

YOUR **M&S**

ANNUAL REVIEW AND
SUMMARY FINANCIAL STATEMENT 2005

Quality Value Service Innovation Trust

We are one of the UK's leading retailers, with 15 million people visiting our stores each week.

Our aim is to offer our customers high quality, great value clothes, food and home products in easy-to-shop stores. We employ 65,000 people in our 399 UK stores and offices. We also have a growing international business including wholly-owned stores in the Republic of Ireland and Hong Kong, franchises in 30 territories and Kings Super Markets in the US. We work with suppliers all over the world to develop new and innovative products that meet our quality and ethical standards.

Clothing

SALES (INCL.VAT): £3,837.3m (-3.1%)

OUR MARKET SHARE: 10.5%

We are the largest UK clothing retailer. Clothing represents 49.5% of our UK Retail turnover, comprising Womenswear, including per una, Classics and the new Petite range; Menswear, such as Blue Harbour and Autograph; Lingerie; and Childrenswear. We are working on delivering better and more new products at outstanding value.

Food

SALES (INCL.VAT): £3,509.7m (+2.4%)

OUR MARKET SHARE: 3.1%

Food accounts for 45.2% of our UK Retail turnover. We offer outstanding quality, convenient food, sourced responsibly. We are constantly innovating, introducing new dishes and ranges, including Cook! and Gastropub. We sell food across our chain, including in 129 Simply Food stores. Within our stores, we also have 260 bakeries and 189 Café Revive coffee shops.

Home

SALES (INCL.VAT): £407.6m (-21.4%)

Home accounts for 5.3% of our UK Retail turnover. We have refocused our offer on stylish kitchen, dining, bedroom and bathroom products with mainstream appeal that are easy to buy through our stores, website and relaunched catalogue.

Money

We sold our Financial Services business, M&S Money, to HSBC and entered into an agreement whereby the Group will continue to share in the success of the business.

International

SALES: £675.6m (+1.6%)

Our international business is growing, with wholly-owned store networks in the Republic of Ireland and Hong Kong, a network of 191 franchised stores in 30 territories and Kings Super Markets in the US.

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Operating highlights

- > Completed the first stage of a three-year plan to refocus the business in 2004/05, drive it in 2005/06 and broaden its horizons in 2006/07.
- > Restored focus on our customers, taking action in three areas: product, service and store environment.
- > Renegotiated supplier agreements and reorganised our buying teams to speed delivery of high quality product to our stores.
- > Reduced stock commitments by over 35% to increase flexibility.
- > Reduced clutter to make our stores easier to shop and extended store format trials.
- > Strengthened the Marks & Spencer brand with the launch of Your M&S.
- > Completed the sale of M&S Money to HSBC; acquired per una; closed the Lifestore project; and returned £2.3bn to shareholders.
- > Opened 31 Simply Food stores.

Financial highlights

	Before exceptional items	After exceptional items
Group sales	£7,942.3m down 2.6%	
Group operating profit	£709.4m down 13.8%	£618.0m down 20.9%
Group profit before tax	£618.5m down 19.0%	£745.3m up 0.7%
Earnings per share	21.9p down 6.4%	29.1p up 27.1%
Full year dividend	12.1p up 5.2%	
Return on equity	31.1%	41.4%
Operating cash flow from continuing activities	£944.8m	£875.5m

> www.marksandspencer.com/chairmansstatement2005

Chairman's statement

PAUL MYNERS

LAST YEAR WAS ONE OF THE MOST CHALLENGING MARKS & SPENCER HAS EVER FACED. BUT WE HAVE EMERGED AS A LEANER, BETTER RUN BUSINESS.

At the start of the year the business was underperforming. This prompted an unsolicited approach on 27 May 2004 by Revival Acquisitions. The Board was determined to make sure value was achieved for shareholders and that the business was not bought on the cheap. We took two immediate decisions.

The first was that Luc Vandeveldel, who had already indicated he wanted to leave the Company early, should step down as Chairman and that I should take his place on an interim basis. The second was that we should employ new executive leadership to accelerate the process of restoring the Company's fortunes. On 31 May, Stuart Rose succeeded Roger Holmes as Chief Executive. Charles Wilson was also appointed to the Board as an executive director.

The new executive team was charged by the Board with drawing up plans to improve business performance. Six weeks later, Stuart and his team laid these plans before institutional shareholders and analysts. Individual shareholders were given the same presentation at the Annual General Meeting two days later. It was on the

strength of these plans that the Board rejected Revival Acquisitions' indicative offer of 400p a share, which we believe undervalued the Company. We are refocusing the business on its core values, Quality, Value, Service, Innovation and Trust. We are confident that progress is being made, albeit against a more challenging retail environment.

We also said we would acquire per una, dispose of M&S Money and return £2.3bn to shareholders by way of a Tender Offer. Together with the return in 2002, we have returned over £4bn to shareholders in the last four years. The Tender Offer strike price of 362p emerged close to the market price of the shares, thereby avoiding a transfer of value to exiting shareholders. Our balance sheet remains strong, underpinned by the property portfolio, which was independently revalued at £3.6bn in July 2004.

There were additional Board changes during the course of the year. Brian Baldock and Dame Stella Rimington retired as non-executives in July, to be replaced by Anthony Habgood and Steven Holliday. Vittorio Radice, Maurice Helfgott, Mark McKeon and Laurel Powers-Freeling stepped down as executive directors as Stuart and his team set a new course for the Company with the Board's full endorsement. More recently, Alison Reed has stepped down as Finance Director after 20 years with the Company. Ian Dyson has been appointed in her place. We thank our former colleagues for their contribution and welcome the new Board members.

Our relationship with Marks & Spencer investors – both individual and institutional – is high on the Board’s list of priorities. Last year, we made sure a far greater proportion of shareholders had access to the Company’s management than ever before. We also launched a shareholder voucher scheme in summer 2004, which proved very popular, offering discounts in-store during the autumn. We will be repeating this in July 2005 and extending our offer to those who hold shares through nominee accounts. We are also improving virtual audiovisual access to the Annual General Meeting and we launched an improved version of the corporate website earlier this year.

In May 2005, we announced that Lord Burns will be joining the Board as Deputy Chairman with effect from 1 October 2005 and will become Chairman from the Annual General Meeting in July 2006, when I will step aside from the Board. I am delighted that he is joining the Board and that he will succeed me as Chairman. With the appointment of Terry, the Board can now work on completing the task of broadening the diversity and skills present around the table.

The Board would like to thank shareholders for their continued support and our employees and suppliers for their hard work, commitment and passion, which has been and remains crucial to the delivery of Marks & Spencer’s strategy.



Paul Myners
Chairman

Chief Executive's review

STUART ROSE

MARKS & SPENCER IS A FINE BUSINESS WITH SIGNIFICANT STRENGTHS. BUT IT NEEDS RADICAL CHANGE TO BECOME GREAT AGAIN.

Last year – against a background of fierce competition and a weaker UK retail market, particularly in clothing – we embarked on a programme of change to return the business to growth. We wanted to reassert our traditional values, Quality, Value, Service, Innovation and Trust. We did so with a clear understanding that, while we needed to move fast, we also needed to do the right things for the medium to long term and that there were no quick fixes.

In July 2004, following the indicative offer from Revival Acquisitions, a full business review was conducted. At this time, we stated that the principal aims of our business remained the same as in the 1950s when Marcus Sieff, a later Chairman, described them as: 'Offering customers, under the Company's brand name... a selected range of high quality, well-designed and attractive merchandise at reasonable prices which represent outstanding value... Simplifying operational procedures so that the business runs efficiently... and... fostering good human relations with staff, customers and suppliers.' (Source: Don't Ask The Price, Marcus Sieff, 1986).

We also stated that we would refocus the business in 2004/05, drive it in 2005/06 and, beyond that, broaden its horizons. We highlighted the actions that needed to be taken to refocus and these have now been achieved.

We have reviewed all expenditure, both capital and revenue, to optimise financial returns and put tight spending controls in place.

Unacceptably high stock commitments have been reduced. This was limiting our ability to react to new trends and buy into successful product. Total stocks and commitments had been reduced by £1.3bn, equating to over 35% on the year to the end of March 2005.

We have simplified processes to make us more product and service driven and less focused on meetings, reports and paper. Over 650 roles have been eliminated from head office.

Having reviewed 31 strategic projects, which were underway last summer, we have focused on the 10 which will be most value-adding.

We renegotiated supplier terms to reduce the cost of goods by £140m by the end of 2006/07, compared to 2003/04. Additionally, we closed the Lifestore project, acquired per una and in October, returned £2.3bn to shareholders via a Tender Offer. We also sold M&S Money, our Financial Services business, to HSBC and entered into an agreement which will allow us to continue to share in the success of the business.

We reduced the Executive Board to a team of three to enable faster decision-making and clearer accountabilities. I am directly responsible for product and customer-facing operations, Charles Wilson is responsible for IT, Logistics and Property and Ian Dyson is set to join us as Finance Director in June.

The business unit directors now work as a team, reporting directly to me. They too have stronger teams and clear aims and accountabilities within the plan we announced in July 2004.

We have set up a stock planning function to co-ordinate budgets, buying and phasing, reducing the risk of overbuying and increasing flexibility to buy into fast lines and new trends. These actions have laid the foundations necessary to drive the business in 2005/06. We are focusing on three key areas: product, service and store environment.

This has been a year of great change at Marks & Spencer, but it has also been a year of action and progress, thanks to the hard work and loyalty both of our staff and our suppliers. I would like to thank everyone for their support through a difficult year.

OUR PERFORMANCE LAST YEAR

Group profit before tax and exceptional items, although supported by strong cost control, ended the year 19.0% lower at £618.5m. UK Retail sales at £7.8bn (incl.VAT) were 1.9% lower during the year.

In Clothing, sales fell 3.1% to £3.8bn, led by continuing weakness in Womenswear. Per una, however, performed strongly. Lingerie suffered from having too wide a range. Menswear held up well in a difficult market, while Childrenswear market share had stabilised for the first time in three years by the end of 2004/05. All product groups suffered from an inconsistent price architecture. Opening price points are now benchmarked against key competitors and appropriate good, better and best pricing is being introduced across all ranges, giving more real choice and better value for all our customers.

Food sales were £3.5bn, 2.4% higher in total and market share was broadly maintained across the year, although sales dipped by 2.6% in like-for-like terms. Demand for our food remains strong with Simply Food and Food Halls in out-of-own stores performing well. Food sales in our city centre stores suffered particularly where customers were deterred by a lack of accessibility, particularly parking.

The UK food market continued to increase in value terms. Whilst prices in the food sector remained roughly stable, competition continued to intensify, with competitors working to improve their offer, particularly in their premium ranges. We have concentrated on driving our business by continuing to deliver new and innovative products of the highest quality.

