								
Jeremy Darroch	73	–	–	–	–	–	**73**	73
Martha Lane Fox	67	–	–	–	–	–	**67**	56
Steven Holliday	67	–	–	–	–	–	**67**	67
Louise Patten	73	–	–	–	–	–	**73**	73
Jan du Plessis	25	–	–	–	–	–	**25**	–
Directors retiring from the Board during the year								
Lord Burns[6]	75	–	1	–	–	350	**426**	453
Steven Esom[7]	134	34	8	–	–	568	**744**	294
Former directors[8]	–	–	–	–	–	–	**252**	284
Total	3,601	791	110	645	175	918	**6,492**	4,192

1 Stuart Rose, Ian Dyson and Steven Sharp did not receive a salary increase during the year and no bonus was earned in 2008/09.

2 In addition to the fees disclosed in the above table, the Company met a due proportion of Sir David Michels' general office and administration costs that related to his Marks & Spencer Board duties. In the year under review, this amounted to £1,667. The arrangement ceased on his appointment to Deputy Chairman on 1 June 2008.

3 Kate Bostock did not receive a salary increase during the year and no bonus was earned in 2008/09 under the Annual Bonus Scheme. £175,000 was earned in 2008/09, which was the second payment under a three year cash bonus retention arrangement. The final instalment of this bonus arrangement will be paid in 2009/10. Her cash allowance and benefits include a 25% supplement on her salary earned above the Group's Pension Scheme cap as she was a member of the Retirement Plan until June 2008. Post June 2008, her cash allowance included a 25% salary supplement in lieu of pension. In addition, the Company's contribution into the Retirement Plan for 2008/09 for the period when she was a member was £2,306. The figure shown in the Total 2008 column was only for the period when she was an executive director (10 March 2008 – 29 March 2008).

4 The elements included in the Cash allowance and Benefits columns of the table are described in detail in the Benefits section on page 65 and have been audited.

5 Dividend equivalents were accrued over the three year vesting period for the 2005 PSP share awards. The shares vested in full in July 2008 (as shown in the table on page 70) and the dividend equivalents accrued on these shares were paid as cash in August 2008.

6 Lord Burns retired from the Board on 1 June 2008. As per his agreement, the termination payments were phased, made on a monthly basis. The total shown in the table above comprises 10 months' fees. There are no further payments to be made.

7 Steven Esom retired from the Board on 1 July 2008, and under the terms of his service contract, the termination payments are phased, and payable on a monthly basis. The termination payments include nine month's payments and benefits in line with this contract provision. The maximum number of outstanding phased monthly payments are three, which, if made, will be paid in 2009/10

8 The £252,000 in 2009 relates to payments to former directors including those made 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 £85,434 (£82,148 in 2008) payable until 22 April 2009, and Derek Hayes who received £59,607 (£76,422 in 2008). The payments for Derek Hayes ceased on 19 November 2008.

The pension scheme entitlement for Clinton Silver is supplemented by an additional, unfunded pension paid by the Company, which for 2009 was £107,363 (£103,233 in 2008).

Remuneration report
continued

Directors' long-term incentive schemes

Share Schemes

	Date of award	Maximum shares receivable at 30 March 2008	Shares awarded during the year	Shares vested during the year	Shares lapsed during the year	**Maximum shares receivable at 28 March 2009 or date of leaving**	Market value on date of award (p)	Market value on date of vesting (p)	Date of vesting
Chairman									
Sir Stuart Rose									
Performance Share Plan[1]	25/07/05	473,868	–	473,868	–	**–**	358.75	259.75	25/07/08
	19/07/06	663,755	–	–	–	**663,755**	572.5	–	19/07/09
	05/06/07	594,395	–	–	–	**594,395**	706.6	–	05/06/10
	09/06/08	–	1,184,486	–	–	**1,184,486**	381.6	–	09/06/11
Deferred Share Bonus Plan[2]	05/06/06	35,125	–	–	–	**35,125**	550.0	–	05/06/09
	05/06/07	222,898	–	–	–	**222,898**	706.6	–	05/06/10
Total		1,990,041	1,184,486	473,868	–	**2,700,659**			
Executive directors									
Kate Bostock									
Performance Share Plan[1]	25/07/05	117,073	–	117,073	–	**–**	358.75	259.75	25/07/08
	19/07/06	157,205	–	–	–	**157,205**	572.5	–	19/07/09
	05/06/07	169,827	–	–	–	**169,827**	706.6	–	05/06/10
	09/06/08	–	262,054	–	–	**262,054**	381.6	–	09/06/11
Deferred Share Bonus Plan[2]	05/06/06	25,404	–	–	–	**25,404**	550.0	–	05/06/09
	05/06/07	28,985	–	–	–	**28,985**	706.6	–	05/06/10
Total		498,494	262,054	117,073	–	**643,475**			
Ian Dyson									
Performance Share Plan[1]	25/07/05	234,146	–	234,146	–	**–**	358.75	259.75	25/07/08
	19/07/06	331,878	–	–	–	**331,878**	572.5	–	19/07/09
	05/06/07	297,197	–	–	–	**297,197**	706.6	–	05/06/10
	09/06/08	–	530,660	–	–	**530,660**	381.6	–	09/06/11
Deferred Share Bonus Plan[2]	05/06/06	48,579	–	–	–	**48,579**	550.0	–	05/06/09
	05/06/07	111,449	–	–	–	**111,449**	706.6	–	05/06/10
Total		1,023,249	530,660	234,146	–	**1,319,763**			
Steven Sharp									
Performance Share Plan[1]	25/07/05	234,146	–	234,146	–	**–**	358.75	259.75	25/07/08
	19/07/06	331,878	–	–	–	**331,878**	572.5	–	19/07/09
	05/06/07	297,197	–	–	–	**297,197**	706.6	–	05/06/10
	09/06/08	–	592,243	–	–	**592,243**	381.6	–	09/06/11
Deferred Share Bonus Plan[2]	05/06/06	64,772	–	–	–	**64,772**	550.0	–	05/06/09
	05/06/07	111,449	–	–	–	**111,449**	706.6	–	05/06/10
Total		1,039,442	592,243	234,146	–	**1,397,539**			
Directors retiring from the Board during the year									
Steven Esom									
Performance Share Plan[1 4]	05/06/07	141,522	–	–	141,522	**–**	706.6	–	–
Deferred Share Bonus Plan[2]	09/06/08	–	65,513	–	–	**65,513**	381.6	–	–
Restricted Share Plan[3 4]	05/06/07	70,761	–	–	70,761	**–**	706.6	–	–
Total		212,283	65,513	–	212,283	**65,513**			

1 The number of performance shares is the maximum (100%) of the award that could be receivable by the executive director if the EPS performance conditions are fully met as outlined on page 66. The award made in 2006 will lapse on 19 July 2009 as it has not met the minimum EPS target of RPI +5%.

2 Full details of the Deferred Share Bonus Plan are set out on page 97.

3 Steven Esom was awarded shares under the Restricted Share Plan before he was appointed an executive director. Full details of the Restricted Share Plan are set out on page 97.

4 Steven Esom's performance and restricted share awards lapsed in full on leaving.

Share Option Schemes

	Date of grant	Maximum options receivable at 30 March 2008	Options granted during the year	Options exercised during the year	Options lapsed during the year	**Maximum options receivable at 28 March 2009 or date of leaving**	Option price (p)	Option period
Chairman								
Sir Stuart Rose								
Executive Share Option Scheme[1]	20/07/04	979,825	–	–	–	**979,825**	347.0	20/07/07–19/07/14
SAYE[2]	25/11/05	4,613	–	–	4,613	**–**	349.0	–
	21/11/08	–	4,729	–	–	**4,729**	203.0	01/01/12–30/06/12
Total		984,438	4,729	–	4,613	**984,554**		
Executive directors								
Kate Bostock								
Executive Share Option Scheme[1]	24/11/04	249,627	–	–	–	**249,627**	336.5	24/11/07–23/11/14
SAYE	25/11/05	2,679	–	–	–	**2,679**	349.0	01/01/09–30/06/09
	21/11/08	–	4,729	–	–	**4,729**	203.0	01/01/12–30/06/12
Total		252,306	4,729	–	–	**257,035**		
Ian Dyson								
SAYE[2]	25/11/05	4,613	–	–	4,613	**–**	349.0	–
	21/11/08	–	4,729	–	–	**4,729**	203.0	01/01/12–30/06/12
Total		4,613	4,729	–	4,613	**4,729**		
Steven Sharp								
Executive Share Option Scheme[1]	20/07/04	302,593	–	–	–	**302,593**	347.0	20/07/07–19/07/14
	24/11/04	104,010	–	–	–	**104,010**	336.5	24/11/07–23/11/14
SAYE	25/11/05	2,679	–	–	–	**2,679**	349.0	01/01/09–30/06/09
	21/11/08	–	4,729	–	–	**4,729**	203.0	01/01/12–30/06/12
Total		409,282	4,729	–	–	**414,011**		
Directors retiring from the Board during the year								
Steven Esom								
SAYE	23/11/07	1,856	–	–	1,856	**–**	517.0	–
Total		1,856	–	–	1,856	**–**		

1 The Executive Share Options have all been held for three years and have met their performance targets and can therefore be exercised under the scheme rules;

All option prices were below the market value on 28 March 2009;

The performance criteria attached to the Executive Share options Scheme is described on page 66.

2 On 10 November 2008, in accordance with the November 2005 Sharesave scheme terms and conditions, Stuart Rose and Ian Dyson surrendered their awards granted in November 2005.

The market price of the shares at the end of the financial year was 265.25p; the highest and lowest share price during the financial year were 417.0p and 200.0p respectively.

For the tables on pages 70 and 71, the explanation of the performance criteria attached to the the Performance Share Plan and the Executive Share Option Scheme can be found on page 66 and have been audited.

Approved by the Board

Louise Patten Chairman of the Remuneration Committee
London

18 May 2009

Other disclosures

Business review

The Companies Act 2006 requires the Company to set out in the Directors' report a fair review of the business of the Group during the financial year ended 28 March 2009 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 purpose of the Business review is to enable shareholders to assess how the directors have performed their duty under section 172 of the Companies Act 2006.

The information that fulfils the Business review requirements can be found in the following sections of this report.

- Chairman's overview on pages 1 to 11
- Governance overview on pages 12 to 13
- Managing through the recession on pages 14 to 16
- Performance & KPIs on pages 18 to 19
- Brand & Marketplace on pages 20 to 23
- Operating & Financial review on pages 26 to 49
- Principal risks and uncertainties on pages 56 to 57
- Financial Risk Management on pages 102 to 106
- Social, environmental and ethical matters on pages 42 to 47 and within the How We Do Business Report available on our website at **marksandspencer.com/annualreport09**

Pages 1 to 76 inclusive (together with the sections of the Annual Report incorporated by reference) comprise a 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.

An index to other Directors' report disclosures is given on page 76.

Principal activities

Marks and Spencer Group plc is the holding company of the Marks & Spencer Group of companies (the 'Group'). We are 'Your M&S', having grown up from the Penny Bazaar stall to become the UK's leading retailer of clothing, food and home products. As well as having more than 21 million UK customers, we are also an expanding international force, now in 40 territories. A team of 78,000 people and 2,000 suppliers form the bedrock of our business, ensuring our brand will continue to be synonymous with Quality, Value, Service, Innovation and Trust.

Profit and dividends

The profit for the financial year, after taxation, amounts to £508.0m (last year £821.7m). The directors have declared dividends as follows:

Ordinary shares	£m
Paid interim dividend of 8.3p per share (last year 8.3p per share)	130.5
Proposed final dividend of 9.5p per share (last year 14.2p per share)	145.9
Total ordinary dividend, 17.8p per share (last year 22.5p per share)	276.4

The final ordinary dividend will be paid on 10 July 2009 to shareholders whose names are on the Register of Members at the close of business on 29 May 2009.

Share capital

The Company's authorised and issued ordinary share capital as at 28 March 2009 comprised a single class of ordinary shares. Details of movements in the issued share capital can be found in note 25 to the financial statements on page 107. Each share carries the right to one vote at general meetings of the Company. During the period, 2,217,763 ordinary shares in the Company were issued as follows:

- 142,559 shares under the terms of the 2002 Executive Share Option Scheme at prices between 270p and 353p; and
- 2,075,204 shares under the terms of the United Kingdom Employees' Save As You Earn Share Option Scheme at prices between 156p and 559p.

Restrictions on transfer of securities

There are no specific restrictions on the transfer of securities in the Company, which is governed by the Articles and prevailing legislation, nor is the Company aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or that may result in restrictions on voting rights.

Variation of rights

Subject to applicable statutes the Companies Act 1985 and 2006 (in this section the 'Companies Acts'), rights attached to any class of shares may be varied with the written consent of the holders of at least three quarters in nominal value of the issued shares of that class, or by a special resolution passed at a separate general meeting of the shareholders.

Rights and obligations attaching to shares

Subject to the provisions of the Companies Acts, any resolution passed by the Company under the Companies Acts and other shareholders' rights, shares may be issued with such rights and restrictions as the Company may by ordinary resolution decide, or (if there is no such resolution or so far as it does not make specific provision) as the Board (as defined in the Articles) may decide. Subject to the Articles, the Companies Acts and other shareholders' rights, unissued shares are at the disposal of the Board.

Powers in relation to the Company issuing or buying back its own shares

The Company was authorised by shareholders, at the July 2007 AGM, to purchase in the market up to 170 million shares, representing 10% of its issued share capital, as permitted under the Company's Articles. The Company engages in share buy backs to create value for its shareholders, when cash flow permits and there is not an immediate alternative investment use for the funds. The Company announced on 6 November 2007 that it would begin a share buy back programme to purchase up to 10% of the Company's issued share capital. The Company continued to buy back shares until 19 June 2008, buying back a total of 136,643,168 of the ordinary shares in issue, with a nominal value of 25p each.

Of this total amount, 10,901,267 shares were bought back and cancelled in the 2008/09 financial year representing 0.64% of the Company's issued capital at 10 July 2007, the date of the 2007 AGM. No shares have been bought back under the authority granted at the 2008 AGM. An up-to-date summary of all share buy back transactions is available on our website. This standard authority is renewable annually; the directors will seek to renew this authority at the 2009 AGM. It is the Company's present intention to cancel any shares it buys back, rather than hold them in treasury.

The directors were granted authority at the 2008 AGM to allot relevant securities up to a nominal amount of £132,142,878. That authority will apply until the conclusion of this year's AGM. At this year's AGM shareholders will be asked to grant an authority to allot relevant securities (i) up to a nominal amount of £131,511,272, and (ii) comprising equity securities up to a nominal amount of £263,022,544 (after deducting from such limit any relevant securities allotted under (i)), in connection with an offer of a rights issue, (the section 80 Amount), such section 80 Amount to apply until the conclusion of the AGM to be held in 2010 or, if earlier, on 27 September 2010.

A special resolution will also be proposed to renew the directors' powers to make non pre-emptive issues for cash in connection with rights issues and otherwise (the section 89 Amount) up to a nominal amount of £19,726,691.

A special resolution will also be proposed to renew the directors' authority to repurchase the Company's ordinary shares in the market. The authority will be limited to a maximum of 158 million ordinary shares and sets the minimum and maximum prices which will be paid.

Interests in voting rights

Information provided to the Company pursuant to the Financial Services Authority's (FSA) Disclosure and Transparency Rules (DTRs) is published on a Regulatory Information Service and on the Company's website. As at 5 May 2009, the Company had been notified under DTR5 of the following significant holdings of voting rights in its shares.

	Ordinary shares	% of capital	Nature of holding
Brandes Investment Partners, L.P.	111,595,173	6.57%	Indirect interest
Capital Research & Management	80,002,869	5.07%	Indirect interest
Legal & General Group plc	80,527,284	5.00%	Direct and indirect interest
The Wellcome Trust	47,464,282	3.01%	Direct interest

Significant agreements – change of control

There are a number of agreements to which the Company is party that take effect, alter or terminate upon a change of control of the Company following a takeover bid. Details of the significant agreements of this kind are as follows:

– the £400m Medium Term Notes (MTNs) issued by the Company to various institutions on 28 March 2007 under the Group's £3bn Euro Medium Term Note (EMTN) programme contain an option such that, upon a change of control event, combined with a credit ratings downgrade to below sub-investment level, any holder of an MTN may require the Company to prepay the principal amount of that MTN;

– the £250m puttable and callable reset notes issued by the Company to various institutions on 11 December 2007 under the Group's £3bn EMTN programme contain an option such that, upon a change of control event, combined with a credit ratings downgrade to below sub-investment level, any holder of an MTN may require the Company to prepay the principal amount of that MTN;

– the $500m US Notes issued by the Company to various institutions on 6 December 2007 under section 144a of the US Securities Act contain an option such that, upon a change of control event, combined with a credit ratings downgrade to below sub-investment level, any holder of such a US Note may require the Company to prepay the principal amount of that US Note;

– the $300m US Notes issued by the Company to various institutions on 6 December 2007 under section 144a of the US Securities Act contain an option such that, upon a change of control event, combined with a credit ratings downgrade to below sub-investment level, any holder of such a US Note may require the Company to prepay the principal amount of that US Note;

– the £1.2bn Credit Agreement dated 13 August 2004 and the £400m Credit Facility Agreement dated 3 February 2008 between the Company and various banks both contain a provision such that, upon a change of control event, unless new terms are agreed within 60 days, the facilities under these agreements will be cancelled with all outstanding amounts becoming immediately payable with interest;

– the agreement between HSBC and the Company relating to M&S Money dated 9 November 2004 (as amended and restated on 1 March 2005) contains a clause such that, upon a change of control of the Company, any new owner would be obliged to give undertakings to HSBC in respect of the continuation of the agreement, negotiate revised terms or terminate the agreement; and

– the agreement between Marks and Spencer plc and Marks and Spencer Pension Trust Limited (as trustee of The Marks and Spencer Pension Scheme) (the 'Pension Fund') dated 25 March 2009 relating to Marks and Spencer Scottish Limited Partnership (the 'Partnership') contains a clause such that, upon a change of control of the Company, Marks and Spencer plc shall elect either to cause the Partnership to surrender its discretion over the payment of annual distributions to the Pension Fund or to increase the rate at which compensatory interest accrues on any annual payments that Marks and Spencer plc has elected to defer.

The Company does not have agreements with any director or employee that would provide compensation for loss of office or employment resulting from a takeover except that provisions of the Company's share schemes and plans may cause options and awards granted to employees under such schemes and plans to vest on a takeover.

Other disclosures
continued

Board of directors

The membership of the Board and biographical details of the directors are given on pages 12 and 13 and are incorporated into this report by reference. Details of directors' beneficial and non-beneficial interests in the shares of the Company are shown on page 68. Options granted under the Save As You Earn (SAYE) Share Option and Executive Share Option Schemes are shown on pages 70 and 71. Further information regarding employee share option schemes is given in note 12 to the financial statements.

Jan du Plessis was appointed to the Board as a non-executive director on 1 November 2008 and will stand for election at the AGM in 2009. On 8 July 2009 the Group Secretary, Graham Oakley, will retire and will be succeeded by Amanda Mellor, current Head of Investor Relations. Lord Burns and Steven Esom retired from the Board on 1 June 2008 and 1 July 2008 respectively. The appointment and replacement of directors is governed by the Company's Articles of Association, the Combined Code, the Companies Acts and related legislation. The Articles may be amended by a special resolution of the shareholders. Subject to the Articles, the Companies Acts and any directions given by special resolution, the Company's business will be managed by the Board who may exercise all the powers of the Company.

The Company may by ordinary resolution declare dividends not exceeding the amount recommended by the Board. Subject to the Companies Acts, the Board may pay interim dividends, and also any fixed rate dividend, whenever the financial position of the Company, in the opinion of the Board, justifies its payment.

Appointment and retirement of directors

The directors may from time to time appoint one or more directors. The Board may appoint any person to be a director (so long as the total number of directors does not exceed the limit prescribed in the Articles). Any such director shall hold office only until the next AGM and shall then be eligible for election.

At each AGM at least one third of the current directors must retire as directors by rotation. All those directors who have been in office at the time of the two previous AGMs and who did not retire at either of them must retire as directors by rotation. In addition, a director may at any AGM retire from office and stand for re-election. In accordance with the Combined Code, any director who has served more than three three-year terms (other than as a director holding an executive position) is subject to annual re-election. The Board has determined that Sir Stuart Rose will seek re-election each year during his tenure as Executive Chairman.

Directors' conflicts of interest

Conflicts of interest provisions came into effect on 1 October 2008. A survey of Board members' interests and other appointments was carried out and procedures for managing conflicts were agreed. Should a director become aware that he/she, or their connected parties, has an interest in an existing or proposed transaction with Marks & Spencer, he/she should notify the Board in writing or at the next Board meeting. Internal controls are in place to ensure that any related party transactions involving directors, or their connected parties, are conducted on an arm's length basis. Directors have a continuing duty to update any changes to these conflicts.

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 granted indemnities to each of its directors and the Group Secretary to the extent permitted by law. Qualifying third party indemnity provisions (as defined by section 234 of the Companies Act 2006) were in force during the year ended 28 March 2009 and remain in force, in relation to certain losses and liabilities which the directors (or Group Secretary) may incur to third parties in the course of acting as directors (or Group Secretary) or employees of the Company or of any associated company.

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, email and Chairman broadcasts at key points in the year to all head office employees and store management. In addition many of our store colleagues can join the briefings by telephone to hear directly from the Board. These types of communication are supplemented by our employee publications including, 'Your M&S' magazine, and DVD presentations. More than 3,500 employees were elected onto Business Involvement Groups ('BIGs') across every store and head office location to 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, in what has been a very challenging year.

The fourteenth meeting of the European Works Council ('EWC') (established in 1995) will take place in July 2009. This Council provides an additional forum for informing, consulting and involving employee representatives from the countries in the European Community. The EWC will include observers attending from our subsidiary companies established in the Czech Republic and Greece.

Directors and senior management regularly visit stores and discuss with employees matters of current interest and concern to them and the business through listening groups, meetings with BIG members and informal discussion.

Share schemes are a long-established part of our total reward package, encouraging and supporting employee share ownership. In particular, over 26,000 employees currently participate in Sharesave, the Company's all employee Save As you Earn Scheme. Full details of all schemes are given on pages 95 to 97.

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 the 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 age, gender, gender reassignment, colour, ethnic or national origin, disability, hours of work, nationality, religion or belief, marital or civil partner status, disfigurement, political opinions or sexual orientation. All decisions relating to employment practices will be objective, free from bias and based solely upon work criteria and individual merit. The Company is responsive to the needs of its employees, customers and the community at large and we are an organisation which uses everyone's talents and abilities and where diversity is valued.

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 demonstrate our commitment to interviewing those people with disabilities who fulfil the minimum criteria for employment, 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.

Essential contracts or arrangements

The Company is required to disclose any contractual or other arrangements which it considers are essential to its business. We have a wide range of suppliers for the production and distribution of products to our customers. Whilst the loss of or disruption to certain of these arrangements could temporarily affect the operations of the Group, none are considered to be essential, with the exception of certain warehouse operators and the provider of the Company's e-commerce platform.

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 payments are received between 19 and 26 days after the stock was delivered;
- food payments are received between 18 and 25 days after the stock was delivered; 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 28 March 2009 were 20.5 days, or 13.7 working days (last year 15.3 days, or 10.2 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 in 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 fixed assets and leasehold properties, at 28 March 2009 exceeded their net book value (including prepayments in respect of leasehold land) by approximately £0.8m.

Charitable donations

During the year, the Group made charitable donations to support the community of £12.7m (last year £15m). These principally consisted of cash donations of £5.4m (last year £5.4m) which included Breakthrough Breast Cancer, Groundwork, WWF, Shelter, our Marks & Start programme and local community donations. We also donated £1.3m (last year £1.9m) of employee time, principally on Marks & Start and school work experience programmes, and stock donations of £5.7m (last year £7.5m) to a variety of charities including Newlife Foundation for Disabled Children and Shelter.

Political donations

It is our policy not to make donations to any political party. Accordingly neither the Company nor its subsidiaries made any donation to any registered party or other EU political organisation, or incurred any EU political expenditure during the year, as defined in the Political Parties, Elections and Referendums Act 2000 ('PPERA')

The PPERA gives wide definitions of what constitutes political donations and expenditure. Accordingly, as a precautionary measure, to protect the Company, should the Company inadvertently breach the legislation, by making a payment which could be classified as a political donation, approval was granted at the 2006 AGM for the Company and its five principal employing companies to make donations to political organisations and to incur political expenditure up to a maximum of £100,000 per year. This authority will expire at the 2010 AGM.

Post balance sheet event

On 31 March 2009, Marks and Spencer Reliance India Pvt Limited, a 51% subsidiary of the Group, completed the acquisition of 100% of the issued share capital of Supreme Tradelinks Private Limited, which up until this date was the Group's franchisee in India, for cash consideration of £6.5m.

Going concern

In adopting the going concern basis for preparing the financial statements, the directors have considered the business activities as set out on pages 1 to 49 as well as the Group's principal risks and uncertainties as set out on pages 56 and 57. Based on the Group's cash flow forecasts and projections, the Board is satisfied that the Group will be able to operate within the level of its facilities for the foreseeable future. For this reason the Group continues to adopt the going concern basis in preparing its 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 2009 AGM.

Annual General Meeting

The AGM of Marks and Spencer Group plc will be held at the Royal Festival Hall, Southbank Centre, London on 8 July 2009. The Notice of AGM is given, together with explanatory notes, in the booklet which accompanies this report.

Other disclosures
continued

Directors' responsibilities

The directors are responsible for preparing the Annual Report, the Remuneration report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit of the Company and Group for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Remuneration report comply with the Companies Acts and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. The directors confirm that, to the best of their knowledge:

- the Group and Company financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group and the Company; and
- the Business review contained in this report includes a fair review of the development and performance of the business and the position of the Group and the Company, together with a description of the principal risks and uncertainties that it faces.

Disclosure of information to auditor

Each director confirms that, so far as he/(she) is 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 he/(she) ought to have taken as a director to make himself/(herself) aware of any relevant audit information and to ensure that the Company's auditors are aware of that information.

Index to principal Directors' report disclosures

The Directors' report is set out on pages 1-76. Reference to information that fulfils the Business review can be found on page 72. Other disclosures required in the Directors' report can be found on the following pages:

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By order of the Board

Graham Oakley, Group Secretary
London

18 May 2009

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 28 March 2009 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 Directors' report is consistent with the financial statements. The information given in the Directors' report includes that specific information presented in Performance and KPIs and Business review.

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 (2006) 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 Overview, the Performance and KPIs, the Operating and financial review, the Corporate governance statement, the unaudited part of the Remuneration report and all of the information listed on the contents page. 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 judgements 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 28 March 2009 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 Directors' report is consistent with the financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

18 May 2009

Consolidated income statement

	Notes	52 weeks ended 28 March 2009 £m	52 weeks ended 29 March 2008 £m
Revenue	2, 3	**9,062.1**	9,022.0
Operating profit	2, 3	**870.7**	1,211.3
Finance income	6	**50.0**	64.4
Finance costs	6	**(214.5)**	(146.6)
Profit on ordinary activities before taxation	4	**706.2**	1,129.1
Analysed between:			
Before property disposals and exceptional items		**604.4**	1,007.1
Profit on property disposals	3	**6.4**	27.0
Exceptional costs	5	**(135.9)**	–
Exceptional pension credit	5,11	**231.3**	95.0
Income tax expense	7	**(199.4)**	(308.1)
Profit for the year		**506.8**	821.0
Attributable to:			
Equity shareholders of the Company		**508.0**	821.7
Minority interests		**(1.2)**	(0.7)
		506.8	821.0
Basic earnings per share	8A	**32.3p**	49.2p
Diluted earnings per share	8B	**32.3p**	48.7p
Non-GAAP measure:			
Adjusted profit before taxation (£m)	1	**604.4**	1,007.1
Adjusted basic earnings per share	8A	**28.0p**	43.6p
Adjusted diluted earnings per share	8B	**28.0p**	43.2p

Consolidated statement of recognised income and expense

	52 weeks ended 28 March 2009 £m	52 weeks ended 29 March 2008 £m
Profit for the year	**506.8**	821.0
Foreign currency translation differences	**33.1**	21.3
Actuarial (losses)/gains on retirement benefit schemes	**(927.1)**	605.4
Cash flow and net investment hedges		
– fair value movements in equity	**304.8**	(33.5)
– recycled and reported in net profit	**(206.8)**	1.3
– amount recognised in inventories	**(8.6)**	2.4
Tax on items taken directly to equity	**225.8**	(185.7)
Net (losses)/gains not recognised in the income statement	**(578.8)**	411.2
Total recognised income and expense for the year	**(72.0)**	1,232.2
Attributable to:		
Equity shareholders of the Company	**(70.8)**	1,232.9
Minority interests	**(1.2)**	(0.7)
	(72.0)	1,232.2

Consolidated balance sheet

	Notes	As at 28 March 2009 £m	As at 29 March 2008 £m
Assets			
Non-current assets			
Intangible assets	13	**400.3**	305.5
Property, plant and equipment	14	**4,834.0**	4,704.0
Investment property	15	**24.8**	25.0
Investment in joint ventures	16	**13.8**	9.6
Other financial assets	17	**3.0**	3.0
Retirement benefit asset	11	**–**	504.0
Trade and other receivables	18	**336.8**	410.0
Derivative financial instruments	22	**254.0**	18.2
Deferred tax assets	24	**1.6**	–
		5,868.3	5,979.3
Current assets			
Inventories		**536.0**	488.9
Other financial assets	17	**53.1**	48.8
Trade and other receivables	18	**285.2**	307.6
Derivative financial instruments	22	**92.6**	18.4
Cash and cash equivalents	19	**422.9**	318.0
		1,389.8	1,181.7
Total assets		**7,258.1**	7,161.0
Liabilities			
Current liabilities			
Trade and other payables	20	**1,073.5**	976.6
Borrowings and other financial liabilities	21	**942.8**	878.6
Partnership liability to the Marks & Spencer UK Pension Scheme	21	**71.9**	50.0
Derivative financial instruments	22	**76.2**	35.1
Provisions	23	**63.6**	11.1
Current tax liabilities		**78.9**	37.5
		2,306.9	1,988.9
Non-current liabilities			
Retirement benefit deficit	11	**152.2**	20.5
Trade and other payables	20	**243.8**	191.2
Borrowings and other financial liabilities	21	**2,117.9**	1,936.5
Partnership liability to the Marks & Spencer UK Pension Scheme	21	**68.0**	673.2
Derivative financial instruments	22	**3.0**	–
Provisions	23	**40.2**	14.6
Deferred tax liabilities	24	**225.5**	372.1
		2,850.6	3,208.1
Total liabilities		**5,157.5**	5,197.0
Net assets		**2,100.6**	1,964.0
Equity			
Called-up share capital – equity	25, 26	**394.4**	396.6
Share premium account	26	**236.2**	231.4
Capital redemption reserve	26	**2,202.6**	2,199.9
Hedging reserve	26	**62.6**	(36.9)
Other reserve	26	**(6,542.2)**	(6,542.2)
Retained earnings	26	**5,728.1**	5,707.9
Total shareholders' equity		**2,081.7**	1,956.7
Minority interests in equity		**18.9**	7.3
Total equity		**2,100.6**	1,964.0

The financial statements were approved by the Board and authorised for issue on 18 May 2009. The financial statements also comprise the notes on pages 81 to 111.