The Home division had a year of transition as we closed Lifestore and refocused on our traditional areas of bedroom, bathroom, kitchen and dining. Sales were 21.4% lower at £0.4bn. Again, value realignment was key to re-engaging our customers.

Our International operations – including franchises in 30 territories, the wholly-owned stores in the Republic of Ireland and Hong Kong and Kings Super Markets in the US – performed strongly with operating profits up 47.1% at £65m (up 51.2% at constant exchange rates).

PRODUCT

We have a strong customer base. Over 15 million people visit our stores weekly with footfall rising 1.5% over the year. However, only around nine million of them chose to buy, with transaction levels falling by 0.5%. This clearly demonstrates the appeal of our brand and the opportunity to improve conversion of visits into sales.

Our core customer is 35-55, young at heart and fitter, healthier and better off than ever before. We are listening to them more clearly and more often through interviews, surveys, customer panels and focus groups. When we get the product right, our customers respond. Continuous improvement must be our mindset.

We have clear objectives: better product in easy-to-shop ranges; sharper opening prices and real value across all ranges; and increased levels of new and innovative product.

To deliver better product we need to buy better, buy smarter and buy more quickly. We have strengthened our buying teams across all Clothing groups and set up a Buying Training Academy for our buyers, designers and merchandisers, all of whom will be retrained by July 2005.

We have reduced stock commitments, giving us greater flexibility and introduced a single buying process for all business units, as well as standardising product specifications to improve speed. Additionally, we are establishing regional offices in Turkey, India and Hong Kong to speed the movement of goods and better manage the supply chain.

Price and value are key priorities with prices monitored on an ongoing basis. Additionally, we reduced the number of different products on offer by around 17%, or 1,500 less lines, providing more real choice in store and less proliferation.

In Food, there has also been a focus on product and increased innovation. We introduced the Eat Well sunflower on 700 products, added 40 new lines in the Cook! range and introduced Gastropub meals. In 2005/06, we will trial new food concepts in-store, such as hot food to go.

We have removed slow lines and simplified ranges to provide a clearer, simpler offer. We have also begun to emphasise the quality and uniqueness of our food both in-store and through advertising.

We have continued to expand the Simply Food network, thus making our quality food available to a wider audience. At the year end, we had 129 Simply Food stores, including 27 run by our partner Compass.

SERVICE

Retail management was reorganised in 2004/05, putting our most experienced and senior people in charge of improving standards and service. Particular focus has been on the largest 34 stores, with the creation of two flagship divisions. We have also concentrated on having more customer assistants on the sales floor at the busiest times by reworking shifts.

We have one of the most generous return and refund policies on the High Street, but it needed simplifying. In May 2005, we set a 90-day limit for refunds – three times longer than most other retailers – and now allow customers to take product back to any of our stores (except Simply Food and Outlet stores).

STORE ENVIRONMENT

Research confirmed that our store environment was generating a negative response from customers. Last year, we de-cluttered our stores, rationalised in-store décor and improved signage as a first step to improving the shopping experience.

We also started to reinforce the Marks & Spencer brand, which had become diluted by too many sub-brands and a lack of focus. Last summer, we launched the Your M&S

campaign, which aimed to draw the brand together and highlight the unique relationship we have with our customers. It has been used across all our advertising and in-store décor.

We also reviewed our sub-brands and to date Menswear sub-brands have been reduced from eight to three and Lingerie, from nine to four. Further changes in the other Clothing areas will follow in due course, all aimed at making it easier to find great product in-store.

A new store concept was also tested in four existing stores. This trial will be extended to a further 21 stores this year, totalling one million sq ft of selling space.

DRIVING DOWN COSTS

Overall, we are on course to achieve cost and margin savings of over £250m by the end of 2005/06 and £320m by the end of 2006/07. These savings are being achieved by renegotiating terms with suppliers and reducing non-product related costs. The former will deliver a £140m annual saving by the end of 2006/07 against 2003/04.

In 2004/05, UK Retail operating costs before exceptional charges were down 0.1% to £2,148.6m, including logistics. We are also focused on reducing markdowns in Clothing through tighter stock control. In Food, we are focused on delivering a £5m annual saving through reducing wastage levels.

We are spending more where customers can see the benefit. Having reduced our overall capital expenditure budget to £220m for last year, our capital expenditure is forecast to be £350m during 2005/06.

MARKET CONTEXT AND OUTLOOK

The UK retail market slowed considerably during 2004/05 amid concerns about falling house prices, rising taxes and increasing interest rates. The UK clothing market saw limited growth in value terms. Price deflation continued to prevail, driven by increased competition, a stronger dollar and better sourcing. This is expected to continue.

The outlook remains challenging, with tough economic and competitive conditions expected to continue in 2005/06. Footage growth in the clothing market is expected to continue at around the same level as in 2004/05. Meanwhile, the trend for supermarkets to drive non-food growth will continue.

In Food, pricing is expected to be broadly flat in 2005/06, following some deflation last year. Volume increases look set to slow slightly, generating modest market growth at similar levels to 2004/05.

SUMMARY

While the retail climate remains tough, we believe we are taking the right steps to return Marks & Spencer to growth and health for the longer term.

Marks & Spencer is a great brand, with a strong heritage and outstanding values. We are committed to driving the business forward and delivering the plan outlined last year. We are making steady underlying progress.

A handwritten signature in black ink, appearing to read 'Stuart Rose', with a stylized flourish at the end.

Stuart Rose Chief Executive

> www.marksandspencer.com/clothing2005

Clothing

WE ARE THE LARGEST CLOTHING RETAILER IN THE UK WITH SALES OF £3.8BN, ACCOUNTING FOR 49.5% OF OUR UK RETAIL TURNOVER.

Clothing is the place most customers start when they come into our stores. If we get our Clothing offer right, particularly in Womenswear, customers are far more likely to shop in other parts of our stores. When Clothing thrives, the rest of the business benefits too.

In the last two years, our Clothing business has declined against a background of tough competition. Overall sales slipped by 3.1% to £3.8bn and our share of the UK market fell by 0.5% to 10.5% (source: Fashiontrak) across the year. Womenswear, Lingerie and Beauty suffered the biggest reduction in sales. Per una performed strongly, while Menswear held up well in a difficult market. By the end of the year, our Childrenswear market share had stabilised for the first time in three years.

During the year, we focused on delivering better products, offered at outstanding opening price points and better value across the whole price architecture. Newness was also key. To deliver our plan, we have:

> **Acquired the per una business and brand for £125.9m;**

- > Reduced stock commitments by over 35% to increase flexibility and allow us to repeat best sellers and chase new trends;**
- > Achieved margin improvements and cut product lead times;**
- > Simplified ranges to offer more real choice and focused on the top 150 lines to drive availability where it really matters to our customers;**
- > Created a stock planning function to co-ordinate budgets, buying and phasing;**
- > Set up a Buying Training Academy to drive consistent and efficient working practices;**
- > Clarified the role of designers, buyers and merchandisers;**
- > Introduced more regular buying phases to enable better and faster product delivery;**
- > Strengthened product teams with external and internal appointments;**
- > Improved the way we work with our suppliers;**
- > Reviewed all pricing to compete on opening prices and demonstrate value throughout the ranges; and**
- > Committed to establishing regional offices in Hong Kong, India and Turkey to ensure better pricing, outstanding quality and quicker delivery.**

WOMENSWEAR

Womenswear is undergoing radical change to meet the increasingly discerning needs of women. Competition in womenswear has increased dramatically. Women want style, quality, outstanding value and real choice on every visit.

We have a clear plan to deliver this. Our aim is to make sure that every woman finds something she wants to buy, every time she visits Marks & Spencer. Last year, in a growing womenswear market, our share fell by 0.6% to 10.4% but we are confident we can improve over time.

Listening to our customers through regular store visits, focus groups and other research will help us plan new collections and products. Market data is used intensively to keep a close track of trends, competitors and our own performance.

We have strengthened our buying teams, with clearer responsibilities for design, buying and merchandising. We have also improved planning and the way we apply technology. Through the Buying Training Academy, we have introduced new and better ways of working.

We now buy less, more frequently. Customers have told us they want better ranges and more newness. By buying more frequently, we are aiming to more than double the amount of new stock we offer at any one time.

In 2004/05, we missed some key trends, including macs and cardigans. We are now better able to chase new trends and strong sales in season.

We have identified a number of missed opportunities, which we will fill this year. Forty-two per cent of Womenswear is bought by women under 5' 3". We have not catered for them. This spring, we launched a Petite range in 33 stores. We will be extending both Petite and Plus to 80 stores from August this year. We are also planning a maternity range.

Following a relaunch of the Classic Collection in late 2004, which drove an increase in our market share of the 55-plus age group, we continue to strengthen this offer.

We are also working on improving real choice at the 'better' and 'best' end of our offer.

The acquisition of per una was completed during the year. Per una is a highly regarded, growing and successful brand. George Davies is committed to driving this business with pace. Per una performed strongly over the year, providing customers with a short-lead, fashion-led offer following key trends such as boho chic.

We have reviewed selling prices across all our ranges and collections to ensure we are always competitive at opening price points and provide outstanding value across the whole range.

We have significantly increased the number of opening price point garments and are now offering £6 t-shirts, a blouse at £8, £9 jeans, dresses from £19.50 and women's suits from only £55, all maintaining our outstanding quality.

PICTURE CAPTIONS:
LUXURY FOR LESS

The Luxury for Less campaign, which began in February 2005, highlights the great value, quality items across our ranges. Initially supporting the 'with cashmere' and linen ranges, the integrated campaign offers customers an additional £5 incentive discount for a limited period. The 100% pure Irish linen jacket shown here is available for £85.

Timeless elegance and quality combined with comfort and understated style: the Classic Collection, has driven the increase in our market share with the 55-plus age group since its relaunch in late 2004.

MENSWEAR

Our Menswear business proved more resilient in a tough trading year, maintaining market leadership. Despite a small decline in sales in the second half, Menswear made a strong contribution to the profitability of our clothing business. Menswear market share declined by 0.5% to 9.7%. Blue Harbour, including the new Blue Harbour Vintage, and a refreshed Italian-inspired Collezione offer proved popular.

We have a strong presence in the formalwear market. Clearer pricing, innovative fabrics, product performance and real choice across key trends all helped to drive sales. Our Travel Suit with comfortable mesh and air vents was launched in July 2004 at £149 and proved popular. Linen was also a strong trend into spring.

As in Womenswear, we have reviewed our price architecture to provide the customer with outstanding value at opening, mid and upper price ranges. Prices now start at £79 for a suit and £17 for chinos. Socks are available from £1 per pair within a comprehensive range of styles from cashmere socks to sports socks and anti-DVT socks for flights.