Stuart Rose Chairman

Ian Dyson Group Finance and Operations Director

Consolidated cash flow information

	Notes	52 weeks ended 28 March 2009 £m	52 weeks ended 29 March 2008 £m
Consolidated cash flow statement			
Cash flows from operating activities			
Cash generated from operations	28	**1,371.9**	1,236.0
Tax paid		**(81.3)**	(166.2)
Net cash inflow from operating activities		**1,290.6**	1,069.8
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		**–**	(46.4)
Purchase of property, plant and equipment		**(540.8)**	(958.4)
Proceeds from sale of property, plant and equipment		**58.3**	91.6
Purchase of intangible assets		**(121.6)**	(60.6)
Purchase of non-current financial assets		**(4.4)**	–
(Purchase)/sale of current financial assets		**(1.1)**	2.8
Interest received		**12.7**	4.8
Net cash outflow from investing activities		**(596.9)**	(966.2)
Cash flows from financing activities			
Interest paid		**(197.1)**	(88.9)
Cash (outflow)/inflow from borrowings		**(25.8)**	8.7
Drawdown/(repayment) of syndicated bank facility		**108.1**	317.6
Issue of medium-term notes		**–**	631.7
Payment of liability to the Marks & Spencer UK Pension Scheme		**(15.1)**	–
Repayments under finance leases		**(1.0)**	(3.5)
Equity dividends paid		**(354.6)**	(343.6)
Shares issued on exercise of employee share options		**5.3**	31.6
Shares purchased in buy back		**(40.9)**	(555.9)
Purchase of own shares by employee trust		**–**	(31.9)
Net cash outflow from financing activities		**(521.1)**	(34.2)
Net cash inflow from activities		**172.6**	69.4
Effects of exchange rate changes		**7.8**	1.5
Opening net cash		**117.9**	47.0
Closing net cash	29	**298.3**	117.9

	Notes	52 weeks ended 28 March 2009 £m	52 weeks ended 29 March 2008 Restated £m
Reconciliation of net cash flow to movement in net debt			
Opening net debt		**(3,077.7)**	(1,949.5)
Net cash inflow from activities		**172.6**	69.4
Increase/(decrease) in current financial assets		**1.1**	(2.8)
Increase in debt financing		**(66.2)**	(954.5)
Debt financing net of liquid resources acquired with subsidiaries		**–**	(29.6)
Partnership liability to the Marks & Spencer UK Pension Scheme (non-cash)		**539.6**	(199.0)
Exchange and other non-cash movements		**(60.2)**	(11.7)
Movement in net debt		**586.9**	(1,128.2)
Closing net debt	29	**(2,490.8)**	(3,077.7)

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, International Financial Reporting Interpretations Committee (IFRIC) interpretations and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

In adopting the going concern basis for preparing the financial statements, the directors have considered the business activities as set out on pages 1 to 49 as well as the Group's principal risks and uncertainties as set out on pages 56 to 57. Based on the Group's cash flow forecasts and projections, the Board is satisfied that the Group will be able to operate within the level of its facilities for the foreseeable future. For this reason the Group continues to adopt the going concern basis in preparing its financial statements.

Following a review of the definition of net debt, a non-GAAP measure, the directors believe that it is appropriate to include the fair value of derivatives which are directly related to debt instruments within debt. The comparative net debt figure has been restated to reflect this change – see note 29.

The following IFRSs, IFRIC interpretations and amendments have been adopted in the financial statements for the first time in this financial period:

IFRIC 13 – 'Customer Loyalty Programmes' was issued in June 2007. It explains how entities that grant loyalty award credits should account for their obligations to provide free or discounted goods or services to customers who redeem such award credits. It was implemented by the Group from 30 March 2008 and has had no impact on the results or net assets of the Group.

Amendment to International Accounting Standard (IAS) 38 – 'Intangible Assets' was issued in May 2008. It clarifies the timing of the recognition of expenditure on advertising and promotion activities. It was implemented by the Group from 30 March 2008 and has had no material impact on the results or net assets of the Group.

Amendment to IFRS 2 – 'Share-Based Payments' was issued in January 2008. It clarifies the terms 'vesting conditions' and 'cancellations'. It was implemented by the Group from 30 March 2008 and has led to a £12.4m charge to the income statement in the current year.

The following IFRSs, IFRIC interpretations and amendments have been issued but are not yet effective and have not been early adopted by 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 29 March 2009, and will have no impact on the results or net assets of the Group but management is still considering the impact on disclosures.

IFRIC 16 – 'Hedges of a Net Investment in a Foreign Operation' was issued in July 2008. It provides clarification on the accounting for net investment hedges. It is required to be implemented by the Group from 29 March 2009 and is not expected to have a material impact on the results or net assets of the Group.

The International Accounting Standards Board (IASB)'s annual improvements project was published in May 2008 and is effective from 29 March 2009. The project makes minor amendments to a number of standards on topics including investments in associates, intangible assets, borrowing costs and impairment of assets.

Amendment to IAS 39 – 'Financial Instruments: Recognition and Measurement' was issued in July 2008. It prohibits designating inflation as a hedgeable component of a fixed rate debt and the inclusion of time value in the one-sided hedged risk when designating options as hedges. It is required to be implemented retrospectively by the Group from 4 April 2010.

Amendment to IAS 32 – 'Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation' was issued in February 2008. It addresses the liability versus equity classification of certain puttable financial instruments and instruments, or components thereof, which impose upon an entity an obligation to deliver a pro rata share of net assets on liquidation. It is required to be implemented by the Group from 29 March 2009.

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 in 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.

Notes to the financial statements continued

1 Accounting policies continued

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 and online sales are recorded on delivery to the customer.

Exceptional items
Exceptional income and charges are those items that are one-off in nature and create significant volatility in reported earnings and are therefore reported separately in the income statement. This includes costs relating to strategy changes that are not regular running costs of the underlying business and pension credits arising on changes to the UK defined benefit scheme.

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 some 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.

Regular valuations are prepared by independent professionally qualified actuaries in respect of the defined benefit schemes using the projected unit credit method. 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. Assets are only recognised if they are recoverable.

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

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

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. Computer software under development is held at cost less any recognised impairment loss.

Property, plant and equipment
The Group's policy is to state property, plant and equipment at cost less accumulated depreciation and any recognised impairment loss. Assets in the course of construction are held at cost less any recognised impairment loss.

A. Land and buildings The Group's policy is 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; and
- fixtures, fittings and equipment – 3 to 25 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.

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.

1 Accounting policies continued

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.

Inventories

Inventories are valued at the lower of cost and net realisable value using the retail method, which is computed on the basis of selling price less the appropriate trading margin. All inventories are finished goods.

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 of each award using the Black-Scholes model where appropriate.

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.

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 recorded initially at fair value and subsequently measured at amortised cost. Generally, this results in their recognition at nominal value less any 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 fair value, including transaction costs, with the exception of 'fair value through profit and loss'. Financial assets held at fair value through profit and loss are initially recognised at fair value and transaction costs are expensed.

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, gains 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 cannot be reliably measured by other means are held at cost. 'Held to maturity' investments are measured at amortised cost using the effective interest method.

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 initially recorded at the fair value, which equals 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 initially measured at fair value and are subsequently 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 recorded initially at fair value and subsequently measured at amortised cost. Generally this results in their recognition at their nominal value.

Notes to the financial statements continued

1 Accounting policies continued

G. Equity instruments Equity instruments issued by the Company are recorded at the consideration 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 certain hedging 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);
- 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 forecast transaction that is the subject of a cash flow hedge results in the recognition of a non-financial asset or 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 and 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 or non-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.

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 from those calculated. See note 13 for further details.

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. See note 14 for further details.

1 Accounting policies continued

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. See note 14 for further details.

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 accruals 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 underlying 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 one-off in nature and therefore create significant 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, Europe and Asia, 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	
	2009 £m	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m
UK Retail								
Before property disposals and exceptional items	**8,164.3**	8,309.1	**652.8**	972.9				
Profit on property disposals	**–**	–	**6.8**	28.0				
Exceptional costs[1]	**–**	–	**(135.9)**	–				
Exceptional pension credit[1]	**–**	–	**231.3**	95.0				
	8,164.3	8,309.1	**755.0**	1,095.9	**6,229.0**	6,514.4	**(1,649.5)**	(1,928.0)
International Retail								
Owned stores[2]	**625.5**	426.7	**45.8**	44.5				
Franchised stores	**272.3**	286.2	**70.3**	71.9				
Before property disposals	**897.8**	712.9	**116.1**	116.4				
Loss on property disposals	**–**	–	**(0.4)**	(1.0)				
	897.8	712.9	**115.7**	115.4	**481.6**	397.1	**(116.2)**	(77.7)
Total	**9,062.1**	9,022.0	**870.7**	1,211.3	**6,710.6**	6,911.5	**(1,765.7)**	(2,005.7)
Total non-operating assets/(liabilities)[3]					**547.5**	249.5	**(3,391.8)**	(3,191.3)
Total assets/(liabilities)					**7,258.1**	7,161.0	**(5,157.5)**	(5,197.0)

1 See note 5 for further explanation.

2 Owned stores consist of the Marks & Spencer owned businesses in the Republic of Ireland, Hong Kong, China and, since 29 February 2008, Greece, a number of other Balkan states and Switzerland, and since 20 March 2008, the Czech Republic, Slovakia, Latvia and Lithuania, which were included in franchised stores up to that date.

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

Revenue originates in the following geographical segments: United Kingdom £8,436.6m (last year £8,595.3m) and International £625.5m (last year £426.7m). The value of goods exported from the UK, including shipments to international subsidiaries, amounted to £560.7m (last year £499.7m).

Included within UK Retail is an operating profit of £24.8m (last year £28.3m) in respect of fees received from HSBC in relation to M&S Money.

Other segment items:

			2009			2008
	United Kingdom £m	**International £m**	**Total £m**	United Kingdom £m	International £m	Total £m
Revenue						
General merchandise	**3,918.3**	**625.5**	**4,543.8**	4,059.3	491.7	4,551.0
Food	**4,246.0**	**272.3**	**4,518.3**	4,249.8	221.2	4,471.0
	8,164.3	**897.8**	**9,062.1**	8,309.1	712.9	9,022.0
Expenditure on intangible assets excluding goodwill (see note 13)	**120.2**	**0.5**	**120.7**	83.7	–	83.7
Expenditure on property, plant and equipment (see note 14)	**491.6**	**39.7**	**531.3**	919.9	50.9	970.8
Amortisation (see note 13)	**27.1**	**0.2**	**27.3**	21.3	–	21.3
Depreciation (see note 14)	**357.3**	**24.4**	**381.7**	281.7	14.6	296.3

3 Expense analysis

	2009 Before property disposals and exceptional items £m	2009 Property disposals and exceptional items £m	2009 Total £m	2008 Before property disposals and exceptional items £m	2008 Property disposals and exceptional items £m	2008 Total £m
Revenue	**9,062.1**	**–**	**9,062.1**	9,022.0	–	9,022.0
Cost of sales	**(5,690.2)**	**–**	**(5,690.2)**	(5,535.2)	–	(5,535.2)
Gross profit	**3,371.9**	**–**	**3,371.9**	3,486.8	–	3,486.8
Selling and marketing expenses	**(2,074.4)**	**–**	**(2,074.4)**	(1,912.7)	–	(1,912.7)
Administrative expenses	**(570.1)**	**–**	**(570.1)**	(534.5)	–	(534.5)
Other operating income	**41.5**	**–**	**41.5**	49.7	–	49.7
Profit on property disposals	**–**	**6.4**	**6.4**	–	27.0	27.0
Exceptional costs (see note 5)	**–**	**(135.9)**	**(135.9)**	–	–	–
Exceptional pension credit (see note 5)	**–**	**231.3**	**231.3**	–	95.0	95.0
Operating profit	**768.9**	**101.8**	**870.7**	1,089.3	122.0	1,211.3

The cost of sales above includes inventories recognised as an expense in the year.

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

	2009 Selling and marketing expenses £m	2009 Adminis-trative expenses £m	2009 Total £m	2008 Selling and marketing expenses £m	2008 Adminis-trative expenses £m	2008 Total £m
Employee costs (see note 10A)	**923.2**	**231.1**	**1,154.3**	920.4	230.1	1,150.5
Occupancy costs	**439.2**	**77.5**	**516.7**	366.9	64.8	431.7
Repairs, renewals and maintenance of property	**76.6**	**19.1**	**95.7**	79.0	19.8	98.8
Depreciation	**343.5**	**38.2**	**381.7**	266.7	29.6	296.3
Amortisation	**24.6**	**2.7**	**27.3**	19.2	2.1	21.3
Other costs	**267.3**	**201.5**	**468.8**	260.5	188.1	448.6
Operating expenses	**2,074.4**	**570.1**	**2,644.5**	1,912.7	534.5	2,447.2

Notes to the financial statements continued

4 Profit before taxation

The following items have been included in arriving at profit before taxation:

	2009 £m	2008 £m
Net foreign exchange losses/(gains)	**3.6**	(8.0)
Depreciation of property, plant, and equipment		
– owned assets	**371.5**	290.4
– under finance leases	**10.2**	5.9
Amortisation of intangibles	**27.3**	21.3
Profit on property disposals	**(6.4)**	(27.0)
Operating lease rentals payable		
– property	**200.5**	167.5
– fixtures, fittings and equipment	**10.1**	8.4
Exceptional costs (see note 5)	**135.9**	–
Exceptional pension credit (see note 5)	**(231.3)**	(95.0)

Included in administrative expenses is the auditors' remuneration, including expenses for audit and non-audit services, payable to the Company's auditors PricewaterhouseCoopers and its associates as follows:

	2009 £m	2008 £m
Statutory audit services		
Annual audit of the Company and the consolidated accounts	**0.4**	0.3
Audit of subsidiary companies	**0.9**	0.8
	1.3	1.1
Non-audit-related services		
Other services pursuant to legislation	**0.1**	0.3
Tax advisory services	**0.3**	0.4
Other services	**0.2**	0.1
	0.6	0.8

5 Exceptional items

	2009 £m	2008 £m
Property	**(92.5)**	–
Logistics, IT and other	**(32.3)**	–
People	**(11.1)**	–
Exceptional costs	**(135.9)**	–
Changes in the UK defined benefit plan	**231.3**	95.0
Exceptional pension credit	**231.3**	95.0

The exceptional costs relate to a strategic restructure and are not regular running costs of the underlying business, these include:

- £92.5m property-related costs including onerous lease provisions, property, plant and equipment disposals, leasehold premium write-offs and decommissioning costs;
- £32.3m costs related to the rationalisation of IT and logistics networks; and
- £11.1m redundancy costs.

The exceptional pension credit has arisen due to changes in the UK defined benefit pension plan relating to how members' benefits build up. In January 2009 the Group announced that it had made changes to the scheme by capping employees' annual increases in pensionable pay to 1% and changing the early retirement benefits for members who joined the scheme before 1996. There is a credit to the income statement to reflect the impact of adjusting employees' projected final pensionable salaries.

Last year the exceptional pension credit arose due to changes in the plan where, to the extent that members chose the option to limit their future pensionable salary increases to inflation, there was also a credit to the income statement.

6 Finance income/costs

	2009 £m	2008 £m
Bank and other interest receivable	**14.6**	5.5
Pension finance income (net) (see note 11E)	**35.4**	58.9
Finance income	**50.0**	64.4
Interest on bank borrowings	**6.2**	1.9
Interest payable on syndicated bank facility	**41.0**	30.0
Interest payable on medium-term notes	**113.9**	84.0
Interest payable on finance leases	**4.9**	3.4
Fair value movements on financial instruments	**10.5**	–
Unwinding of discount on partnership liability to the Marks & Spencer UK Pension Scheme	**38.0**	27.3
Finance costs	**214.5**	146.6
Net finance costs	**164.5**	82.2

7 Income tax expense

A. Taxation charge

	2009 £m	2008 £m
Current tax		
UK corporation tax at 28% (last year 30%)		
– current year	**127.4**	123.0
– prior years	**(10.7)**	(13.1)
	116.7	109.9
Overseas current taxation	**5.1**	7.5
Total current taxation	**121.8**	117.4
Deferred tax (see note 24)		
– current year	**70.1**	184.0
– prior years	**7.5**	6.7
Total deferred taxation	**77.6**	190.7
Total income tax expense	**199.4**	308.1

B. Taxation reconciliation

	2009 £m	2008 £m
Profit before tax	**706.2**	1,129.1
Taxation at the standard UK corporation tax rate of 28% (last year 30%)	**197.7**	338.7
Depreciation, charges and other amounts on non-qualifying fixed assets	**(4.0)**	0.6
Other income and expenses not taxable or deductible	**2.9**	(1.3)
Exceptional costs	**7.5**	–
Overseas profits taxed at lower rates	**(1.5)**	(6.8)
Impact of change in UK corporation tax rate	**–**	(16.7)
Adjustments to tax charge in respect of prior periods	**(3.2)**	(6.4)
Total income tax expense	**199.4**	308.1

The post-exceptional effective tax rate was 28.2% (last year 27.3%) and the pre-exceptional effective tax rate was 27.0% (last year 27.0%). In the prior year, the change in the standard UK corporation tax rate to 28% from April 2008 resulted in a deferred tax credit of £16.7m, reducing the total effective tax rate by 1.5%.

Notes to the financial statements continued

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:

	2009 £m	2008 £m
Earnings after tax	**508.0**	821.7
Property disposals (net of tax)	**(6.4)**	(27.0)
Exceptional costs (net of tax)	**105.7**	–
Exceptional pension credit (net of tax)	**(166.6)**	(66.5)
Adjusted earnings after tax	**440.7**	728.2

	million	million
Weighted average number of ordinary shares in issue	**1,573.2**	1,671.3
Potentially dilutive share options under Group's share option schemes	**0.8**	16.0
Weighted average number of diluted ordinary shares	**1,574.0**	1,687.3

A. Basic earnings per share

	pence	pence
Basic earnings per share	**32.3**	49.2
Property disposals per share	**(0.4)**	(1.6)
Exceptional costs per share	**6.7**	–
Exceptional pension credit per share	**(10.6)**	(4.0)
Adjusted basic earnings per share	**28.0**	43.6

B. Diluted earnings per share

	pence	pence
Diluted earnings per share	**32.3**	48.7
Property disposals per share	**(0.4)**	(1.6)
Exceptional costs per share	**6.7**	–
Exceptional pension credit per share	**(10.6)**	(3.9)
Adjusted diluted earnings per share	**28.0**	43.2

9 Dividends

	2009 per share	2008 per share	2009 £m	2008 £m
Dividends on equity ordinary shares				
Paid final dividend	**14.2p**	12.0p	**224.1**	203.5
Paid interim dividend	**8.3p**	8.3p	**130.5**	140.1
	22.5p	20.3p	**354.6**	343.6

In addition, the directors have proposed a final dividend in respect of the year ended 28 March 2009 of 9.5p per share amounting to a dividend of £145.9m. It will be paid on 10 July 2009 to shareholders who are on the Register of Members on 29 May 2009. 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:

	2009 Total £m	2008 Total £m
Wages and salaries	**978.8**	930.8
Social security costs	**69.1**	62.3
Pension costs	**67.2**	103.1
Share-based payments	**14.3**	29.0
Employee welfare and other personnel costs	**37.8**	35.7
Ex-gratia costs	**8.4**	10.5
Capitalised staff costs	**(21.3)**	(20.9)
Aggregate remuneration	**1,154.3**	1,150.5
Exceptional redundancy costs (see note 5)	**11.1**	–
Exceptional pension credit (see note 5)	**(231.3)**	(95.0)
Total	**934.1**	1,055.5

Details of key management compensation are given in note 30E.

B. Average number of employees

	2009	2008
UK stores		
– management and supervisory categories	**5,528**	5,267
– other	**63,969**	62,820
UK head office		
– management and supervisory categories	**2,577**	2,599
– other	**1,036**	927
Overseas	**4,754**	3,776
Total average number of employees	**77,864**	75,389

If the number of hours worked was converted on the basis of a normal working week, the equivalent average number of full-time employees would have been 54,153 (last year 52,276).

C. Directors' emoluments

Emoluments of directors of the Company are summarised below. Further details are given in the Remuneration report on pages 62 to 71.

	2009 £000	2008 £000
Aggregate emoluments	**6,240**	3,930

The emoluments exclude payments to former directors of £252,000 (last year £262,000).

Notes to the financial statements continued

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.

The defined benefit section operates on a final salary basis and at the year end had some 21,000 active members (last year 24,000), 57,000 deferred members (last year 58,000) and 42,000 pensioners (last year 39,000). At the year end, the defined contribution section had some 8,000 active members (last year 8,000) and some 1,000 deferred members (last year 1,000).

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 retirement benefits.

Within the total Group retirement benefit cost, excluding the exceptional pension credits, of £31.8m (last year £44.2m), £14.0m (last year £28.0m) relates to the UK defined benefit section, £13.0m (last year £11.7m) to the UK defined contribution section and £4.8m (last year £4.5m) to other retirement benefit schemes.

A. Pensions and other post-retirement liabilities

	2009 £m	2008 £m
Total market value of assets	3,977.0	5,045.5
Present value of scheme liabilities	(4,112.4)	(4,542.3)
Net funded pension plan (deficit)/asset	(135.4)	503.2
Unfunded retirement benefits	(1.0)	(1.3)
Post-retirement healthcare	(15.8)	(18.4)
Net retirement benefit (deficit)/asset	**(152.2)**	**483.5**
Analysed on the balance sheet as:		
Retirement benefit asset	–	504.0
Retirement benefit deficit	(152.2)	(20.5)
	(152.2)	483.5

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:

	2009 %	2008 %
Rate of increase in salaries	1.0	3.1 to 4.5
Rate of increase in pensions in payment for service		
– pre April 1997	2.6	2.8
– between April 1997 and July 2005	2.9	3.5
– post July 2005	2.3	2.4
Discount rate	6.8	6.8
Inflation rate	2.9	3.5
Long-term healthcare cost increases	7.9	8.5

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. £75m.

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 years. 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:

11 Retirement benefits continued

		2009 years	2008 years
Current pensioners (at age 65)	– males	**21.2**	21.0
	– females	**23.6**	23.5
Future pensioners (at age 65)	– males	**22.0**	21.9
	– females	**24.3**	24.3

D. Analysis of assets and expected rates of return

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

	2009 £m	2008 £m	2009 %	2008 %
Property partnership interest	**529.8**	506.6	**13**	10
UK equities	**480.8**	792.1	**12**	16
Overseas equities	**644.3**	1,116.6	**16**	22
Government bonds	**127.2**	465.4	**3**	9
Corporate bonds	**2,278.0**	2,058.5	**58**	41
Cash and other	**(83.1)**	106.3	**(2)**	2
	3,977.0	5,045.5	**100**	100

The expected long-term rates of return are:

	2009 %	2008 %
Property partnership interest	**7.1**	6.0
UK equities	**8.0**	8.3
Overseas equities	**8.0**	8.3
Government bonds	**4.2**	4.6
Corporate bonds	**6.8**	6.0
Cash and other	**4.2**	5.0
Overall expected return	**7.2**	6.7

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 369,793 (last year 479,356) ordinary shares in the Company through its investment in an Aquila Life UK Equity Index Fund.

E. Analysis of amount charged against profits

	2009 £m	2008 £m
Operating cost		
Current service cost	**72.2**	106.1
Curtailment gain	**(5.0)**	(3.0)
Exceptional pension credit (see note 5)	**(231.3)**	(95.0)
	(164.1)	8.1
Finance cost		
Expected return on plan assets	**(334.6)**	(342.7)
Interest on scheme liabilities	**299.2**	283.8
Net finance income	**(35.4)**	(58.9)
Total	**(199.5)**	(50.8)

Notes to the financial statements continued

11 Retirement benefits continued

F. Scheme assets

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

	2009 £m	2008 £m
Fair value of scheme assets at start of year	**5,045.5**	5,227.5
Expected return on scheme assets[1]	**334.6**	342.7
Employer contributions[2]	**92.1**	111.1
Contributions from scheme members	**2.0**	1.0
Benefits paid	**(226.5)**	(220.4)
Actuarial loss	**(1,280.3)**	(422.6)
Exchange movement	**9.6**	6.2
Fair value of scheme assets at end of year	**3,977.0**	5,045.5

1 The actual return on scheme assets was a loss of £945.7m (last year £79.9m).

2 Last year the Group agreed to pre-fund £200.0m of its annual contribution to the UK defined benefit pension scheme for the next three years. The prepayment is in respect of annual contributions to the UK scheme at the rate of 23.7% of pensionable salaries up to 30 September 2009 and then 23.2% up to the next financial year. It is estimated that approximately £66m of the prepayment will relate to the year ended 3 April 2010.

G. Retirement benefit obligations

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

	2009 £m	2008 £m
Present value of obligation at start of year	**4,562.0**	5,510.8
Current service cost	**72.2**	106.1
Curtailment gain	**(5.0)**	(3.0)
Exceptional pension credit	**(231.3)**	(95.0)
Interest cost	**299.2**	283.8
Contributions from scheme members	**2.0**	1.0
Benefits paid	**(226.5)**	(220.4)
Actuarial gain	**(353.2)**	(1,028.0)
Acquisition of subsidiary	**–**	0.4
Exchange movement	**9.8**	6.3
Present value of obligation at end of year	**4,129.2**	4,562.0
Analysed as:		
Present value of pension scheme liabilities	**4,112.4**	4,542.3
Unfunded pension plans	**1.0**	1.3
Post-retirement healthcare	**15.8**	18.4
Present value of obligation at end of year	**4,129.2**	4,562.0

H. Cumulative actuarial gains and losses recognised in equity

	2009 £m	2008 £m
Loss at start of year	**(330.2)**	(935.6)
Net actuarial (losses)/gains recognised in the year	**(927.1)**	605.4
Loss at end of year	**(1,257.3)**	(330.2)

I. History of experience gains and losses

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Experience adjustments arising on scheme assets	**(1,280.3)**	(422.6)	(80.4)	454.3	77.4
Experience gains/(losses) arising on scheme liabilities	**81.2**	(61.5)	18.8	20.0	(24.0)
Changes in assumptions underlying the present value of scheme liabilities	**272.0**	1,089.5	53.0	(643.6)	(131.5)
Actuarial (losses)/gains recognised in equity	**(927.1)**	605.4	(8.6)	(169.3)	(78.1)
Fair value of scheme assets	**3,977.0**	5,045.5	5,227.5	4,606.2	3,956.8
Present value of scheme liabilities	**(4,112.4)**	(4,542.3)	(5,487.0)	(5,381.3)	(4,611.0)
Pension scheme (deficit)/asset	**(135.4)**	503.2	(259.5)	(775.1)	(654.2)

12 Share-based payments

The charge for share-based payments for the year was £14.3m (last year £29.0m). Further details of the option and share schemes that the Group operates are provided in the Remuneration report on pages 62 to 71.

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 HM Revenue & Customs (HMRC) approved Save As You Earn (SAYE) savings contract. HMRC rules limit the maximum amount saved to £250 per month. The price at which options may be offered is 80% of the average mid-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.

	2009		2008	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at beginning of the period	**28,444,760**	**403.1p**	33,241,616	327.6p
Granted	**42,551,459**	**203.0p**	7,716,437	517.0p
Exercised	**(2,075,204)**	**232.7p**	(10,212,015)	234.8p
Forfeited	**(10,958,637)**	**456.4p**	(2,207,700)	450.7p
Expired	**(99,317)**	**261.8p**	(93,578)	235.2p
Outstanding at end of the period	**57,863,061**	**252.2p**	28,444,760	403.1p
Exercisable at end of period	**6,169,324**	**296.9p**	948,372	262.9p

For SAYE share options exercised during the period, the weighted average share price at the date of exercise was 296.2p (last year 535.2p).

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

	2009		2008	
	3-year plan	**5-year plan**	3-year plan	5-year plan
Grant date	**Nov 08**	**Nov 08**	Nov 07	Nov 07
Share price at grant date	**253p**	**253p**	646p	646p
Exercise price	**203p**	**203p**	517p	517p
Option life in years	**3 years**	**5 years**	3 years	5 years
Risk-free rate	**2.9%**	**3.2%**	4.6%	4.6%
Expected volatility	**39.2%**	**33.4%**	21.6%	25.2%
Expected dividend yield	**8.9%**	**8.9%**	2.7%	2.7%
Fair value of option	**54.6p**	**43.9p**	167.5p	201.8p

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 20% of options will lapse over the service period as employees leave the Group.

Outstanding options granted under the UK Employees' SAYE Scheme are as follows:

	Number of options		Weighted average remaining contractual life (years)		
Options granted	**2009**	2008	**2009**	2008	Option price
January 2001	**–**	338,682	**–**	0.3	156p
January 2003	**–**	371,017	**–**	0.3	283p
January 2004	**2,748,699**	4,078,721	**0.3**	1.3	228p
January 2005	**2,705,890**	3,703,910	**1.3**	2.1	280p
January 2006	**5,089,994**	7,164,101	**0.9**	2.1	349p
January 2007	**2,381,588**	5,434,588	**2.0**	3.0	559p
January 2008	**3,114,069**	7,353,741	**3.0**	4.0	517p
January 2009	**41,822,821**	–	**4.0**	–	203p
	57,863,061	28,444,760	**3.3**	2.6	252p

Notes to the financial statements continued

12 Share-based payments continued

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 managers 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 66.