To make our Menswear range easier to shop we have reduced our brands from eight to three, incorporating retained product into our main range. We are now concentrating on Blue Harbour for casualwear, Collezione for smart casual and Autograph for our fashion-led offer. The rest of Menswear, such as underwear, suits and tailoring, remains in clearly defined product areas. In line with the rest of Clothing, we have also reduced product proliferation by

cutting the number of product options by around 17% to provide more real choice.

Menswear has taken a lead in working to shorter buying cycles and, alongside Childrenswear, accelerated direct sourcing. We now buy around 20% of Menswear product direct from the factory. We have also managed our stocks and commitments more tightly, reducing overall stock commitment by over 35%, allowing us to chase best sellers and new trends. The year ahead will see us launch more unique products, demonstrating our ability to lead the market.

PICTURE CAPTION:

Blue Harbour is the best selling men's casualwear brand on the High Street. We also launched Blue Harbour Vintage in 2004, which adds a new washed down, informal element to the classic, clean, American-inspired Blue Harbour favourites.

LINGERIE AND BEAUTY

We sell more lingerie than any other UK retailer. However, in recent seasons, we lost sight of what our customers want: fashion, glamour, prettiness and comfort. Additionally, customers want to be able to find their favourite items easily. Some important product areas such as smooth bras and high leg knickers were missing from the range. Some prices were also uncompetitive.

As a result, our market share slipped 1.2% to 25.4% in a growing market.

To create a clearer offer, providing real choice without proliferation, we have moved from nine to four collections – Ceriso, Truly You, Adored and Body – and reduced the number of lines by around 17%.

We have made bras, knickers, hosiery and nightwear easier to shop and improved availability of important items like boxed bras and knicker sets. We have also extended some ranges, introducing a larger range of DD-G bra sizes and an expanded pyjama and nightgown offer.

We continue to innovate: last year, the Magic Knicker, which combines unique zoned fabrics to provide shape and support, proved popular. This and other products demonstrate our design leadership.

Once again, price has been key. We are now very competitive at opening price points and offer outstanding value across the ranges.

In Beauty, we had success with our branded cosmetics such as Autograph and the launch of the per una cosmetics and fragrance range. However, the rest of our range has become tired and we need to refresh and simplify our offer in order to attract regular as well as occasional shoppers, who visit at key times like Christmas. We are reducing the number of ranges from 32 to 23 and aim to renew three quarters of the products by the end of 2005/06.

PICTURE CAPTION:

We are the UK's leading lingerie retailer with over 25% of the market, with one in every three women in the UK choosing to shop with us.

CHILDRENSWEAR

After a difficult start to the year, performance improved in the last quarter and we held market share for the first time in three years. However, we have more to do to retain this position and improve upon it.

To improve value, we reduced opening price points substantially. We also increased the amount of product available at opening price points by more than 10%. At the same time, we continued to deliver the quality standards that our customers trust.

We improved desirability through better design and styling, especially in the toddler age group and girlsweare. In boysweare, we discontinued DB07, the Beckham range, with the last collection in autumn 2004. There is more to do to improve our boys' clothing offer. Better stock management reduced total commitment by over 35%. This has improved availability and increased flexibility to chase product in season.

Our objective now is to further improve the desirability of Childrensweare product and values across the ranges, whilst continuing to reduce lead times so we win back customers and market share.

PICTURE CAPTION:

We take our responsibilities to children seriously and in autumn 2004 we became the first retailer to replace potentially harmful phthalates and alkyl phenol ethoxylates used in motif transfers and printed panels in childrens' clothing.

>www.marksandspencer.com/food2005

Food

MARKS & SPENCER FOOD MEANS SOMETHING SPECIAL. IT MEANS THE HIGHEST QUALITY, CONVENIENT FOOD SOURCED RESPONSIBLY, WHICH WILL EXCEED OUR CUSTOMERS' EXPECTATIONS IN TERMS OF TASTE, INNOVATION, SAFETY AND INTEGRITY.

Our share of the UK food market remains relatively small at 3.1% (source: Superpanel). But the standards we set in the market – in quality, healthy eating, product development and fairly traded goods – are recognised as industry leading. This provides us with a powerful base on which to grow our Food business in the future.

To do this, we have a clear plan:

- > Accelerate the level of real innovation across all our ranges;**
- > Promote the special quality of our food more clearly;**
- > Explore options to improve and expand our food space both in our main stores and in our successful Simply Food stores; and**
- > Investigate opportunities to extend our offer into new, convenient options for our customers.**

In the last year, sales of food were £3.5bn, a 2.4% increase on the year. We held market share against a background of strong competition, where competitors continued to improve their offer, particularly in their premium ranges.

Additionally, the rapid expansion of our competitors into new space put our like-for-like sales under pressure and they were down by 2.6% on the year. City centre stores suffered particularly where customers were deterred by poor accessibility, particularly parking.

However, we saw strong growth in some areas, such as fresh produce. For example, we grew our market share in blueberries to nearly 25%. Our exclusively blended wines, bakery and delicatessen were also all strong performers.

Our Oakham range of naturally reared chickens with outstanding eating quality is now in its second year. Sales grew by 20% during the year, four times faster than the market. We recently introduced Muir Den pork, based on the same principles of improved animal welfare and product quality.

Sales in prepared foods were more challenging and we responded by introducing new and higher standards of prepared food – the Gastropub range which capitalised on the trend of quality food being offered in pubs; modern Asian and dim sum dishes; as well as 40 new lines in the freshly prepared Cook! range.

We simplified our Food offer around four main categories: fresh, natural, healthy food; special celebration products; authentic ready meal ranges; and everyday foods, such as chicken and vegetables. In addition, we accelerated the level of innovation across all our ranges. In 2004/05, we also removed slow lines and simplified ranges to provide a clearer offer that conveys a consistent message about the quality and uniqueness of our food.

Health is a key concern for our customers and there is an increasing demand for food that is fresh, natural, healthy and delicious. We have been pioneers in reducing salt, fat and sugar and in giving clear, accurate labelling to help customers make choices. Our submissions on salt reduction to the Department of Health go further than other retailers, with both the Food Standards Agency and Government commending us for our actions in this area. We also have a market leading position in the reduction of pesticides.

We have made it easier for our customers to select the healthy option across our ranges with the introduction of the Eat Well sunflower on over 700 fresh products. Selection is based on sound nutritional criteria and we are extending this to prepared foods in summer 2005. We have also highlighted low and medium glycaemic index foods on our Count on Us range of diet food.

We have worked to provide a finer range of food for celebrations such as Christmas, making our offer even more special and we have seen a steady improvement in our customers' perception of these ranges. This is particularly

important at Christmas, Valentine's Day, Mother's Day and Easter, where our unique high quality range continues to set us apart from our competitors.

Our reputation for bringing new, innovative ideas to market across our food offer has been built over many years. Recently, however, competitors have begun to imitate us in a number of areas, so we have increased the pace of our innovation.

In February, we became the first retailer to launch a complete range of own-brand household cleaning products, manufactured using only natural or naturally derived cleaning ingredients and free of all artificial colours.

The range, Naturally Inspired, comprises eight cleaning sprays and five cleaning wipes.

We are continuously challenging ourselves to deliver even higher quality to our customers. In 2004/05 we improved over 500 of our core lines and gained independent recognition for food quality, winning six Quality Food Awards.

Trust remains a cornerstone of our business and we apply strict and consistent standards to the sourcing of our food wherever it comes from in the world. Our work in reducing pesticides and improving animal husbandry has been recognised by environment and animal welfare groups. We continue to only sell food with non-GM ingredients.

During the year, we worked with selected milk suppliers on a guaranteed pricing scheme, which is an industry first and provides them with certainty over the prices we pay. We are also working with the fishing industry to find ways to protect endangered species and the long-term survival of fishing fleets. We were recognised as the best performing retailer in the RSPCA's 2004 Conscientious Consumer Guide. Our approach is about trading fairly. In September 2004, our 189 Café Revives became the first national chain of coffee shops to sell only Fairtrade coffee, which ensures that the farmers who grow the coffee receive a fair price for their crops.

We have failed to inform our customers about our outstanding quality, healthy food or other unique features. We now have more co-ordinated and better marketing both in and out of store. In March, we launched a new campaign including TV advertising, in-store décor and store food tastings under the title 'Food Festival'.

We continued to add to our Simply Food chain over 2004/05. Our competitors have invested much more heavily in space in recent years than we have, putting our like-forlike sales under pressure. We recognise that we need to continue to increase our presence and make sure that our Food offer is more conveniently located. We now have 129 stand-alone food stores. Thirty-one of these opened during the year, including 13 in partnership with Compass in railway stations and motorway service areas.

Simply Food has introduced our food to a new, wider and younger customer base and provided all customers with an additional, convenient option for their Marks & Spencer Food shopping. We will be opening a further 20 wholly-owned and 10 Compass Simply Food stores in 2005/06. We also entered into a relationship with BP in May 2005 to trial eight Simply Food concepts in BP Connect forecourt sites, starting in autumn 2005.

PICTURE CAPTIONS:

Sustainable fishing is something we take seriously at Marks & Spencer. We support the Marine Conservation Society's Good Fish Guide and are working with the fishing industry to find ways to protect endangered species and the long-term survival of fishing fleets.



The Eat Well logo now used on our Food packaging highlights healthy options and our areas of strength. For example, we lead all major food retailers in pesticide reduction.

86% of customers said that Oakham chickens, exclusive to Marks & Spencer, have more succulent meat. They are slower growing and are reared on a low protein, high maize, antibiotic-free diet.

www.marksandspencer.com/home2005

Home

HOME HAS THE SCOPE TO GROW AGAIN WITH A RENEWED FOCUS ON STYLISH AND WELL CO-ORDINATED PRODUCTS AT GREAT PRICES IN OUR CORE AREAS OF KITCHEN, DINING, BEDROOM AND BATHROOM.

In July 2004, we decided to close the Lifestore project, offering redeployment to all 220 employees of the Gateshead store. We cancelled plans for a second store in Thurrock. Kingston continues to trade as a Home-only store for the short term with a considerably modified range.

Our performance suffered badly as we reconfigured our offer. Sales fell by 21.4% to £0.4bn in 2004/05.

Our focus now is to provide a co-ordinated, easy-to-shop, mainstream appeal range in our stores, on our website and in the Home catalogue, which we relaunched in January 2005. We have reduced the number of non-furniture products from nearly 9,000 to 4,000, whilst reducing the furniture ranges by around 40%. We have also taken the number of suppliers we work with from around 1,000 to 545. In common with Clothing, we have reduced our stock commitments and given ourselves the flexibility to buy fast selling product on shorter lead times.

Again, realignment of prices is key to re-engaging our customers in Home. During the year, we substantially increased the number of products in our opening price category, including glasses at 50p and kettles, irons and bed sheets all at £9.50. All price points are being reviewed in order to offer our customers outstanding value in core product areas.