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

	2009		2008	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at beginning of the period	**9,623,518**	**341.0p**	12,017,117	341.2p
Exercised	**(142,559)**	**343.9p**	(2,235,209)	341.0p
Forfeited	**(678,888)**	**340.7p**	(152,698)	348.6p
Expired	**(169,288)**	**550.3p**	(5,692)	527.0p
Outstanding at end of the period	**8,632,783**	**336.8p**	9,623,518	341.0p
Exercisable at end of period	**8,632,783**	**336.8p**	8,444,937	339.4p

For executive share options exercised during the period, the weighted average share price at the date of exercise was 395.3p (last year 645.5p).

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:

	Number of options		Weighted average remaining contractual life (years)		
Options granted	**2009**	2008	**2009**	2008	Option price
1997 Scheme					
June 1998	**–**	161,863	**–**	0.2	557p
November 1998	**–**	7,425	**–**	0.6	404p
June 1999	**98,880**	98,880	**0.3**	1.2	358p
2000 Scheme					
September 2000	**232**	232	**1.5**	2.5	215p
June 2001	**135,989**	135,989	**2.3**	3.3	256p
December 2001	**18,087**	71,658	**2.8**	3.7	350p
2002 Scheme					
June 2002	**579,237**	659,465	**3.3**	4.2	350p
November 2002	**47,150**	47,150	**3.7**	4.7	353p
June 2003	**1,398,584**	1,502,053	**4.3**	5.2	297p
November 2003	**36,109**	36,109	**4.7**	5.7	270p
February 2004	**33,111**	33,111	**4.9**	5.8	270p
July 2004	**4,417,613**	4,831,318	**5.3**	6.3	347p
November 2004	**806,193**	859,684	**5.7**	6.7	337p
June 2005	**1,061,598**	1,178,581	**6.3**	7.2	352p
	8,632,783	9,623,518	**5.0**	5.9	335p

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 managers 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 adjusted earnings per share growth over three years. The value of any dividends earned on the vested shares during the three years will also be paid on vesting. Further details are set out in the Remuneration report on page 66. Awards under this scheme have been made in each year since 2005.

During the year, 6,835,938 shares (last year 3,414,413) were awarded under the plan. The weighted average fair value of the shares awarded was 368.9p (last year 704.0p).

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 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 on vesting.

During the year, 288,656 shares (last year 2,182,379) were awarded under the plan in relation to the annual bonus. The fair value of the shares awarded was 381.6p (last year 706.6p).

E. Restricted Share Plan
The Restricted Share Plan was established in 2000 as part of the reward strategy for retention and recruitment of senior managers who are vital to the success of the business. The plan operates for senior managers below executive director level. Awards under the plan are made as part of ongoing reviews of reward packages, and for recruitment. 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. The value of any dividends earned during the restricted period will also be paid at the time of vesting.

During the year, 1,755,667 shares (last year 328,165) have been awarded under the plan. The weighted average fair value of the shares awarded was 337.8p (last year 604.6p).

F. United Kingdom Share Incentive Plan
The Share Incentive Plan is a discretionary, all-employee plan, approved by HMRC, under which Freeshares may be allocated by the Company. The last award was made in June 2003, which vested in June 2008.

G. 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.

No shares were awarded under the Share Matching Deal Plan during the year.

H. Marks and Spencer Employee Benefit Trust
The Marks and Spencer Employee Benefit Trust (the Trust) holds 4,203,250 (last year 8,795,896) shares with a book value of £27.8m (last year £60.0m) and a market value of £11.1m (last year £34.9m). These shares were acquired by the Trust in the market. In addition, the Trust has entered into a call option to purchase up to 6.3 million 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 awarded to employees by the Trust in accordance with the wishes of Marks and Spencer plc under senior executive share schemes, including the Restricted Share Plan. Dividends are waived on all of these plans except for the Deferred Bonus Share Plan and Restricted Share Plan where dividends are paid via a Dividend Reinvestment Plan for awards made in the form of forfeitable shares.

Notes to the financial statements continued

13 Intangible assets

	Goodwill £m	Brands £m	Computer software £m	Computer software under development £m	Total £m
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
Year ended 29 March 2008					
Opening net book value	69.5	66.7	32.5	25.4	194.1
Additions	48.4	–	18.6	65.1	132.1
Acquisition of subsidiaries	–	–	0.6	–	0.6
Transfers	–	–	12.5	(12.5)	–
Amortisation charge	–	(5.4)	(15.9)	–	(21.3)
Closing net book value	117.9	61.3	48.3	78.0	305.5
At 29 March 2008					
Cost or valuation	117.9	80.0	82.9	78.0	358.8
Accumulated amortisation	–	(18.7)	(34.6)	–	(53.3)
Net book value	117.9	61.3	48.3	78.0	305.5
Year ended 28 March 2009					
Opening net book value	**117.9**	**61.3**	**48.3**	**78.0**	**305.5**
Additions	**1.3**	**–**	**1.9**	**118.8**	**122.0**
Transfers	**–**	**–**	**18.0**	**(18.0)**	**–**
Exchange difference	**–**	**–**	**0.1**	**–**	**0.1**
Amortisation charge	**–**	**(5.3)**	**(22.0)**	**–**	**(27.3)**
Closing net book value	**119.2**	**56.0**	**46.3**	**178.8**	**400.3**
At 28 March 2009					
Cost or valuation	**119.2**	**80.0**	**102.9**	**178.8**	**480.9**
Accumulated amortisation	**–**	**(24.0)**	**(56.6)**	**–**	**(80.6)**
Net book value	**119.2**	**56.0**	**46.3**	**178.8**	**400.3**

Goodwill relates to the following business units:

	Per una £m	Marks and Spencer Marinopoulos B.V. £m	Marks and Spencer Czech Republic a.s. £m	Total £m
Cost and net book value at 29 March 2008	69.5	34.3	14.1	117.9
Additions	–	0.1	1.2	1.3
Cost and net book value at 28 March 2009	**69.5**	**34.4**	**15.3**	**119.2**

Goodwill 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%, which does not exceed the long-term average growth rate for the Group's retail businesses. The Group's pre-tax weighted average cost of capital is used to discount the future cash flows. A risk adjustment is then made for the countries in which the business unit operates: per una discount rate 10.2% (last year 9.5%); Marks and Spencer Marinopoulos B.V. 12.2% and Marks and Spencer Czech Republic a.s. 13.2%. Based on the discounted cash flows the valuations indicate sufficient headroom that any reasonably possible change in the assumptions is unlikely to result in an impairment.

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

14 Property, plant and equipment

	Land and buildings £m	Fixtures, fittings and equipment £m	Assets in the course of construction £m	Total £m
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
Year ended 29 March 2008				
Opening net book value	2,372.9	1,564.1	107.5	4,044.5
Exchange difference	18.4	10.1	5.9	34.4
Additions	82.6	692.8	195.4	970.8
Acquisition of subsidiaries	18.0	11.5	0.2	29.7
Transfers	11.8	110.8	(122.6)	–
Disposals	(73.8)	(5.2)	(0.1)	(79.1)
Depreciation charge	(8.5)	(287.8)	–	(296.3)
Closing net book value	2,421.4	2,096.3	186.3	4,704.0
At 29 March 2008				
Cost	2,525.2	4,473.3	186.3	7,184.8
Accumulated depreciation	(103.8)	(2,377.0)	–	(2,480.8)
Net book value	2,421.4	2,096.3	186.3	4,704.0
Year ended 28 March 2009				
Opening net book value	**2,421.4**	**2,096.3**	**186.3**	**4,704.0**
Exchange difference	**26.3**	**21.4**	**8.4**	**56.1**
Additions	**45.7**	**395.2**	**90.4**	**531.3**
Transfers	**32.2**	**142.4**	**(174.6)**	**–**
Disposals	**(58.4)**	**(17.3)**	**–**	**(75.7)**
Depreciation charge	**(9.2)**	**(372.5)**	**–**	**(381.7)**
Closing net book value	**2,458.0**	**2,265.5**	**110.5**	**4,834.0**
At 28 March 2009				
Cost	**2,566.6**	**4,811.9**	**110.5**	**7489.0**
Accumulated depreciation	**(108.6)**	**(2,546.4)**	**–**	**(2,655.0)**
Net book value	**2,458.0**	**2,265.5**	**110.5**	**4,834.0**

The net book value above includes land and buildings of £45.4m (last year £42.2m) and equipment of £58.7m (last year £35.6m) where the Group is a lessee under a finance lease.

Additions to property, plant and equipment during the year amounting to £32.8m (last year £23.5m) were financed by new finance leases.

15 Investment property

	2009 £m	2008 £m
Cost		
At start and end of year	**25.3**	25.3
Depreciation		
At start of year	**(0.3)**	(0.2)
Depreciation charge	**(0.2)**	(0.1)
At end of year	**(0.5)**	(0.3)
Net book value	**24.8**	25.0

The investment properties were valued at £23.1m (last year £31.7m) as at 28 March 2009 by qualified professional valuers working for CB Richard Ellis, 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 (calculated based on subleases in place at the year end). 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. No impairment has been recognised on the one property which is carried at a higher value than its market value at 28 March 2009. However, the Group intends to re-occupy the property during 2009/10 at which point its value in use will exceed the net book value. The Group received rental income of £1.2m (last year £1.5m) in respect of these investment properties.

Notes to the financial statements continued

16 Investment in joint ventures

	2009 £m	2008 £m
At start of year	9.6	9.3
Investment in new joint venture	4.4	–
Share of (loss)/profit	(0.2)	0.3
At end of year	13.8	9.6

The joint ventures represent a 50% equity interest in Hedge End Park Limited, a property investment company incorporated in Great Britain, and a 50% equity interest in Lima (Bradford) S.a.r.l, a property investment company incorporated in Luxembourg, acquired during the year. The partner in the Hedge End Park Limited joint venture is J Sainsbury plc and the partner in the Lima (Bradford) S.a.r.l joint venture is ProLogis UK Holdings S.A.

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

	2009 £m	2008 £m
Non-current assets	4.9	2.7
Current assets	9.1	7.2
Current liabilities	(0.2)	(0.3)
Net assets	13.8	9.6

17 Other financial assets

	2009 £m	2008 £m
Non-current		
Unlisted investments	3.0	3.0
Current		
Listed UK securities	47.1	43.5
Unlisted investments	6.0	5.3
	53.1	48.8

Other financial assets are measured at fair value with changes in their value taken to the income statement.

18 Trade and other receivables

	2009 £m	2008 £m
Non-current		
Other receivables	27.1	13.5
Prepaid pension contributions	60.7	124.0
Prepaid leasehold premiums	247.6	270.1
Other prepayments and accrued income	1.4	2.4
	336.8	410.0
Current		
Trade receivables	87.7	87.9
Less: Provision for impairment of receivables	(4.2)	(3.3)
Trade receivables – net	83.5	84.6
Other receivables	37.0	32.9
Prepaid pension contributions	65.7	76.0
Prepaid leasehold premiums	10.6	10.9
Other prepayments and accrued income	88.4	103.2
	285.2	307.6

Trade receivables that were past due but not impaired amounted to £9.9m (last year £12.6m) and are mainly sterling denominated.

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 payment received within 48 hours. The carrying amount of these assets approximates their fair value.

The effective interest rate on short-term bank deposits is 0.33% (last year 5.4%); these deposits have an average maturity of three days (last year 26 days).

20 Trade and other payables

	2009 £m	2008 £m
Current		
Trade payables	**357.0**	226.9
Other payables	**426.6**	425.5
Social security and other taxes	**40.4**	56.1
Accruals and deferred income	**249.5**	268.1
	1,073.5	976.6
Non-current		
Other payables[1]	**243.8**	191.2

1 Includes the fair value of the put option £56.3m (last year £52.2m) exercisable on 4 April 2013 and last year contingent consideration for the acquisition of Marks and Spencer Czech Republic a.s. £4.0m payable by April 2010.

21 Borrowings and other financial liabilities

	2009 £m	2008 £m
Current		
Bank loans and overdrafts[1]	**147.9**	257.4
Syndicated bank facility[2]	**781.2**	615.0
Finance lease liabilities	**13.7**	6.2
	942.8	878.6
Partnership liability to the Marks & Spencer UK Pension Scheme	**71.9**	50.0
	1,014.7	928.6
Non-current		
Bank loans	**11.2**	–
6.375% £375m medium-term notes 2011[3]	**382.6**	382.0
5.875% £400m medium-term notes 2012[3]	**417.9**	421.4
5.625% £400m medium-term notes 2014[3]	**399.0**	398.8
6.250% US$500m medium-term notes 2017[4]	**354.4**	253.0
7.125% US$300m medium-term notes 2037[4]	**212.0**	151.1
6.875% £250m puttable callable reset medium-term notes 2037[3,5]	**252.6**	252.9
Finance lease liabilities	**88.2**	77.3
	2,117.9	1,936.5
Partnership liability to the Marks & Spencer UK Pension Scheme	**68.0**	673.2
	2,185.9	2,609.7
Total	**3,200.6**	3,538.3

1 Bank loans and overdrafts includes a £5.0m (last year £5.0m) loan from the Hedge End Park Limited joint venture (see notes 16 and 30).

2 Relates to a £1.2bn committed bank revolving credit facility set to mature on 26 March 2013.

3 These notes are issued under Marks and Spencer plc's £3bn European Medium-Term Note Programme and all pay interest annually.

4 Interest on these bonds is payable semi-annually.

5 These notes include an investor put and issuer call option exercisable in December 2012.

Finance leases

The minimum lease payments under finance leases fall due as shown in the table on the following page. It is the Group's policy to lease certain of its properties and equipment under finance leases. The average lease term for equipment is six 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.

Notes to the financial statements continued

21 Borrowings and other financial liabilities continued

Partnership liability to the Marks & Spencer UK Pension Scheme

Last year the partnership liability of £723.2m related to an amortising liability in respect of obligations of the Marks and Spencer Scottish Limited Partnership to the Marks & Spencer UK Pension Scheme. During the year an interest charge of £38.0m was taken to the income statement representing the unwinding of the discount included in this obligation at an implied average interest rate of 5.7% (last year 5.7%).

On 25 March 2009 the terms of the Scottish Limited Partnership agreement were amended to make the payment by the Scottish Limited Partnership of annual distributions to the Pension Scheme discretionary at the instance of Marks and Spencer plc in relation to financial years 2010/11 onwards. This discretion is exercisable if the Group does not pay a dividend or make any other form of return to its shareholders. As a result, the distributions to the Pension Scheme in 2009 and 2010 remain as financial liabilities, while the remaining financial instrument is now an equity instrument (see note 26).

The agreement includes a clause such that, following a default event (including the appointment of an administrator, liquidator, receiver or similar officer in respect of Marks and Spencer plc or Marks and Spencer Group plc and the winding up or dissolution of Marks and Spencer plc or Marks and Spencer Group plc) or on a relevant change of law, the net present value of the outstanding distributions becomes payable to the Pension Scheme by the Scottish Limited Partnership at the option of the Pension Scheme. On the basis of the expected cash flows associated with such an event, the related financial liability has been fair valued at nil.

22 Financial instruments

Treasury policy and financial risk management

The Group operates a centralised 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 finance 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:

(a) Liquidity/funding risk

The risk that the Group could be unable to settle or meet its obligations as they fall due at a reasonable price.

- The Group's funding strategy ensures 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 and committed syndicated bank facilities.

At year end, the Group had a committed syndicated bank revolving credit facility of £1.2bn set to mature on 26 March 2013. This facility contains only one financial covenant being the ratio of earnings before interest, tax, depreciation, amortisation and rents payable; to interest plus rents payable. The covenant is measured semi-annually. In addition, the term out option under the £400m credit agreement which expired on 13 February 2009 was converted into a committed facility for the same period, expiring on 11 February 2010. This facility has the same financial covenant as the main £1.2bn facility. The Group also has a number of undrawn uncommitted facilities available to it. At year end, these amounted to £105m (last year £155m), all of which are due to be reviewed within a year. At the balance sheet date a sterling equivalent of £764m (last year £614m) was drawn under the committed facilities and £nil (last year a further £29m) was drawn under the uncommitted facilities.

In addition to the existing borrowings, the Group has a euro medium-term note programme of £3bn, of which £1.4bn (last year £1.4bn) was in issuance as at the balance sheet date.

22 Financial instruments continued

The contractual maturity of the Group's non-derivative financial liabilities and derivatives is as follows:

	Bank loans and overdrafts £m	Syndicated bank facility £m	Medium-term notes £m	Finance lease liabilities £m	Partnership liability to the M&S UK Pension Scheme £m	Total £m	Derivative assets £m	Derivative liabilities £m	Total £m
Timing of cash flows									
Within one year	(257.4)	(615.0)	(112.6)	(11.6)	(50.0)	(1,046.6)	643.4	(663.7)	(20.3)
Between one and two years	–	–	(112.6)	(19.2)	(71.9)	(203.7)	90.7	(90.9)	(0.2)
Between two and five years	–	–	(1,088.9)	(26.2)	(215.7)	(1,330.8)	84.8	(83.0)	1.8
More than five years	–	–	(1,866.5)	(214.9)	(719.0)	(2,800.4)	747.3	(736.4)	10.9
	(257.4)	(615.0)	(3,180.6)	(271.9)	(1,056.6)	(5,381.5)	1,566.2	(1,574.0)	(7.8)
Effect of discounting and foreign exchange	–	–	1,321.4	188.4	333.4	1,843.2			
At 29 March 2008	(257.4)	(615.0)	(1,859.2)	(83.5)	(723.2)	(3,538.3)			
Timing of cash flows									
Within one year	**(147.9)**	**(781.2)**	**(123.8)**	**(18.3)**	**(71.9)**	**(1,143.1)**	**949.4**	**(919.8)**	**29.6**
Between one and two years	**(11.2)**	**–**	**(123.8)**	**(16.9)**	**(71.9)**	**(223.8)**	**70.4**	**(63.6)**	**6.8**
Between two and five years	**–**	**–**	**(1,476.8)**	**(34.4)**	**–**	**(1,511.2)**	**114.0**	**(83.2)**	**30.8**
More than five years	**–**	**–**	**(1,706.2)**	**(209.4)**	**–**	**(1,915.6)**	**1,003.8**	**(708.9)**	**294.9**
	(159.1)	**(781.2)**	**(3,430.6)**	**(279.0)**	**(143.8)**	**(4,793.7)**	**2,137.6**	**(1,775.5)**	**362.1**
Effect of discounting and foreign exchange	**–**	**–**	**1,412.1**	**177.1**	**3.9**	**1,593.1**			
At 28 March 2009	**(159.1)**	**(781.2)**	**(2,018.5)**	**(101.9)**	**(139.9)**	**(3,200.6)**			

This table does not include trade and other payables (see note 20) due to the low associated liquidity risk.

(b) 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 long-term credit ratings A+/A1 or better assigned by Moody's and Standard & Poor's respectively, unless approved on an exception basis by a Board director. Limits are reviewed regularly by senior management. The credit risk of these financial instruments is estimated as the fair value of the assets resulting from the contracts.

The table below analyses the Group's cash and cash equivalents and derivative assets by credit exposure excluding bank balances, store cash and cash in transit.

	Credit rating of counterparty						
	AAA/Aaa £m	AA/Aaa £m	AA/Aa1 £m	AA-/Aa1 £m	AA-/Aa2 £m	AA-/Aa3 £m	Total
Money market deposits[1]	–	3.4	63.6	–	–	–	67.0
Derivative assets[2]	5.2	11.6	6.2	–	0.6	0.6	24.2
At 29 March 2008	5.2	15.0	69.8	–	0.6	0.6	91.2
	AAA/Aaa £m	**AA/Aa1 £m**	**AA/Aa2 £m**	**A+/Aa3 £m**	**A+/A1 £m**	**A/A2[3] £m**	**Total**
Money market deposits[1]	**–**	**–**	**116.1**	**4.1**	**13.0**	**–**	**133.2**
Derivative assets[2]	**105.4**	**25.9**	**27.7**	**142.0**	**8.8**	**9.8**	**319.6**
At 28 March 2009	**105.4**	**25.9**	**143.8**	**146.1**	**21.8**	**9.8**	**452.8**

1 Includes cash on deposit in M&S Scottish Limited Partnership.

2 Excludes derivative asset option which is embedded within the £250m puttable callable reset medium-term notes due 2037.

3 Exposure to A/A2 counterparty approved as an exception to treasury policy.

The Group has very low retail credit risk due to transactions being principally of a high volume, low value and short maturity.

The maximum exposure to credit risk at the balance sheet date was as follows: trade receivables £84m (last year £85m), other receivables £64m (last year £46m), cash and cash equivalents £423m (last year £318m) and derivatives £347m (last year £37m).

Notes to the financial statements continued

22 Financial instruments continued

(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. Where appropriate hedge cover can be taken out longer than 18 months with Board approval. The Group is primarily exposed to foreign exchange risk in relation to sterling against movements in US dollar and euro.

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. As at the balance sheet date the gross notional value in sterling terms of forward foreign exchange sell or buy contracts amounted to £768m (last year £619m) with a weighted average maturity date of six months (last year seven months).

The translation exposures arising on the overseas net assets are hedged with foreign currency debt. As at the balance sheet date, €276m (last year €243m) and HK$178m (last year HK$107m) currency debt was hedging overseas net assets.

The Group also hedges foreign currency intercompany loans where these exist. 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. As at the balance sheet date, the gross notional value of intercompany loan hedges was £108m (last year £80m).

Gains and losses in equity on forward foreign exchange contracts as at 28 March 2009 will be released to the income statement at various dates over the following 14 months (last year 19 months) from the balance sheet date.

After taking into account the hedging derivatives 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 Marks and Spencer Czech Republic a.s. put option:

	2009			2008		
	Fixed rate £m	Floating rate £m	Total £m	Fixed rate £m	Floating rate £m	Total £m
Currency						
Sterling	**2,252.4**	**629.9**	**2,882.3**	2,665.9	673.0	3,338.9
Euro	**7.6**	**286.1**	**293.7**	–	192.5	192.5
Hong Kong dollar	**–**	**16.4**	**16.4**	–	6.9	6.9
Other	**0.3**	**7.9**	**8.2**	–	–	–
	2,260.3	**940.3**	**3,200.6**	2,665.9	872.4	3,538.3

The floating rate sterling and euro borrowings are linked to interest rates related to LIBOR. These rates are for periods between one and three months.

As at the balance sheet date and excluding finance leases but including the partnership liability, the fixed rate sterling borrowings are at an average rate of 6.0% (last year 6.0%) and the weighted average time for which the rate is fixed is nine years (last year ten years).

(d) Interest rate risk

The Group is exposed to interest rate risk in relation to the sterling, US dollar, 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 £2,260.3m (last year £2,665.9m) representing the public bond issues and finance leases, and amounting to 71% (last year 75%) of the Group's gross borrowings.

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

	2009 %	2008 %
Committed and uncommitted borrowings	**4.0**	5.5
Medium-term notes	**6.2**	6.2
Finance leases	**4.8**	5.0
Partnership liability to the Marks & Spencer UK Pension Scheme	**5.7**	5.7

22 Financial instruments continued

Sensitivity analysis

The table below illustrates the estimated impact on the income statement and equity as a result of market movements in foreign exchange and interest rates in relation to all of the Group's financial instruments. The Group considers that a 2% (last year 1%) +/- movement in interest rates and a 20% (last year 10%) weakening or strengthening in sterling represents reasonable possible changes. However, this analysis is for illustrative purposes only.

The impact in the income statement due to changes in interest rates reflects the effect on the Group's floating rate debt as at the balance sheet date. The impact in equity reflects the fair value movement in relation to the Group's cross currency swaps. The impact from foreign exchange movements reflects the change in the fair value of the Group's transactional foreign exchange cash flow hedges and the net investment hedges at the balance sheet date.

The equity impact shown for foreign exchange sensitivity relates to derivative and non-derivative financial instruments hedging net investments. This value is expected to be fully offset by the retranslation of the hedged foreign currency net assets leaving a net equity impact of zero. The table excludes financial instruments that expose the Group to interest rate and foreign exchange risk where such risk is fully hedged with another financial instrument. Also excluded are trade receivables and payables as these are either sterling denominated or the foreign exchange risk is hedged.

	1% decrease in interest rates £m	1% increase in interest rates £m	10% weakening in sterling £m	10% strengthening in sterling £m
At 29 March 2008[1]				
Impact on income statement: gain/(loss)	6.5	(6.5)	(6.3)	5.2
Impact on equity: gain/(loss)	4.1	(3.3)	(15.5)	12.7

	2% decrease in interest rates £m	**2% increase in interest rates £m**	**20% weakening in sterling £m**	**20% strengthening in sterling £m**
At 28 March 2009				
Impact on income statement: gain/(loss)	**13.6**	**(15.1)**	**(15.2)**	**10.2**
Impact on equity: gain/(loss)	**208.7**	**(134.3)**	**(11.1)**	**7.4**

1 The prior year numbers have been amended to include the Marks and Spencer Czech Republic a.s. put option.

Derivative financial instruments

		2009		2008	
		Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Current					
Options	– held for trading	**27.0**	**(27.0)**	12.4	(12.4)
Commodity swap	– cash flow hedge	**–**	**(16.7)**	–	–
Forward foreign exchange contracts	– cash flow hedges	**59.9**	**(27.4)**	5.0	(21.8)
	– held for trading	**5.7**	**(0.4)**	1.0	(0.9)
Interest rate swaps	– held for trading	**–**	**(4.7)**	–	–
		92.6	**(76.2)**	18.4	(35.1)
Non-current					
Commodity swap	– cash flow hedge	**–**	**(1.5)**	–	–
Cross currency swaps	– cash flow hedges	**253.9**	**–**	16.9	–
Forward foreign exchange contracts	– cash flow hedges	**0.1**	**(1.5)**	1.3	–
		254.0	**(3.0)**	18.2	–

The Group holds a number of cross currency swaps to redesignate its fixed rate US dollar debt to fixed rate sterling debt. The attributes of these derivatives match the characteristics of the underlying debt hedged with rates of 7.034% (2017 bond) and 7.238% (2037 bond). The amounts reported as options held for trading in derivative assets and liabilities represent the fair value of the call option with the puttable callable reset notes mirrored by the fair value of the sold option to have this call assigned. During the year the Group entered into energy swap contracts to fix a portion of the forecast energy usage for the 2009/10 financial year. These swaps are accounted for as cash flow hedges.

Fair value of financial instruments

With the exception of the Group's fixed rate bond debt, 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 £2,018.5m (last year £1,859.2m), the fair value of this debt was £1,616.6m (last year £1,740.7m).

Notes to the financial statements continued

22 Financial instruments continued

Capital policy

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain a capital structure that optimises the cost of capital. In order to maintain or adjust the capital structure the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

23 Provisions

	UK restructuring £m	Overseas restructuring £m	Total £m
At 1 April 2007	14.1	8.4	22.5
Provided in the year	11.5	0.1	11.6
Released in the year	(3.2)	(2.0)	(5.2)
Utilised during the year	(4.2)	(0.3)	(4.5)
Exchange differences	–	1.3	1.3
At 29 March 2008	18.2	7.5	25.7
At 30 March 2008	**18.2**	**7.5**	**25.7**
Provided in the year	**86.6**	**–**	**86.6**
Released in the year	**(0.7)**	**–**	**(0.7)**
Utilised during the year	**(8.5)**	**(0.6)**	**(9.1)**
Exchange differences	**–**	**1.3**	**1.3**
At 28 March 2009	**95.6**	**8.2**	**103.8**

Analysis of total provisions:

	2009 £m	2008 £m
Current	**63.6**	11.1
Non-current	**40.2**	14.6
Total provisions	**103.8**	25.7

The provision for UK restructuring is comprised of exceptional costs related to the strategic restructure (see note 5), including onerous leases and redundancies, as well as costs of closing Lifestore. The provision for overseas restructuring costs primarily relates to future closure costs in respect of discontinued operations in Continental Europe.

The current element of the provision primarily relates to redundancy costs, costs relating to the rationalisation of IT and logistics networks, and costs of closing Lifestore.

The non-current element of the provision relates to store closures, primarily onerous leases, and the closure costs of discontinued operations in Continental Europe, and are expected to be utilised over a period of eight years.

24 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 28% (last year 28%) 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 UK deferred tax £m	Overseas deferred tax £m	Total £m
At 1 April 2007	(90.6)	(103.2)	183.5	21.9	11.6	(7.3)	4.3
Credited/(charged) to the income statement	13.7	(41.4)	(150.5)	(12.9)	(191.1)	0.4	(190.7)
Credited/(charged) to equity	–	–	(172.4)	(15.1)	(187.5)	1.8	(185.7)
At 29 March 2008	(76.9)	(144.6)	(139.4)	(6.1)	(367.0)	(5.1)	(372.1)
At 30 March 2008	**(76.9)**	**(144.6)**	**(139.4)**	**(6.1)**	**(367.0)**	**(5.1)**	**(372.1)**
Credited/(charged) to the income statement	**(2.0)**	**17.3**	**(87.0)**	**(5.7)**	**(77.4)**	**(0.2)**	**(77.6)**
Credited/(charged) to equity	**–**	**–**	**254.9**	**(29.5)**	**225.4**	**0.4**	**225.8**
At 28 March 2009	**(78.9)**	**(127.3)**	**28.5**	**(41.3)**	**(219.0)**	**(4.9)**	**(223.9)**

In arriving at the deferred tax on fixed assets, credit has been taken for capital losses with a tax value of £60.5m (last year £53.0m). 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 to them in the foreseeable future. Undistributed profits of overseas subsidiaries amount to £380.6m (last year £295.1m).

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

25 Share capital

	2009 Shares	**2009** £m	2008 Shares	2008 £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	**1,586,478,423**	**396.6**	1,699,773,100	424.9
Shares issued on exercise of share options	**2,217,763**	**0.5**	12,447,224	3.1
Shares purchased in buy-back	**(10,901,267)**	**(2.7)**	(125,741,901)	(31.4)
At end of year	**1,577,794,919**	**394.4**	1,586,478,423	396.6

Issue of new shares

2,217,763 (last year 12,447,224) ordinary shares having a nominal value of £0.5m (last year £3.1m) were allotted during the year under the terms of the Company's schemes which are described in note 12. The aggregate consideration received was £5.3m (last year £31.6m).