>www.marksandspencer.com/money2005

Money

2004/05 WAS A TRANSITIONAL YEAR WITH THE SALE OF M&S MONEY TO HSBC FOR £769m, INCLUDING A PRESALE DIVIDEND OF £235m, A PREMIUM OF £209m OVER NET ASSET VALUE.

We are delighted to have entered into an agreement in November 2004 with HSBC, one of the world's leading banks, whose approach and values are a close fit with ours, which will enable us to share in the success of the business. Marks & Spencer receives fees annually equating to 50% of the profit after tax of M&S Money, after deducting agreed operating and capital costs, as well as payments in relation to sales growth. The transaction covers all products across savings, loans, insurance, investments and our &more loyalty credit and charge card. Our 1,500 M&S Money staff, based mainly in Chester, became employees of the HSBC Group.

We are working closely with HSBC to develop the offer, marketing it through M&S Money and our retail channels. Following a detailed review, we will be offering an improved service for customers in 2005/06 via an increased number of Bureaux de Change (from 41 to 86), targeted deployment of the 300 M&S Money assistants and better presentation of our offer in-store. As part of this review, we announced a proposal to close our 19 in-store Money Centres in March 2005.

We saw continued growth in the &more card and ended last year with a total of 2.4 million accounts and three million cardholders, while customers received £43m of rewards to spend in-store. M&S Money is currently sending out replacement 'chip and pin' enabled &more credit cards, with a new black design and an exclusive lime green core.

>www.marksandspencer.com/storespeopleinternational
2005

Stores and people

SERVICE AT MARKS & SPENCER STARTS THE MOMENT WE BUY A PRODUCT AND GOES RIGHT THROUGH THE SUPPLY CHAIN INTO OUR STORES, INCLUDING OFFERING ONE OF THE MOST GENEROUS RETURN AND REFUND POLICIES ON THE HIGH STREET.

Research in the early part of 2004/05 confirmed that our store environment was generating a negative response from our customers. Last year, we de-cluttered our stores, improved signage and used the Your M&S branding and décor to provide a consistent look and feel as a first step to improving ambiance and ease of shopping.

We are reworking shift patterns to ensure that there are more customer assistants on the sales floor at the busiest times.

We are also using our own Retail Training Academy as a forum to improve service by providing customer service training.

Trials of a new store design and format were undertaken in four new stores (Omagh, Blanchardstown, Dundrum and Talbot Green) and four existing stores (Basingstoke, Shoreham, Sutton Coldfield and Edgware Road, London). On the basis of findings from these stores, we have decided to extend the trial to a further 21 stores, totalling one million sq ft, during 2005/06.

We have reorganised our retail structures in stores and are initially concentrating on the top 34 stores, which generate a substantial proportion of our sales, and transferred senior managers in to run them. Two flagship divisions have been formed to drive this initiative.

We are also working to retain knowledge and talent across the business. In 2004/05, labour turnover due to resignation was 14%. This compares well against our competitors.

In 2005/06, we will be testing new ways of measuring our store service and our customers' service satisfaction levels in 45 stores, including service survey keypads at tills. A mystery shopping programme has also been reintroduced.

In the year ahead, our planned footage expansion is circa 1.2% for Clothing and Home and circa 3.3% for Food, including 10 new stores in retail parks.

We have one of the most generous return and refund policies on the High Street but it needed simplifying. In May 2005, we set a 90-day limit for refunds – three times longer than other retailers – and now customers can return product to any of our stores (except Simply Food stores and Outlets). We are also increasing the number of stores with dedicated customer service desks with specially trained refund assistants from 80 to 130 stores.

In addition to driving service improvements, we have also been looking at our employee policies. Our Business Involvement Groups, elected employee groups that

represent our people's views, have had their responsibilities extended. This includes consultation on a proposal to modernise elements of our reward package during 2005. We have also reviewed our customer assistant structure to create a clear and competitive career path for store teams.

In April 2005, we announced a service partnership with Amazon. We already have a successful website with over 24 million visits a year, but our e-commerce and customer ordering capabilities have yet to reach their full potential. Partnering with Amazon will help us achieve this, while allowing us to concentrate on retail.

We operate 22 Outlets in the UK to clear excess stock. In 2004, we introduced our first trial High Street Outlet format in Aldershot and we will be extending this trial to two further stores in summer 2005.

PICTURE CAPTIONS:

We are endeavouring to improve customer service – our staff are being retrained and we now have more staff on the shop floor at our busiest times.

We have been de-cluttering and simplifying store layouts as part of our store improvement programme. We are also trialling a new store format in four of our existing stores, including Shoreham.

>www.marksandspencer.com/storespeopleinternational
2005

International

The International business is performing well and, in 2004/05, delivered a turnover of £675.6m, up 1.6% on the year.

We increased our franchised space by 23.3% last year and currently have a network of 191 stores in 30 territories.

Hong Kong remains an important market for us and sales have increased with the growth of visitors from mainland China. However, the portfolio of nine stores will change this year, with one store closing and two being relocated or involved in mall refurbishments. The Republic of Ireland, where we have seen a doubling of our store portfolio in recent years, is a strong part of our international business and delivered an increase in turnover in 2004/05.

Kings Super Markets, our 27-store US supermarket chain based in New Jersey, has seen performance improvements under the new Chief Executive, resulting in an operating profit of £4.3m.

>www.marksandspencer.com/csr2005

Corporate Social Responsibility

MARKS & SPENCER HAS A STRONG TRADITION OF CORPORATE SOCIAL RESPONSIBILITY (CSR).

Our approach to CSR underpins our commitment to Quality, Value, Service, Innovation and Trust. It allows us to manage operations responsibly, identify risks and make the most of opportunities to distinguish ourselves from our competitors. This helps us to attract shoppers to our stores, to recruit and retain the best people, form better partnerships with our suppliers and create greater value for our shareholders.

We were pleased to be judged as the prestigious Company of the Year by Business in the Community (BitC) in July 2004. We have been ranked in the top 20 companies in the BitC Corporate Responsibility Index in each of the last three years, improving from 18th to 14th in 2004. We were also rated as the leading retailer in the global Dow Jones Sustainability Index in 2003, 2004 and 2005.

As a 100% own-brand retailer, we are in a position to control the quality of products and the way they are produced. We are talking to customers more about how this benefits them and how our products are sourced to high ethical standards. This year, we have published our second CSR report as part of our suite of Company Reports. It is available from our website at www.marksandspencer.com/thecompany and provides clear lists of targets for the year ahead. We see

CSR as a continual process, which requires measurement and which should be open and accountable.

All CSR activities are overseen by a Board committee, which is led by the Chairman and meets at least three times a year. The committee, which is assisted by two forums of employees from across the business, has set a framework for activities – divided into products, people and places – to respond to the main concerns of customers and other stakeholders.

We continued to commit at least 1% of pre-tax profits to support community programmes and donated a total of £9.8m last year, equating to 1.6%. Marks & Start, our flagship community programme, launched in 2004 following a successful one-year trial. It provides work experience placements for people with disabilities, the homeless, the young unemployed, school children, first generation students and parents returning to work. It is the largest scheme of its kind in the UK and the Republic of Ireland, attracting over 2,635 participants, with 30% of adult placements finding work as a result. This year, the programme has been taken up by suppliers elsewhere in the world including Sri Lanka.

We are developing new ways to improve animal husbandry, such as extending the natural growing techniques we pioneered with Oakham chicken to pork. The RSPCA has recognised our work in this area. Our efforts to protect fisheries and reduce the use of pesticides, chemicals and salt have also been recognised.

Finally, we would like to thank all our customers and colleagues for raising more than £2m for local communities affected by the tsunami. As a Company, we committed a further £250,000 to the appeal, along with a significant personal donation by the Board. To help Sri Lankan communities in Galle, Kulatara and Matara to rebuild their futures, we seconded one of our Sri Lanka office management team to work full time with the charity CARE International (UK) to identify projects and ensure the best use of the Company donation.

PICTURE CAPTION:

Marks & Start is the UK's biggest company-led work experience scheme. Larry Birchall is one of those to benefit: helped by his 'buddy' Jacqui Fullerton-McIntyre, Larry now has a permanent position with us and is a 'buddy' himself.

>www.marksandspencer.com/boardmembers2005

Board members

PAUL MYNERS

CHAIRMAN ▲ (Chairman)

Appointed as a non-executive director in April 2002 and as Chairman in May 2004. Age 56. Paul is Chairman of Aspen Insurance Holdings Limited and of Guardian Media Group plc. He is a non-executive director of the Bank of New York and will join the Court of Directors of the Bank of England on 1 June 2005.

LORD BURNS

DEPUTY CHAIRMAN *

Appointed as Deputy Chairman with effect from 1 October 2005 and as Chairman following our Annual General Meeting in 2006. Age 61. Terry is also Chairman of Abbey National plc and Glas Cymru Ltd (Welsh Water) and a non-executive director of Banco Santander Central Hispano SA, Pearson Group plc and British Land plc. He was formerly Permanent Secretary to the Treasury and chaired the Parliamentary Financial Services and Markets Bill Joint Committee.

STUART ROSE

CHIEF EXECUTIVE

Appointed in May 2004. Age 56. Stuart first joined Marks & Spencer in 1972. He moved to the Burton Group in 1989, becoming Chief Executive of the Multiples Division in 1994. He joined Argos plc in 1997 as Chief Executive to defend the takeover from GUS. He then became Chief Executive of Booker plc, which merged with Iceland plc in 2000. He then joined Arcadia Group plc as Chief Executive and left in 2002 following its acquisition. He is a non-executive director of Land Securities plc and Chairman of the British Fashion Council.

CHARLES WILSON

EXECUTIVE DIRECTOR.

IT, LOGISTICS AND PROPERTY

Appointed in May 2004. Age 39. Charles started his career in 1986 with Procter and Gamble. From 1987 to 1991, he was a consultant with OC&C Strategy Consultants, prior to his appointment as Director of Abberton Associates in 1991. In 1998, he became Executive Director of Booker plc. In 2000, he joined the Iceland Group, as Managing Director of Booker Cash and Carry. From 2001 to 2003, he was Executive Director of Arcadia Group plc.

IAN DYSON

GROUP FINANCE DIRECTOR

To be appointed on 27 June 2005. Age 42. Ian was formerly Finance Director of The Rank Group plc and previously Group Financial Controller of Hilton Group plc, prior to which he was Finance Director of Le Meridien Hotels division of Forte plc. He has also been a partner of Arthur Andersen. Ian is a non executive director of Misys plc until September 2005.

ALISON REED

GROUP FINANCE DIRECTOR

(JULY 2001 – APRIL 2005)

Age 48. A Chartered Accountant, Alison joined Marks & Spencer in 1984 from Touche Ross & Co. and, following a wide range of financial and commercial roles, including commercial executive in the Home division and divisional director of logistics, she was appointed Group Financial Controller in 1996. Alison is a non-executive director of British Airways plc and is also a Trustee of Whizz-Kidz.