Share buy-back

10,901,267 (last year 125,741,901) ordinary shares having a nominal value of £2.7m (last year £31.4m) were bought back and subsequently cancelled during the year in accordance with the authority granted by shareholders at the Annual General Meeting in July 2007. The aggregate consideration paid was £40.9m (last year £555.9m).

Notes to the financial statements continued

26 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 1 April 2007	424.9	202.9	2,168.5	(4.4)	(6,542.2)	5,397.1	1,646.8
Profit for the year attributable to shareholders	–	–	–	–	–	821.7	821.7
Dividends	–	–	–	–	–	(343.6)	(343.6)
Foreign currency translation	–	–	–	–	–	21.3	21.3
Shares issued on exercise of employee share options	3.1	28.5	–	–	–	–	31.6
Shares purchased in buy-back	(31.4)	–	31.4	–	–	(555.9)	(555.9)
Purchase of own shares held by employee trusts	–	–	–	–	–	(31.9)	(31.9)
Put option for acquisition of minority interest[4]	–	–	–	–	–	(52.2)	(52.2)
Actuarial gain on retirement benefit scheme	–	–	–	–	–	605.4	605.4
Deferred tax on retirement benefit scheme	–	–	–	–	–	(172.4)	(172.4)
Deferred tax on share schemes	–	–	–	–	–	(10.6)	(10.6)
Charge for share-based payments	–	–	–	–	–	29.0	29.0
Cash flow and net investment hedges							
– losses deferred in equity	–	–	–	(33.5)	–	–	(33.5)
– recycled and reported in net profit[5]	–	–	–	1.3	–	–	1.3
– amount recognised in inventories	–	–	–	2.4	–	–	2.4
– tax on fair value gains	–	–	–	(2.7)	–	–	(2.7)
At 29 March 2008	396.6	231.4	2,199.9	(36.9)	(6,542.2)	5,707.9	1,956.7
At 30 March 2008	**396.6**	**231.4**	**2,199.9**	**(36.9)**	**(6,542.2)**	**5,707.9**	**1,956.7**
Profit for the year attributable to shareholders	**–**	**–**	**–**	**–**	**–**	**508.0**	**508.0**
Dividends	**–**	**–**	**–**	**–**	**–**	**(354.6)**	**(354.6)**
Derecognition of financial liability[6]	**–**	**–**	**–**	**–**	**–**	**571.7**	**571.7**
Foreign currency translation	**–**	**–**	**–**	**(0.8)**	**–**	**33.9**	**33.1**
Shares issued on exercise of employee share options	**0.5**	**4.8**	**–**	**–**	**–**	**–**	**5.3**
Shares purchased in buy-back	**(2.7)**	**–**	**2.7**	**–**	**–**	**(40.9)**	**(40.9)**
Actuarial loss on retirement benefit scheme	**–**	**–**	**–**	**–**	**–**	**(927.1)**	**(927.1)**
Deferred tax on retirement benefit scheme	**–**	**–**	**–**	**–**	**–**	**254.9**	**254.9**
Deferred tax on share schemes	**–**	**–**	**–**	**–**	**–**	**0.2**	**0.2**
Charge for share-based payments	**–**	**–**	**–**	**–**	**–**	**14.3**	**14.3**
Cash flow and net investment hedges							
– fair value movement in equity	**–**	**–**	**–**	**317.2**	**–**	**(12.4)**	**304.8**
– recycled and reported in net profit[5]	**–**	**–**	**–**	**(206.8)**	**–**	**–**	**(206.8)**
– amount recognised in inventories	**–**	**–**	**–**	**(8.6)**	**–**	**–**	**(8.6)**
– tax on fair value gains	**–**	**–**	**–**	**(29.3)**	**–**	**–**	**(29.3)**
Transfer of exchange on net investment hedges	**–**	**–**	**–**	**27.8**	**–**	**(27.8)**	**–**
At 28 March 2009	**394.4**	**236.2**	**2,202.6**	**62.6**	**(6,542.2)**	**5,728.1**	**2,081.7**

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 £nil (last year £nil) arising on the acquisition of subsidiaries has been written off against retained earnings.

3 Includes a cumulative £52.3m gain (last year £18.4m gain) in the currency reserve.

4 Fair value of the put option over the 49% minority interest in the share capital of Marks and Spencer Czech Republic a.s.

5 Amounts recycled and reported in net profit have all been recorded in cost of sales.

6 Reclassification of financial instrument to equity. See note 21 for further details.

27 Contingencies and commitments

A. Capital commitments

	2009 £m	2008 £m
Commitments in respect of properties in the course of construction	**52.1**	182.8

In respect of its interest in a joint venture (see note 16), the joint venture is committed to incur capital expenditure of £31.9m (last year nil), of which the Group's share of this commitment is £19.3m (last year nil).

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.

	2009 £m	2008 £m
Total future minimum rentals under non-cancellable operating leases expiring:		
Not later than one year	**44.0**	17.9
Later than one year and not later than five years	**178.5**	90.4
Later than five years and not later than 25 years	**2,464.4**	2,223.6
Later than 25 years	**1,488.0**	1,551.1
Total	**4,174.9**	3,883.0

The total future sublease payments to be received are £64.9m (last year £70.5m).

28 Analysis of cash flows given in the cash flow statement

Cash flows from operating activities

	52 weeks ended 28 March 2009 £m	52 weeks ended 29 March 2008 £m
Profit on ordinary activities after taxation	**506.8**	821.0
Income tax expense	**199.4**	308.1
Interest payable and similar charges	**214.5**	146.6
Interest receivable	**(50.0)**	(64.4)
Operating profit	**870.7**	1,211.3
Increase in inventories	**(46.0)**	(54.4)
Decrease/(increase) in receivables	**55.0**	(33.5)
Payments to acquire leasehold properties	**(14.1)**	(47.6)
Increase/(decrease) in payables	**212.2**	(61.9)
Exceptional operating cash outflow	**(27.4)**	(2.5)
Depreciation and amortisation	**409.0**	317.6
Share-based payments	**14.3**	29.0
Profit on property disposals	**(6.4)**	(27.0)
Exceptional costs	**135.9**	–
Exceptional pension credit	**(231.3)**	(95.0)
Cash generated from operations	**1,371.9**	1,236.0

Exceptional operating cash outflows related to UK restructuring costs £26.9m (last year £2.2m) and the closure of European operations £0.5m (last year £0.3m).

Notes to the financial statements continued

29 Analysis of net debt

A. Reconciliation of movement in net debt

	At 30 March 2008 Restated £m	Cash flow £m	Exchange and other non-cash movements £m	At 28 March 2009 £m
Net cash				
Bank loans (see note 21)	(871.4)	(6.8)	(45.1)	**(923.3)**
Less: amounts treated as financing (see below)	671.3	82.3	45.1	**798.7**
	(200.1)	75.5	–	**(124.6)**
Cash and cash equivalents (see note 19)	318.0	97.1	7.8	**422.9**
Net cash per cash flow statement	117.9	172.6	7.8	**298.3**
Current financial assets (see note 17)	48.8	1.1	3.2	**53.1**
Debt financing				
Bank loans and overdrafts treated as financing (see above)	(57.3)	25.8	(3.0)	**(34.5)**
Syndicated bank facility (see note 21) (see above)	(614.0)	(108.1)	(42.1)	**(764.2)**
Medium-term notes (see note 21)	(1,795.0)	–	(6.7)	**(1,801.7)**
Finance lease liabilities (see note 21)	(83.5)	1.0	(19.4)	**(101.9)**
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 21)	(694.6)	15.1	539.6	**(139.9)**
Debt financing	(3,244.4)	(66.2)	468.4	**(2,842.2)**
Net debt	(3,077.7)	107.5	479.4	**(2,490.8)**

B. Reconciliation of net debt to balance sheet

	2009 £m	2008 Restated £m
Balance sheet and related notes		
Cash and cash equivalents	**422.9**	318.0
Current financial assets (see note 17)	**53.1**	48.8
Bank loans and overdrafts (see note 21)	**(159.1)**	(257.4)
Syndicated bank facility (see note 21)	**(781.2)**	(615.0)
Medium-term notes (see note 21) – net of US dollar hedging derivatives[1]	**(1,848.1)**	(1,842.0)
Finance lease liabilities (see note 21)	**(101.9)**	(83.5)
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 21)	**(139.9)**	(723.2)
	(2,554.2)	(3,154.3)
Interest payable included within related borrowing	**63.4**	76.6
Total net debt	**(2,490.8)**	(3,077.7)

1 Medium-term notes have been restated for this note to include the derivatives relating to them.

30 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 1 January 2008. Interest was charged on the loan at 5.25% until 31 December 2007 and 5.5% thereafter.

C. Lima (Bradford) joint venture
A loan facility was provided to the joint venture on 11 August 2008. At 28 March 2009, £13.6m was drawn down on this facility. Interest was charged on the loan at 1.1% above 3-month LIBOR.

D. Marks & Spencer Pension Scheme
Details of other transactions and balances held with the Marks & Spencer Pension Scheme are set out in notes 11 and 21.

E. Key management compensation

	2009 £m	2008 £m
Salaries and short-term benefits	**6.0**	8.1
Post-employment benefits	**–**	0.4
Termination benefits	**1.1**	0.4
Share-based payments	**1.8**	12.3
Total	**8.9**	21.2

Key management in the comparative period included the directors, the Group Secretary and those members of key management who were members of the Executive Committee. In 2007 the Financial Services Authority issued new guidance on PDMRs (Persons Discharging Managerial Responsibilities) which, combined with increased size of the Executive Board in March 2008, has enabled the Group to restrict the number of PDMRs to Board directors only and it is this group that is considered to be key management under IAS 24 in the current year. Under this revised basis the comparative total key management compensation would have been £15.5m. 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.

F. Other related party transactions
Supplier transactions occurred during the year between the Group and a company controlled by a close family member of Kate Bostock. These transactions amounted to £5.2m during the year (last year £5.4m) with an outstanding trade payable of £nil at 28 March 2009 (last year £0.1m). The company was a supplier prior to Kate's employment by the Group.

Supplier transactions occurred during the year between the Group and a company controlled by Martha Lane Fox's partner. These transactions amounted to £0.1m during the year with an outstanding trade payable of £nil at 28 March 2009. There were no transactions with the company last year.

31 Post balance sheet event – acquisition of subsidiary

On 31 March 2009, Marks and Spencer Reliance India Pvt Limited, a 51% subsidiary of the Group, completed the acquisition of 100% of the issued share capital of Supreme Tradelinks Private Limited, which up until this date was the Group's franchisee in India, for cash consideration of £6.5m.

Company income statement

	Notes	52 weeks ended 28 March 2009 £m	52 weeks ended 29 March 2008 £m
Other operating income		–	0.1
Operating profit	C2, C3	–	0.1
Income from shares in Group undertakings		**356.3**	344.0
Profit for the year attributable to shareholders		**356.3**	344.1

Company balance sheet

	Notes	2009 £m	2008 £m
Assets			
Non-current assets			
Investments in Group undertakings	C5	**9,158.5**	9,147.4
Current assets			
Trade and other receivables		–	0.2
Total assets		**9,158.5**	9,147.6
Liabilities			
Current liabilities			
Amounts owed to Group undertakings		**2,619.3**	2,584.6
Trade and other payables		–	1.0
Total liabilities		**2,619.3**	2,585.6
Net assets		**6,539.2**	6,562.0
Equity			
Called up share capital – equity	C6	**394.4**	396.6
Share premium account	C6	**236.2**	231.4
Capital redemption reserve	C6	**2,202.6**	2,199.9
Merger reserve	C6	**1,397.3**	1,397.3
Retained earnings	C6	**2,308.7**	2,336.8
Total equity		**6,539.2**	6,562.0

The financial statements were approved by the Board and authorised for issue on 18 May 2009. The financial statements also comprise the notes on pages 114 and 115.

Stuart Rose Chairman

Ian Dyson Group Finance and Operations Director

Company statement of changes in shareholders' equity

	52 weeks ended 28 March 2009 £m	52 weeks ended 29 March 2008 £m
Profit attributable to shareholders	**356.3**	344.1
Dividends	**(354.6)**	(343.6)
	1.7	0.5
Capital contribution for share-based payments	**11.1**	11.8
Shares purchased in buy-back	**(40.9)**	(555.9)
Shares issued on the exercise of employee share options	**5.3**	31.6
Change in shareholders' equity	**(22.8)**	(512.0)
Opening shareholders' equity	**6,562.0**	7,074.0
Closing shareholders' equity	**6,539.2**	6,562.0

Company cash flow statement

	52 weeks ended 28 March 2009 £m	52 weeks ended 29 March 2008 £m
Cash flows from operating activities		
Cash generated from operations	**–**	0.1
Working capital movements	**(0.8)**	–
Net cash (outflow)/inflow from operating activities	**(0.8)**	0.1
Cash flows from investing activities		
Dividends received	**356.3**	344.0
Net cash inflow from investing activities	**356.3**	344.0
Cash flows from financing activities		
Shares purchased in buy-back	**(40.9)**	(555.9)
Shares issued on exercise of employee share options	**5.3**	31.6
Drawdown of intercompany loan	**34.7**	523.8
Equity dividends paid	**(354.6)**	(343.6)
Net cash outflow from financing activities	**(355.5)**	(344.1)
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 the same as those set out in note 1 of the Group financial statements, except as noted below.

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

Loans from other group undertakings and all other payables are initially recorded at fair value, which is generally the proceeds received. They are then subsequently carried at amortised cost. The loans are non-interest bearing.

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 £597,000 (last year £822,000). 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 Dividends

	2009 per share	2008 per share	2009 £m	2008 £m
Dividends on equity ordinary shares				
Paid final dividend	**14.2p**	12.0p	**224.1**	203.5
Paid interim dividend	**8.3p**	8.3p	**130.5**	140.1
	22.5p	20.3p	**354.6**	343.6

In addition, the directors have proposed a final dividend in respect of the year ended 28 March 2009 of 9.5p per share amounting to a dividend of £145.9m. It will be paid on 10 July 2009 to shareholders who are on the Register of Members on 29 May 2009. In line with the requirements of IAS 10 – 'Events after the Balance Sheet Date', this dividend has not been recognised within these results.

C5 Investments

A. Investments in Group undertakings

	2009 £m	2008 £m
Beginning of the year	**9,147.4**	9,135.6
Additional investment in subsidiary	**11.1**	11.8
End of year	**9,158.5**	9,147.4

Shares in Group undertakings represent the Company's investment in Marks and Spencer plc.

B. Principal subsidiary undertakings

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

	Principal activity	Country of incorporation and operation	Proportion of voting rights and shares held by: Company	A subsidiary
Marks and Spencer plc	Retailing	Great Britain	100%	–
Marks and Spencer International Holdings Limited	Holding Company	Great Britain	–	100%
Marks and Spencer (Nederland) BV	Holding Company	The Netherlands	–	100%
Marks and Spencer Marinopoulos BV	Holding Company	The Netherlands	–	50%
Marks and Spencer Czech Republic a.s.	Retailing	Czech Republic	–	51%
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%
Marks and Spencer Marinopoulos Greece SA	Retailing	Greece	–	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 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 the 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.