KEVIN LOMAX

SENIOR INDEPENDENT DIRECTOR

*▲■● (Chairman)

Appointed in September 2000. Age 56. A founding investor in Misys plc in 1979, Kevin became Non-Executive Chairman from May 1980 until June 1985 since when he has been Executive Chairman, leading Misys through a period of significant growth.

ANTHONY HABGOOD

NON-EXECUTIVE DIRECTOR * ● ■ ▲

Appointed in July 2004. Age 58. Anthony is currently a non-executive director of Whitbread plc and will assume the role of Chairman on 1 August 2005. He is also Chairman of Bunzl plc, a leading distribution and manufacturing company and is a non-executive director of SVG Capital plc.

STEVEN HOLLIDAY

NON-EXECUTIVE DIRECTOR * ● ■ ▲

Appointed July 2004. Age 48. Steven is an executive director of National Grid Transco plc. He was formerly an executive director of British Borneo Oil and Gas. Previously, he spent 19 years with the Exxon Group. His international experience includes a four-year spell in the US.

JACK KEENAN

NON-EXECUTIVE DIRECTOR

* ▲ ● ■ (Chairman)

Appointed in September 2001. Age 68. Jack, Chief Executive Officer of Grand Cru Consulting Ltd, was previously Deputy Chief Executive Officer of Guinness UDV and a board member of Diageo plc. He is also a non-executive director of Tomkins plc, The Body Shop International plc, and Amphora Fine Wine Fund plc and Patron of Cambridge University's Centre for International Business and Management.

GRAHAM OAKLEY

GROUP SECRETARY AND HEAD OF CORPORATE GOVERNANCE

Appointed in August 1997. Age 48. Graham qualified as a Solicitor in 1982 and began his career with the Navy Army Air Force Institute. In 1985, he joined Marks & Spencer, where he was appointed Head of Legal in 1990 and Company Secretary and Chief Legal Adviser in 1997. In September 2002, he was appointed Head of the Corporate Governance Group.

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

>www.marksandspencer.com/summaryreports2005

Summary reports

The Summary financial statement on page 55, the Summary remuneration report on page 74 and the Summary directors' report on this page are summaries of information contained in the Annual report and financial statements. The aim is to provide shareholders with the key financial information in a clear and concise manner. For this reason, the Summary financial statement does not contain all the information to give a full understanding of the results of the Group and state of affairs of the Company and the Group.

The Directors' report, the full accounts and the Auditors' report on those accounts, which is unqualified, are contained in the Annual report and financial statements 2005. Copies may be obtained free of charge from the Company as noted on the inside back cover of this report.

SUMMARY DIRECTORS' REPORT

Principal activities

During the year, the principal activities of the Group were Retailing and Financial Services. Financial Services activities were discontinued during the period. Retailing consists of the Group's retail activities under the Marks & Spencer and Kings Super Markets brand names.

Review of activities and future developments

A review of the Group's activities and of the future development of the Group is contained in the Chief Executive's review on page 10.

Dividends

The directors have declared dividends as follows:	£m
<hr/>	
Ordinary shares	
Paid interim dividend of 4.6p per share (last year 4.4p per share)	76.3
Proposed final dividend of 7.5p per share (last year 7.1p per share)	124.2
<hr/>	
Total ordinary dividend, 12.1p per share (last year 11.5p per share)	200.5
<hr/>	

During the year, dividends of £2.8m (last year £3.0m) have been paid on non-equity shares.

The final ordinary dividend will be paid on 15 July 2005 to shareholders whose names are on the Register of Members at the close of business on 3 June 2005.

Directors

Current members of the Board are shown on page 47, together with their biographies and committee membership details.

SUMMARY CORPORATE GOVERNANCE

The Board is committed to high standards of corporate governance. For the year ended 2 April 2005, the Company complied with all the provisions of the Combined Code on Corporate Governance, except as follows:

Board Balance

As a consequence of changes to the Board during the year, less than half the Board were independent non-executive directors for the period from 31 May to 9 November 2004.

Audit Committee Membership

Our search for a new non-executive director with recent and relevant financial experience to refresh the skills and experience of the committee as a whole continues, having been interrupted by the significant Board restructures during the year.

A statement explaining our governance policies and practices is given in the Annual report and financial statements. A detailed account of how we comply with the Code provisions can be found on our website at www.marksandspencer.com/investorrelations

ANNUAL GENERAL MEETING

The Annual General Meeting will be held at 2pm on 13 July 2005 at The ICC in Birmingham. The Notice of Meeting is given, together with explanatory notes, in the booklet which accompanies this report.

Summary financial review

	2005 52 weeks £m	2004 52 weeks £m	2004 53 weeks £m
Summary of results			
Continuing operations before exceptional items			
Turnover (ex VAT)	7,710.3	7,824.8	7,971.5
Operating profit	677.1	766.3	809.4
Net interest expense	(102.3)	(44.5)	(45.8)
Other finance income/(charges)	11.4	(15.2)	(15.2)
Profit before tax from continuing operations before exceptional items	586.2	706.6	748.4
Operating profit from discontinued operations	32.3	56.6	56.6
Profit before tax and exceptional items	618.5	763.2	805.0
Exceptional income/(charges)	126.8	(23.4)	(23.4)
Group profit before tax	745.3	739.8	781.6
Earnings per share from continuing operations			
Basic earnings per share	16.8p	20.6p	21.9p
Adjusted earnings per share	20.4p	21.1p	22.4p
Earnings per share			
Basic earnings per share	29.1p	22.9p	24.2p
Adjusted earnings per share	21.9p	23.4p	24.7p

Continuing operations include the results of the UK Retail and International Retail businesses. The results for Financial Services, which was sold during the year, have been disclosed as discontinued operations.

The reporting period for this financial year covers the 52 weeks to 2 April 2005, whereas the prior period covered the 53 weeks to 3 April 2004. For comparative purposes, the commentary that follows, in so far as it relates to the profit and loss account, is provided on a 52 week basis (to 2 April 2005 and 27 March 2004).

Group operating profit from continuing operations before exceptional items	2005 52 weeks £m	2004 52 weeks £m	2004 53 weeks £m
UK Retail	612.1	722.1	762.0
International Retail	65.0	44.2	47.4
Total	677.1	766.3	809.4

UK Retail operating profit before exceptional charges decreased by 15.2% to £612.1m largely as a result of lower sales and higher markdown costs. Operating costs were broadly unchanged.

Operating profit for those International Retail businesses that trade under the Marks & Spencer brand increased by 45.2% to £60.7m, with strong year-on-year performances in the Republic of Ireland, Hong Kong and franchises. Operating profit at Kings Super Markets was £4.3m as a result of actions taken last year to improve financial performance.

Exceptional items

Operating exceptional items

The Group has recorded exceptional operating charges of £91.4m in the year, as follows:

Head office relocation of £8.8m, which was completed at the end of October.

A further £6.3m of costs in the year in connection with the implementation of the head office restructuring programme which was announced at the end of last year.

Lifestore closure costs of £29.3m representing the anticipated cost of closing the Lifestore programme. These costs include stock provisions, asset write-offs and other property-related costs.

Defence costs of £38.6m represent the costs incurred, primarily for professional advice, in developing and implementing the new business strategy as a consequence of the possible offer from Revival Acquisitions Limited. Costs of £8.4m have also been incurred in making the necessary changes to the Board.

Non-operating exceptional items

The Group successfully completed the sale of Financial Services to HSBC on 9 November 2004. This resulted in a profit on disposal, after costs, of £208.9m.

Following the disposal of two properties in Germany during the year, we have completed the majority of the actions required to close our Continental European operations and we have released, unutilised, £9.7m of the closure provision which we now anticipate is no longer required.

Interest

Net interest expense was £102.3m compared to £44.5m (52 week basis) for last year. The average rate of interest on borrowings during the period was 5.7% (last year 5.3%).

Taxation

The tax charge reflects an effective tax rate for the full year of 28.5% before exceptional charges, compared to 30.1% last year. The rate is lower than the standard UK tax rate of 30% due to the impact of prior year credits and relief in respect of the exercise of employee share options. The European Court of Justice heard the Group's group relief claim on 1 February 2005 and their judgement is expected later this year. No asset has been recognised in respect of this claim.

Shareholder returns and dividends

Adjusted earnings per share, which excludes the effect of exceptional items, has decreased by 11.3% to 21.9p per share (on a 52 week basis, a decrease of 6.4%). Return on equity was 41.4% compared to 25.2% last year.

A final dividend of 7.5p per share (last year 7.1p per share) is proposed, making the total dividend for the year 12.1p per share (last year 11.5p per share), an increase of 5.2%.

Balance sheet

Net assets have decreased by £1,932.6m to £521.4m largely as a result of returning £2.3bn to shareholders by way of a Tender Offer. Fixed assets decreased by £60.1m. Within this, Group capital expenditure was £219.6m and depreciation was £267.3m. The sale of M&S Money to HSBC resulted in the de-recognition of £2.6bn of debtors, £1.5bn of creditors and £0.8bn of net debt.

In July 2004, the Group commissioned DTZ Debenham Tie Leung, an External Valuer, to carry out a valuation of the Group's property portfolio. This valuation was carried out on an existing use value basis for the Group's operational stores and other properties and a market value basis for non-operational properties. This gave rise to a valuation for the Group's properties of approximately £3.6bn. Adjusting this valuation for movements in the Group's portfolio since that date gives rise to a surplus over net book value as at 2 April 2005 of approximately £1.3bn. Had this valuation been incorporated into the Group's balance sheet as at 2 April 2005 then net assets would have increased by £1.3bn to £1.8bn.

Cash flow and financing

The Group generated an operating cash inflow for the year of £1,575.4m (last year £666.5m). Within this, the cash inflow from continuing operations was £857.5m (last year £602.3m). A major factor in the increase in operating cash flow was the year-on-year net decrease in contributions paid to the UK defined benefit pension scheme of £383.0m, following the one-off injection of £400.0m in March 2004.

The cash outflow during the period for capital expenditure was £232.2m (last year £428.8m). During the year, the Group received £117.8m (last year £126.2m) from the sale of properties, including £115m from the sale of Michael House.

Acquisitions and disposals include a net inflow of £351.1m, being proceeds from the sale of Financial Services offset by the acquisition of per una.

Transactions with shareholders (dividends, redemption of B shares, the purchase of 635,359,116 ordinary shares by way of a Tender Offer and the issue of new shares under employee share schemes) resulted in a cash outflow of £2,502.6m (last year £310.1m).

After taking into account transactions with shareholders, net debt at the end of the period was £2.1bn, a decrease of £0.1bn, giving rise to gearing of 84.5% (last year retail gearing of 44.7%) including the net post-retirement liability.