C6 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 1 April 2007	424.9	202.9	2,168.5	1,397.3	2,880.4	7,074.0
Profit for the year attributable to shareholders	–	–	–	–	344.1	344.1
Dividends	–	–	–	–	(343.6)	(343.6)
Capital contribution for share-based payments	–	–	–	–	11.8	11.8
Shares purchased in buy-back	(31.4)	–	31.4	–	(555.9)	(555.9)
Shares issued on exercise of employee share options (see note 12)	3.1	28.5	–	–	–	31.6
At 29 March 2008	396.6	231.4	2,199.9	1,397.3	2,336.8	6,562.0
At 30 March 2008	**396.6**	**231.4**	**2,199.9**	**1,397.3**	**2,336.8**	**6,562.0**
Profit for the year attributable to shareholders	**–**	**–**	**–**	**–**	**356.3**	**356.3**
Dividends	**–**	**–**	**–**	**–**	**(354.6)**	**(354.6)**
Capital contribution for share-based payments	**–**	**–**	**–**	**–**	**11.1**	**11.1**
Shares purchased in buy-back	**(2.7)**	**–**	**2.7**	**–**	**(40.9)**	**(40.9)**
Shares issued on exercise of employee share options (see note 12)	**0.5**	**4.8**	**–**	**–**	**–**	**5.3**
At 28 March 2009	**394.4**	**236.2**	**2,202.6**	**1,397.3**	**2,308.7**	**6,539.2**

C7 Related party transactions

During the year, the Company has received dividends from Marks and Spencer plc of £356.3m (last year £344.0m) and has increased its loan from Marks and Spencer plc by £34.7m (last year £523.8m). The outstanding balance was £2,619.3m (last year £2,584.6m). There were no other related party transactions.

Group financial record

	2009 52 weeks £m	2008 52 weeks £m	2007 52 weeks £m	2006 52 weeks £m	2005 52 weeks £m
Income statement					
Revenue – continuing operations					
UK Retail	**8,164.3**	8,309.1	7,977.5	7,275.0	7,034.7
International Retail	**897.8**	712.9	610.6	522.7	455.8
Operating profit – continuing operations					
UK Retail	**755.0**	1,095.9	956.7	784.5	528.0
International Retail	**115.7**	115.4	89.2	65.6	70.1
Total operating profit	**870.7**	1,211.3	1,045.9	850.1	598.1
Net interest payable	**(199.9)**	(141.1)	(130.0)	(121.9)	(104.4)
Pension finance income	**35.4**	58.9	20.8	17.5	11.4
Profit on ordinary activities before taxation – continuing operations	**706.2**	1,129.1	936.7	745.7	505.1
Analysed between:					
Before property disposals and exceptional items	**604.4**	1,007.1	965.2	751.4	556.1
Profit/(loss) on property disposals	**6.4**	27.0	1.9	(5.7)	(0.4)
Exceptional pension credit	**231.3**	95.0	–	–	–
Exceptional finance costs	**–**	–	(30.4)	–	–
Exceptional operating costs	**(135.9)**	–	–	–	(50.6)
Income tax expense	**(199.4)**	(308.1)	(277.5)	(225.1)	(150.1)
Profit after taxation	**506.8**	821.0	659.2	520.6	355.0
Profit from discontinued operations	**–**	–	0.7	2.5	231.2
Minority interests	**1.2**	0.7	–	–	–
Profit attributable to shareholders	**508.0**	821.7	659.9	523.1	586.2

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Balance sheet					
Non-current assets					
Intangible non-current assets	**400.3**	305.5	194.1	163.5	165.4
Property, plant and equipment (including investment properties)	**4,858.8**	4,729.0	4,069.6	3,614.3	3,624.8
Joint venture and other financial assets	**16.8**	12.6	12.3	12.3	9.0
Retirement benefit asset	**–**	504.0	–	–	–
Trade and other receivables	**590.8**	428.2	247.0	242.8	211.2
Deferred tax assets	**1.6**	–	11.6	83.9	73.0
Non-current assets	**5,868.3**	5,979.3	4,534.6	4,116.8	4,083.4
Current assets	**1,389.8**	1,181.7	846.4	1,142.1	832.3
Total assets	**7,258.1**	7,161.0	5,381.0	5,258.9	4,915.7
Current liabilities	**(2,306.9)**	(1,988.9)	(1,606.2)	(2,017.0)	(1,237.4)
Non-current liabilities					
Retirement benefit deficit	**(152.2)**	(20.5)	(283.3)	(794.9)	(676.0)
Other non-current liabilities[1]	**(2,698.4)**	(3,187.6)	(1,843.3)	(1,243.3)	(2,044.7)
Total liabilities	**(5,157.5)**	(5,197.0)	(3,732.8)	(4,055.2)	(3,958.1)
Net assets	**2,100.6**	1,964.0	1,648.2	1,203.7	957.6

1 Non-current deferred tax assets have been restated by £48.4m in 2005 and 2006 due to a change in accounting policy.

	2009 52 weeks £m	2008 52 weeks £m	2007 52 weeks £m	2006 52 weeks £m	2005 52 weeks £m
Cash flow					
Cash flows from operating activities					
Generated from operating activities[1]	**1,371.9**	1,236.0	1,443.3	1,197.5	1,601.8
Taxation paid	**(81.3)**	(166.2)	(150.8)	(101.5)	(166.7)
Cash flows from operating activities	**1,290.6**	1,069.8	1,292.5	1,096.0	1,435.1
Cash flows from investing activities					
Acquisitions and disposals	**–**	(46.4)	48.8	–	351.1
Capital expenditure and financial investment	**(609.6)**	(924.6)	(712.8)	(266.3)	(113.5)
Interest received	**12.7**	4.8	13.2	12.9	15.4
Cash flows from investing activities	**(596.9)**	(966.2)	(650.8)	(253.4)	253.0
Cash flows from financing activities					
Interest paid[2]	**(197.1)**	(88.9)	(145.0)	(142.8)	(116.5)
Non-equity dividend paid	**–**	–	–	–	(2.8)
Other debt financing	**66.2**	954.5	(479.2)	(420.0)	757.1
Equity dividends paid	**(354.6)**	(343.6)	(260.6)	(204.1)	(236.9)
Other equity financing	**(35.6)**	(556.2)	9.2	55.8	(2,265.1)
Cash flows from financing activities	**(521.1)**	(34.2)	(875.6)	(711.1)	(1,864.2)
Net cash (outflow)/inflow from activities	**172.6**	69.4	(233.9)	131.5	(176.1)

1 2009 includes £27.4m of exceptional operating cash flows.

2 2007 includes £21.6m of exceptional finance costs.

Key performance measures

		2009 52 weeks	2008 52 weeks	2007 52 weeks	2006 52 weeks	2005 52 weeks
Gross margin[1]	Gross profit/	**37.2%**	38.6%	38.9%	38.3%	34.7%
	Revenue					
Net margin[1]	Operating profit/	**9.6%**	13.4%	12.2%	10.9%	8.0%
	Revenue					
Net margin excluding property disposals and exceptional items		**8.5%**	12.1%	12.2%	11.0%	8.7%
Profitability[1]	Profit before tax/	**7.8%**	12.5%	10.9%	9.6%	6.7%
	Revenue					
Profitability excluding property disposals and exceptional items		**6.7%**	11.2%	11.2%	9.6%	7.4%
Basic earnings per share[1]	Basic earnings/	**32.3p**	49.2p	39.1p	31.3p	17.6p
	Weighted average ordinary shares in issue					
Earnings per share adjusted for property disposals and exceptional items[1]		**28.0p**	43.6p	40.4p	31.4p	19.2p
Dividend per share declared in respect of the year		**17.8p**	22.5p	18.3p	14.0p	12.1p
Dividend cover	Profit attributable to shareholders/	**1.8x**	2.3x	2.1x	2.2x	2.9x
	Dividend payable					
Return on equity[2]	Profit attributable to shareholders/	**25.2%**	45.6%	46.3%	50.0%	35.1%
	Average equity shareholders' funds					
Retail gearing[2]	Retail debt + net post-retirement liability/	**60.9%**	64.0%	59.1%	68.8%	76.2%
	Retail debt + net post-retirement liability + retail shareholders' funds					
Retail fixed charge cover	Operating profit before depreciation and operating lease charges/	**3.5x**	5.3x	5.9x	4.9x	4.1x
	Fixed charges[3]					
Net debt[4] (£m)		**2,490.8**	3,077.7	1,949.5	1,729.3	2,147.7
Capital expenditure (£m)		**652.0**	1,054.5	792.4	337.7	229.4

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 Excludes accrued interest.

Shareholder information

Ordinary shares

As at 28 March 2009, there are 224,271 holders of ordinary shares whose shareholdings are analysed below.

	Number of holdings	Percentage of total shareholders	Number of ordinary shares	Percentage of ordinary shares
Range				
1 – 500	110,860	49.43	22,226148	1.41
501 –1,000	45,426	20.25	33,992,620	2.16
1,001 – 2,000	34,945	15.58	50,008,963	3.17
2,001 – 5,000	23,569	10.51	72,247,698	4.58
5,001 – 10,000	5,964	2.66	41,526,349	2.63
10,001 – 100,000	2,863	1.28	65,467,712	4.15
100,001 – 1,000,000	465	0.21	167,942,467	10.64
1,000,001 – HIGHEST	179	0.08	1,124,382,962	71.26
Total	**224,271**	**100.00**	**1,577,794,919**	**100.00**

Many private investors hold their shares through nominee companies, therefore the percentage of shares held by private holders is much higher than that shown – we estimate approximately 30%.

	Number of holdings	Percentage of total shareholders	Number of ordinary shares	Percentage of ordinary shares
Holders				
Private holders	213,582	95.23	298,670,013	18.93
Institutional and Corporate holders	10,689	4.77	1,279,124,906	81.07
Total	**224,271**	**100.00**	**1,577,794,919**	**100.00**

Managing your shares

The Company's register of shareholders is maintained by our Registrar, Equiniti. Shareholders with queries relating to their shareholding should contact Equiniti directly using the details overleaf.

Duplicate documents

Currently around 10,000 of our shareholders have more than one account on the share register, which means they often receive duplicate documentation and split dividend payments. If you fall into this group and would like to combine your accounts, please contact Equiniti.

Dividends

These are paid in January and July each year and shareholders can choose one of the followng payment methods:

Direct to a bank account	Paid in foreign currencies
Reinvested in M&S Shares	Paid by cheque

If you are still receiving a cheque for your dividend payments, why not let us pay the money straight into your bank account? You will then have the cleared funds on the payment date. Those selecting this payment method receive a consolidated tax voucher each January. However, we are able to send a tax voucher with each payment, if preferred.

To change how you receive your dividends either logon to **shareview.co.uk** or contact Equiniti.

Corporate website

In 2008 we launched our new corporate website which provides a wealth of information on M&S. Much of the information requested from our shareholder helpline can be found on our website in the investor section. You can even register to receive investor related alerts by email as news on M&S is released. These include our half year results and trading statements, which are not mailed to shareholders. The directors are responsible for the maintenance and integrity of the financial information on our website.

This information has been prepared under the relevant accounting standards and legislation.

Electronic communications

In line with our Plan A commitments we actively encourage shareholders to help reduce the amount of paper we send out. Shareholders who receive communication electronically receive information from the Company more quickly. They also have access, via our website, to information that is not mailed to shareholders e.g. half year results, trading statements, results presentations, news updates and more.

Even though substantial changes were made to reduce the documentation we mailed this year we still used over 45 tonnes of paper. This is something we want to reduce further, and shareholders can help with this.

To encourage shareholders to elect to receive information electronically we are offering a **10% off voucher** to spend when shopping online at **marksandspencer.com** and **free entry into our prize draw** with the chance to win one of three laptop computers.

Go to **marksandspencer.com/annualreport09** to find out more and read the terms and conditions.

Shareholder information continued

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. The number of so called 'Boiler Room' frauds has increased dramatically in recent years. Remember, if it sounds too good to be true, it probably is! Details of any share dealing facilities that the Company endorses will be included in Company mailings or on our website. For more detailed information from the Financial Services Authority go to **moneymadeclear.fsa.gov.uk**

How We Do Business

Two full years after its launch, our good progress on Plan A continues, with 39 of our 100 commitments already achieved. As well as saving costs, Plan A differentiates our business and brings more customers into our stores. The success of initiatives such as the M&S and Oxfam Clothes Exchange and M&S Energy gives us confidence to continue to make Plan A truly, How We Do Business. Find out more at **marksandspencer.com/annualreport09**

ShareGift

Do you have a small shareholding which is uneconomical to sell? You may want to consider donating it to ShareGift (Registered charity no. 1052686) Find out more at **sharegift.org** or call +44 (0)20 930 3737.

Lost shareholders

We continue to work with Prosearch (previously known as Trust Research Services) to look for shareholders who have failed to keep their details up to date. We have unclaimed funds waiting to be claimed.

Shareholders are reminded that if they move house they need to contact Equiniti and advise them of their new address.

Capital Gains Tax

For the purpose of Capital Gains Tax, 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, HMRC has confirmed the base cost for CGT purposes was 372.35p (81.43%) for an ordinary share and 68.75p (18.75%) for a B share.

American Depositary Receipts (ADRs)

The Company has a level 1 ADR program. This enables US investors to purchase Marks & Spencer American Depository Shares (ADS) in US Dollars 'over the counter'. The Company has chosen to have the ADRs quoted on the OTC market's highest tier, International PremierQX.

For information on OTCQX go to **otcqx.com**
For Deutsche Bank email: **DB@amstock.com**
ADR website: **adr.db.com**
Toll free callers within the US: 1 866 249 2593
For those calling outside the US: +1 (718) 921 8137

Key dates for your diary

27 May 2009	Ex dividend date – Final dividend
29 May 2009	Record date to be eligible for the final dividend
1 July 2009	Results – Quarter 1 Interim Management statement†
8 July 2009	Annual General Meeting
10 July 2009	Final dividend payment date for the year to 28 March 2009
30 September 2009	Results – Quarter 2 Trading Update†
4 November 2009	Results – Half Year†
11 November 2009*	Ex dividend date – Interim dividend
13 November 2009*	Record date to be eligible for the interim dividend
8 January 2010*	Interim dividend payment date

* provisional dates

†Those registered for news alerts at **marksandspencer.com/thecompany** will receive notification by email when this is available.

How to get in touch

Registered office and Head office

Waterside House, 35 North Wharf Road,
London W2 1NW
Telephone +44 (0)20 7935 4422
Registered in England and Wales (no. 4256886)

Registrars

Equiniti Limited,
Aspect House, Spencer Road, Lancing,
West Sussex BN99 6DA
Telephone 0845 609 0810
and outside the UK +44 (0) 121 415 7071

Group Secretary and Head of Corporate Governance

Graham Oakley until 8 July 2009
Amanda Mellor from 9 July 2009

Additional documents

For both the Annual Report or Annual Review go to **marksandspencer.com/thecompany**

Alternatively, call 0800 591 697

Please note, students are advised to source information from our website where possible.

Contact us

email us at **chairman@marks-and-spencer.com**

Customer queries: 0845 302 1234

Shareholder queries: 0845 609 0810

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