International Financial Reporting Standards

For the next financial year, the Group will be required to adopt International Financial Reporting Standards. We have identified that the greatest impact on the Group arises from changes in the accounting treatment for property, share-based payments, financial instruments and software. The Group has restated the results for the period ended 2 April 2005 to reflect these changes and a summary of the impact is set out below:

	2004/05		Change	Change %
	UK GAAP	IFRS		
Turnover (£m)	7,942.3	7,942.3	–	–
Operating profit before exceptional items (£m)	709.4	689.2	(20.2)	(2.8)
Profit before tax and exceptional items (£m)	618.5	596.0	(22.5)	(3.6)
Adjusted earnings per share (p)	21.9	21.0	(0.9)	(4.1)
Net assets at 2 April 2005 (£m)	521.4	938.6	417.2	80.0

Summary profit and loss account

	52 weeks ended 2 April 2005		
	Before exceptional items £m	Exceptional items £m	After exceptional items £m
Turnover			
Continuing operations	7,710.3	–	7,710.3
Discontinued operations	232.0	–	232.0
Total turnover	7,942.3	–	7,942.3
Operating profit			
Continuing operations	667.6	(91.4)	576.2
Acquired operations	9.5	–	9.5
	677.1	(91.4)	585.7
Discontinued operations	32.3	–	32.3
Total operating profit	709.4	(91.4)	618.0
(Loss)/profit on sale of property and other fixed assets	–	(0.4)	(0.4)
Profit on sale/closure of operations			
Profit/(loss) arising on sale/closure	–	208.9	208.9
Release/utilisation of prior year provision	–	9.7	9.7
		218.6	218.6
Net profit on sale/closure of operations	–		
Net interest expense	(102.3)	–	(102.3)
Other finance income/(charges)	11.4	–	11.4

	Before exceptional items £m	Exceptional items £m	After exceptional items £m
Profit/(loss) on ordinary activities before taxation	618.5	126.8	745.3
Analysed between:			
Continuing operations (including acquired operations)	586.2	(91.8)	494.4
Discontinued operations	32.3	218.6	250.9
Taxation on ordinary activities	(176.5)	18.2	(158.3)
Profit/(loss) attributable to shareholders	442.0	145.0	587.0
Dividends (including dividends in respect of non-equity shares)	(203.3)	–	(203.3)
Retained profit/(loss)	238.7	145.0	383.7
Earnings per share			29.1p
Diluted earnings per share			28.9p
Adjusted earnings per share			21.9p
Diluted adjusted earnings per share			21.7p
Dividend per share			12.1p

	53 weeks ended 3 April 2004		
	Before exceptional items £m	Exceptional items £m	After exceptional items £m
Turnover			
Continuing operations	7,971.5	–	7,971.5
Discontinued operations	330.0	–	330.0
Total turnover	8,301.5	–	8,301.5
Operating profit			
Continuing operations	809.4	(42.1)	767.3
Acquired operations	–	–	–
	809.4	(42.1)	767.3
Discontinued operations	56.6	–	56.6
Total operating profit	866.0	(42.1)	823.9
(Loss)/profit on sale of property and other fixed assets	–	18.7	18.7
Profit on sale/closure of operations			
Profit/(loss) arising on sale/closure	–	(26.8)	(26.8)
Release/utilisation of prior year provision	–	26.8	26.8
Net profit on sale/closure of operations	–	–	–
Net interest expense	(45.8)	–	(45.8)
Other finance income/(charges)	(15.2)	–	(15.2)

	Before exceptional items £m	Exceptional items £m	After exceptional items £m
Profit/(loss) on ordinary activities before taxation	805.0	(23.4)	781.6
Analysed between:			
Continuing operations (including acquired operations)	748.4	(23.4)	725.0
Discontinued operations	56.6	–	56.6
Taxation on ordinary activities	(242.0)	12.7	(229.3)
Profit/(loss) attributable to shareholders	563.0	(10.7)	552.3
Dividends (including dividends in respect of non-equity shares)	(263.2)	–	(263.2)
Retained profit/(loss)	299.8	(10.7)	289.1
Earnings per share			24.2p
Diluted earnings per share			24.1p
Adjusted earnings per share			24.7p
Diluted adjusted earnings per share			24.6p
Dividend per share			11.5p

Summary balance sheet

	As at 2 April 2005 £m	As at 3 April 2004 £m
Fixed assets		
Intangible assets	122.4	–
Tangible assets	3,316.1	3,497.6
Investments	9.0	10.0
	3,447.5	3,507.6
Current assets		
Stocks	339.7	398.0
Debtors	218.2	2,750.9
Cash and investments	279.6	720.6
	837.5	3,869.5
Current liabilities		
Creditors: amounts falling due within one year	(1,289.3)	(1,884.7)
Net current (liabilities)/assets	(451.8)	1,984.8
Total assets less current liabilities	2,995.7	5,492.4
Creditors: amounts falling due after more than one year	(1,919.7)	(2,519.6)
Provisions for liabilities and charges	(80.4)	(49.3)

	As at 2 April 2005 £m	As at 3 April 2004 £m
Net assets before net post-retirement liability	995.6	2,923.5
Net post-retirement liability	(474.2)	(469.5)
Net assets	521.4	2,454.0
Equity shareholders' funds	455.7	2,369.1
Non-equity shareholders' funds	65.7	84.9
Total shareholders' funds	521.4	2,454.0

Approved by the Board
23 May 2005

Stuart Rose, Chief Executive
Charles Wilson, Executive Director

Summary cash flow statement

	52 weeks ended 2 April 2005 £m	53 weeks ended 3 April 2004 £m
Operating activities		
Cash inflow from continuing operating activities before contribution to the pension fund	857.5	1,002.3
Contribution to the pension fund following 2003 actuarial valuation	–	(400.0)
Cash inflow from continuing operating activities	857.5	602.3
Cash inflow from discontinued operating activities	717.9	64.2
Cash inflow from operating activities	1,575.4	666.5
Returns on investments and servicing of finance	(101.6)	(49.8)
Taxation	(166.7)	(220.4)
Capital expenditure and financial investment	(113.6)	(293.9)
Acquisitions and disposals	363.8	51.3
Equity dividends paid	(236.9)	(247.1)

	52 weeks ended 2 April 2005 £m	53 weeks ended 3 April 2004 £m
Cash inflow/(outflow) before funding	1,320.4	(93.4)
Purchase of own shares	(2,314.9)	(54.4)
Other transactions with shareholders	49.8	(12.2)
Debt financing net of liquid resources disposed with subsidiary	839.7	—
Exchange and other movements	0.7	(3.3)
Opening net debt	(1,994.7)	(1,831.4)
Closing net debt	(2,099.0)	(1,994.7)

Five year group financial summary

	2005 52 weeks £m	2004 53 weeks £m	2003 52 weeks £m	2002 ¹ 52 weeks £m	2001 ¹ 52 weeks £m
Turnover from continuing operations					
UK Retail	7,034.7	7,293.7	7,027.1	6,575.2	6,293.0
International Retail	675.6	677.8	662.1	693.4	686.5
Operating profit from continuing operations (before exceptionals)²					
UK Retail	612.1	762.0	643.8	505.2	334.8
International Retail	65.0	47.4	42.8	33.3	41.9
Profit before tax from continuing operations					
Before exceptional items	586.2	748.4	673.1	562.5	398.5
After exceptional items	494.4	725.0	629.3	603.7	287.3
Adjusted earnings per share ³	21.9p	24.7p	23.3p	16.3p	11.2p
Basic earnings per share	29.1p	24.2p	21.8p	5.4p	(0.2)p
Dividend per share	12.1p	11.5p	10.5p	9.5p	9.0p

	2005 52 weeks £m	2004 53 weeks £m	2003 52 weeks £m	2002 ¹ 52 weeks £m	2001 ¹ 52 weeks £m
Balance sheet					
Net assets (including pension deficit)	521.4	2,454.0	2,108.3	3,081.3	4,581.4
Net debt	(2,099.0)	(1,994.7)	(1,831.4)	(1,907.0)	(1,277.8)
Capital expenditure	219.6	433.5	311.0	290.5	255.7
UK Retail footage (000 sq ft)	12,896	12,782	12,349	12,229	12,440
International Retail footage (000 sq ft)	1,024	908	948	955	954
Staffing (full-time equivalent)					
UK Retail	43,724	41,915	43,108	40,854	41,573
International Retail	3,238	3,307	3,363	3,759	3,537

¹Comparatives for 2002 and 2001 were not restated following the adoption of FRS 17 – ‘Retirement Benefits’, Application Note G of FRS 5 – ‘Revenue Recognition’ and UITF 38 – ‘Accounting for ESOP Trusts’ in 2004. Comparatives for 2001 were restated following the adoption of FRS 19 – ‘Deferred Taxation’ in 2002.

²Excess interest charged within Financial Services of £nil (2004 £nil; 2003 £nil; 2002 £6.4m; 2001 £7.9m) should be added back to arrive at total operating profit for continuing operations (before exceptionals).

³Adjusted for exceptional items.

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

We have examined the Summary financial statement of Marks and Spencer Group plc.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual review and summary financial statement in accordance with applicable law. Our responsibility is to report to you our opinion on the consistency of the Summary financial statement within the Annual review and summary financial statement with the Annual report and financial statements, the Directors' report and the Remuneration report, and its compliance with the relevant requirements of Section 251 of the Companies Act 1985 and the regulations made thereunder. We also read the other information contained in the Annual review and summary financial statement and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Summary financial statement.

This statement, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 251 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 statement is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Basis of opinion

We conducted our work in accordance with Bulletin 1999/6, 'The auditors' Statement on the Summary Financial Statement', issued by the Auditing Practices Board for use in the United Kingdom.

Opinion

In our opinion, the Summary financial statement is consistent with the Annual report and financial statements, the Directors' report and the Remuneration report of Marks and Spencer Group plc for the period ended 2 April 2005 and complies with the applicable requirements of Section 251 of the Companies Act 1985 and the regulations made thereunder.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

London

23 May 2005

www.marksandspencer.com/summaryremunerationreport2005

Summary remuneration report

The full report on directors' remuneration complies with The Directors' Remuneration Report Regulations 2002 and is set out on pages 16 to 25 of the Annual report and financial statements 2005. Copies of these can be obtained, free of charge, from the Company as noted on the inside back cover of this report.

Compliance

The Remuneration Committee has adopted the principles of good governance relating to directors' remuneration as set out in the new Combined Code. This report complies with the Companies Act 1985, as amended by the Directors' Remuneration Report Regulations 2002 and the Listing Rules of the Financial Services Authority.

Remuneration Committee

With effect from 15 July 2004, the Committee comprises Jack Keenan (Chairman), Anthony Habgood, Steven Holliday and Kevin Lomax, all of whom are independent, non-executive directors. Dame Stella Rimington and Brian Baldock were members of the Committee until they left the Company on 14 July 2004 and Barbara Cassani, until she left the Company on 30 April 2004. There were six meetings of the Remuneration Committee during the period under review. The Committee recommends to the Board the remuneration framework to allow the Company to attract and retain its executive directors and senior management, giving

due regard to the financial and commercial health of the Company. In addition, the Committee is responsible for setting the remuneration for the Chairman. The Committee's approach reflects the Company's overall philosophy that all employees should be appropriately and competitively rewarded, in particular to recognise that the highest standards of performance deliver improved business results.

The Committee keeps itself fully informed of all relevant developments and best practice in the field of remuneration and seeks advice where appropriate from external advisors. New Bridge Street Consultants LLP have provided material advice to the Committee and the Company on directors' remuneration and share schemes in the past year, in particular the role and shape of the incentive schemes. The Company Chairman, Chief Executive, Group Secretary and Head of Senior Remuneration also materially assisted the Committee in its deliberations, except in relation to their own remuneration.

Remuneration policy

Marks & Spencer depends upon the skill and experience of motivated employees throughout all levels of the business. It is part of our strategy to have a range of schemes to attract, motivate and retain high calibre individuals to drive the Company's recovery and deliver improved performance. The level of remuneration and benefits we offer is key to supporting this objective and maintaining our market position as an employer of choice.

Total remuneration for executive directors comprises base pay, variable pay, pension and benefits. Base pay and benefits are set having regard to market practice and levels

paid by similar companies. Variable pay provides the opportunity to earn greater amounts for the highest standards of performance.

During the year, the Remuneration Committee has undertaken a comprehensive review of the remuneration policy, and in particular the role of variable pay. Following this review, the Company is proposing to make changes to the bonus and share incentive arrangements. Shareholder approval will be sought for a new Performance Share Plan and a new Executive Share Option Plan. Full details of both these Plans are contained in the Notice of Meeting.

In summary, the proposals are:

- To enhance annual bonus potential for approximately 400 of the more senior executives. Payment will require the satisfaction of stretching targets and a significant proportion of the bonus payable will be deferred into shares for three years;
- To adopt a new Performance Share Plan as the Company's primary long-term incentive arrangement. It is intended to make awards under this Plan to approximately 100 of the most senior executives. Vesting of these awards will be based on demanding earnings per share growth targets;
- To adopt a new Executive Share Option Scheme to be used by the Remuneration Committee upon recruitment or, in exceptional circumstances, if it considers it appropriate to do so; and

- To make no further awards under the Company's Share Matching Plan.

The proposals have been designed to rebalance the remuneration package by weighting variable pay more towards annual performance. To receive awards, executives will be required to achieve demanding targets under the annual and long-term arrangements, with the focus on targets that are most relevant to them.

Expected proportion of future annual remuneration package for executive directors

Fixed		Performance-related	
Salary 43%	Pension 9%	On-target annual cash bonus 13%	Long-term incentives 35%

The value placed on long-term incentives assumes 'on-target' performance and comprises the expected cash value to executives after three years, discounted back to its present value, of i) bonus compulsorily deferred into shares and ii) performance shares awarded under the Performance Share Plan.

Chairman's and non-executive directors' remuneration

The remuneration for the non-executive directors is determined by the Chairman and executive directors and is designed to recognise both the responsibilities of non-executive directors and to attract individuals with the necessary skills and experience to contribute to the future growth of the Company. The non-executives are paid a basic fee with additional fees payable for committee membership and to the chair of the committees. These fees are neither performance related nor pensionable. They do not participate in any of the Company's incentive plans or share schemes. The fees for non-executive directors are reviewed regularly and the last change was effective from 1 April 2003.

The Chairman's fee for his initial period in office from 31 May 2004 (when he stepped in at short notice to respond to a possible offer for the Company) to 5 August 2004 was, at his request, the same rate of £50,000 per annum as he had received as a non-executive director. For the period from 5 August 2004 for continuing in the role of Chairman, the Remuneration Committee was in the process of considering appropriate market benchmarks for remuneration when the Chairman signalled that he did not wish his remuneration to exceed £200,000 per annum. The Committee was content to agree to this level which has applied since 10 August 2004, in the knowledge that it is below the market rate for the role. On appointment as Deputy Chairman on 1 October 2005, Lord Burns will receive a fee of £175,000 per annum. His remuneration on appointment to Chairman from July 2006 will be £400,000 per annum.

Salaries and benefits

Salaries and benefits for executive directors are reviewed annually and any change to salary is normally effective from 1 January. The Remuneration Committee takes into consideration a range of factors when reviewing salaries such as the Company performance, level of salaries for large retailers and for other major FTSE 100 companies, market conditions, the level of increase awarded to employees throughout the business and the wish to recognise the responsibilities of individual directors. Current annual salaries for executive directors are set out in the Directors' emoluments table on page 88.

Stuart Rose and Charles Wilson receive a payment of 20% of total salary in respect of pension. For executive directors, the provision of a car and fuel is included in the emoluments table as part of benefits, where relevant.

Annual Bonus Scheme

The Annual Bonus Scheme is designed to reinforce the relationship between team and corporate performance and reward. The targets are determined annually by the Committee and for 2004/05 incorporated a mixture of financial measures and personal business targets. The Committee assesses the achievement of targets for all executive directors, with advice from the Chairman and Chief Executive. The 2004/05 bonus for directors starts at 40% of base salary for on-target performance rising to a maximum of 100% for exceeding targets.

This year, the financial targets have not been met and no award has been made to any executive director under this element of the scheme. Two directors received an award for delivery of revised objectives relating to corporate activities following the possible offer for the Company in May 2004, as shown in the emoluments table. The Company is proposing to make changes to the bonus scheme with effect from the 2005/06 financial year to focus senior executives on the specific operational improvements which need to be made over the next year in order to drive the Company's recovery. The key measure for executive directors will be Group profit before tax, with demanding targets that require a significant recovery in the Group's performance.

In particular, the Group profit before tax has been set taking into account market expectations for 2005/06. 60% of salary is payable for achieving target performance and no bonus payable if this target is not achieved. The target will need to be substantially exceeded in order for a bonus of 100% of salary to be earned. All targets will represent marked improvements on the reported profit of 2004/05. The maximum bonus for an executive director in 2005/06 is 150% of salary.

The executive directors will be required to defer 50% of any bonus paid into shares which will be held for three years. There will be no match paid against these deferred shares, although the value of any dividends earned during the deferral will be paid at the end of the period. The deferred shares will normally not be receivable in the event that the executive leaves employment during the deferral period.

Long-term Incentive Schemes

(a) Executive Share Matching Plan

An Executive Share Matching Plan for senior management was approved by shareholders at the Annual General Meeting in 2002 and was introduced in July 2002. The Plan operated in 2002, 2003 and 2004 for up to 25 selected senior management. The Company does not intend to operate this plan for executive directors in 2005 or future years. Participants were required to invest one-third of any annual bonus earned in shares of the Company. Any part of the balance may have been invested voluntarily.

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

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

(b) Executive Share Option Scheme

Executive Share Option Schemes have operated for over 20 years and in recent years have been open to approximately 400 senior management. Under the 2002 scheme, annual awards of up to 150% of basic salary may be offered based on performance and potential and, for exceptional performance and potential, grants of up to 250% of basic salary may be awarded. Recruitment grants can be made up to 400% of salary.

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

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

Performance targets are assessed over an initial three-year period from the date of grant. From the year 2004/05 there is no ability to retest any grants.

As part of the review undertaken by the Remuneration Committee the Company intends to adopt, subject to shareholder approval, a new Executive Share Option Scheme. Whilst it does not intend to use this Scheme on a regular basis, the Company wishes to have the flexibility to make grants from time to time in the future, upon recruitment or in exceptional circumstances, if it considers it appropriate to do so. Full details of the proposal are shown in the Notice of Meeting.

(c) Performance Share Plan

The Remuneration Committee intends to propose to shareholders the introduction of a Performance Share Plan. Subject to approval, this plan will be used as the primary form of long-term incentive for the 100 most senior management. Under the plan, annual awards of up to 200% of salary may be offered based on performance and potential, with a 300% limit in the case of recruitment.

It is intended that the performance targets will be based on adjusted earnings per share growth. For the initial awards made in 2005 the targets will be as follows:

Average Annual EPS Growth in excess of Inflation (RPI)	% of Award Vesting
8%	20%
15%	100%
Between 8% and 15%	Pro rata

In addition to the above schemes, executive directors can also participate in the Save As You Earn Scheme, which is open to all employees of the Company.

Senior Management Restructure

A restructure of the Board was undertaken at the end of May 2004 which resulted in the appointment of Stuart Rose as Chief Executive and Charles Wilson as executive director on 31 May 2004. Luc Vandevelde and Roger Holmes left the Company at that time. There has been further restructuring which has resulted in Vittorio Radice, Mark McKeon, Maurice Helfgott and Laurel Powers-Freeling leaving the Company. Alison Reed left the Company at the end of April 2005. Ian Dyson has been appointed Group Finance Director with effect from 27 June 2005 with a 12-month rolling contract. His annual salary will be £420,000 and no remuneration was received in the year 2004/05.

Dame Stella Rimington and Brian Baldock left the Company on 14 July 2004 and Barbara Cassani left on 30 April 2004. Anthony Habgood and Steven Holliday were appointed as non-executive directors with effect from 15 July 2004.

Shareholding policy

A requirement was introduced in 2002 that the executive directors, within five years of 1 June 2002 or within five years of appointment (whichever is the later), should hold shares whose market value at that time is equivalent to or greater than their then current gross annual base salary. It is intended to increase this holding for the Chief Executive to shares whose market value at that time is equivalent to or greater than twice his then current gross annual base salary.

Service contracts

All members of senior management have service contracts. These contracts can be terminated by the Company providing 12 months' notice. Exceptions may exist where new recruits have been granted longer notice periods for the initial period of their employment. The Company retains the right to terminate the contract of any director summarily in accordance with the terms of their service agreement, on payment of a sum equivalent to the contractual notice entitlement of 12 months' salary and benefits. In the case of service agreements concluded from 1 April 2004, any such payments will be subject to mitigation and paid in monthly installments. However, entitlement to participate in future awards under the Company's share schemes ceases on summary termination.

Executive directors

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

Non-executive directors

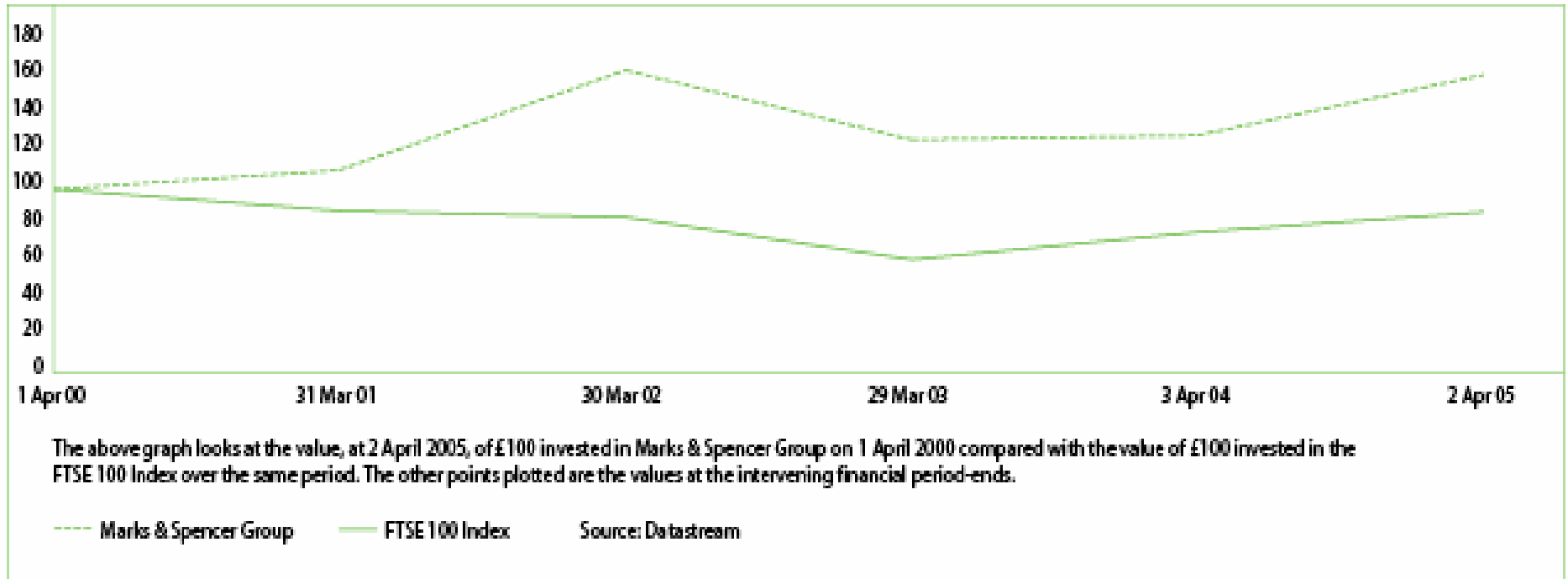
The Chairman has a service agreement with the Company which, at his request, requires no notice of termination from the Company, but requires him to give six months' notice should he wish to terminate the agreement.

The non-executive directors have service agreements with the Company for an initial three-year term, which are terminable on three months' notice.

Performance graph

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

Total Shareholder Return



Directors' emoluments	Current annual salary/fee £000	Salary /fee £000	Benefits £000	Bonus £000	Termination payments ⁶ £000	Total 2005 £000	Total 2004 £000
Chairman							
Paul Myners ¹	200	147	2	–	–	149	50
Chief Executive (appointed from)							
Stuart Rose (31 May 2004) ²	850	708	1,411	–	–	2,119	–
Executive directors							
Alison Reed ³	400	389	35	200	–	624	388
Charles Wilson (31 May 2004) ²	500	417	997	–	–	1,414	–
Non-executive directors							
Steven Holliday (15 July 2004)	50	36	–	–	–	36	–
Anthony Habgood (15 July 2004)	50	36	–	–	–	36	–
Jack Keenan ⁴	60	56	–	–	–	56	50
Kevin Lomax	60	60	–	–	–	60	60

Directors' emoluments	Current annual salary/fee £000	Salary /fee £000	Benefits £000	Bonus £000	Termination payments ⁶ £000	Total 2005 £000	Total 2004 £000
Directors retiring from the Board during the year							
Brian Baldock (14 July 2004) ⁵	-	30	—	—	—	30	60
Barbara Cassani (30 April 2004)	-	4	—	—	—	4	25
Maurice Helfgott (9 November 2004) ⁷	-	213	20	—	509	742	126
Roger Holmes (31 May 2004) ⁸	-	103	15	—	847	965	693
Mark McKeon (9 November 2004) ⁹	-	211	24	—	464	699	—
Laurel Powers-Freeling (9 November 2004) ¹⁰	-	262	52	350	502	1,166	447
Vittorio Radice (11 June 2004) ¹¹	-	97	30	—	731	858	556
Dame Stella Rimington (14 July 2004) ⁵	-	30	—	—	—	30	60

Directors' emoluments	Current annual salary/fee £000	Salary /fee £000	Benefits £000	Bonus £000	Termination payments ⁶ £000	Total 2005 £000	Total 2004 £000
Luc Vandavelde (31 May 2004) ¹²	-	76	5	-	598	679	547
Former directors	-	-	-	-	-	-	1,461
Total		2,875	2,591	550	3,651	9,667	4,523

¹Paul Myners received a salary increase from £50,000 to £200,000 per annum effective from 10 August 2004, relating to his continuing in the role of Chairman as announced on 5 August 2004.

²Stuart Rose and Charles Wilson received a signing on fee of £1,250,000 and £900,000, respectively, which is included in the benefits figure.

³Alison Reed received a salary increase from £360,000 to £400,000 effective from 14 July 2004.

⁴Jack Keenan received a fee increase from £50,000 to £60,000 per annum effective from 1 September 2004 related to his appointment as Chair of the Remuneration Committee.

⁵The fees for Brian Baldock and Dame Stella Rimington include payment in lieu of notice for the period 15 July to 30 September 2004.

⁶Termination payments comprise one year's salary and loss of benefits which include bonus, car benefits and loss of pensionable service.

⁷Maurice Helfgott retired from the Board on 9 November 2004, but remained in employment with the Company until 30 November 2004. During this period, the following payments were received, which are included in the table above: Salary, £18,000, benefits, £2,000. His termination payment was made up of salary, £320,000, benefits £189,000.

⁸Roger Holmes' termination payment was made up of salary £600,000, benefits £247,000.

⁹Mark McKeon was appointed to the Board on 5 April 2004 on a salary of £320,000 per annum. He retired from the Board on 9 November 2004, but remained in employment with the Company until 30 November 2004. During this period, the following payments were received, which are included in the table above: Salary, £19,000, benefits, £2,000. His termination payment was made up of salary, £320,000, benefits £144,000.

¹⁰Laurel Powers-Freeling retired from the Board on 9 November 2004, but remained in employment with the Company until 31 December 2004. During this period, the following payments were received, which are included in the table above: Salary, £49,000, benefits, £10,000. Her termination payment was made up of salary, £350,000, benefits £152,000.

¹¹Vittorio Radice received a salary increase from £435,000 to £485,000, effective from 5 April 2004, reflecting his increased responsibilities. His termination payment was made up of salary £485,000, benefits £246,000.

¹²Luc Vandeveldel's salary was paid in the form of shares bought on the 10th of each month at the market price of shares on that day. His termination payment, was made up of salary £593,000, benefits £5,000.

In addition, the aggregate gains made from Executive Share Options for executive directors were £288,000.

>www.marksandspencer.com/shareholderinformation2005

Shareholder information

Financial calendar

Record date to be eligible for final dividend	3 June 2005
Annual General Meeting – The ICC, Birmingham	2pm on 13 July 2005
Final ordinary dividend for the year to 2 April 2005 to be paid	15 July 2005
Redemption date for B shares/B share dividend payment date	26 September 2005
Interim results to be announced	8 November 2005
Record date to be eligible for interim dividend	18 November 2005*
Interim ordinary dividend to be paid	13 January 2006*

* Provisional dates

Ordinary shares

As at 2 April 2005 there are 274,580 holders of ordinary shares whose shareholdings are analysed as follows:

Size of shareholding	Number of shareholders	Percentage of total number of shareholders	Number of ordinary shares 000s	Percentage of ordinary shares
Over 1,000,000	213	0.1	1,115,890	67.3
100,001 – 1,000,000	536	0.2	184,790	11.1
10,001 – 100,000	3,718	1.3	84,869	5.1
5,001 – 10,000	7,468	2.7	51,667	3.1
2,001 – 5,000	29,356	10.7	89,561	5.4
1,001 – 2,000	42,623	15.5	60,786	3.7
501 – 1,000	57,298	20.9	42,705	2.6
1 – 500	133,368	48.6	27,827	1.7
	274,580	100.0	1,658,095	100.0

Shareholders are further analysed as follows:

Type of owner				
Private holders	263,852	96.1	389,786	23.5
Institutional and corporate holders	10,728	3.9	1,268,309	76.5
	274,580	100.0	1,658,095	100.0

B Shares

There are 75,798 holders of B shares holding a total of 93,822,916 shares. The next occasion when the B shares can be redeemed for 70p per share is 26 September 2005. Holders of B shares will be contacted shortly before this date with further information.

Registered Office and Head Office

Waterside House, 35 North Wharf Road, London W2 1NW
Telephone 020 7935 4422

Registered Number 4256886

Group Secretary and Head of Corporate Governance

Graham Oakley

Registrars

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and outside the UK +44 121 415 7071
www.lloydstsb-registrars.co.uk

Company Website

We relaunched our corporate website in May 2005 to make it easier for our shareholders and other stakeholders to use. To find out more about your company, please go to www.marksandspencer.com/thecompany, where you can catch up on the latest news in the press release section, read the latest Annual report and Annual review, as well as watch videos of the Annual General Meeting and our financial results presentations. We welcome feedback on the site. Please e-mail your comments to chairman@marks-and-spencer.com.

Contact Us

We welcome your comments and suggestions as we endeavour to develop our products and services. You can e-mail us at chairman@marks-and-spencer.com or telephone 0845 302 1234 for customer queries. For shareholder queries, telephone 0845 609 0810 (+44 121 415 7071 outside the UK).

Shareholder Vouchers

Last year we sent Café Revive and Spend and Save vouchers to our shareholders for the first time, which proved extremely popular. This autumn, we are extending our offer to those who hold shares in nominee accounts. For further information, please telephone 0845 609 0810 (+44 121 415 7071 outside the UK).

Electronic Shareholder Communication

Shareview is an electronic shareholder communications service that has been developed by Lloyds TSB Registrars. Features of the service allow you to:

- Check your Marks & Spencer shareholding;
- Receive an e-mail telling you about the publication of the Marks & Spencer Annual review, Annual report and Notice of Annual General Meeting on the Marks & Spencer website, instead of getting these documents through the post;
- Send your Annual General Meeting proxy voting instructions electronically;
- Access information about your dividends;
- Value your portfolio by reference to a recent market price;
- Change your registered address details; and
- Help conserve environmental resources and save printing and postage costs by choosing to read our documents on the website instead of receiving copies in the post.

To register for this free service, visit www.shareview.co.uk and follow the simple instructions. You will need your shareholder reference number, which can be found on your dividend tax voucher.

Dividends paid direct to your bank account

- This avoids the risk of cheques being lost in the post;
- It saves you time presenting the cheque for payment;
- The dividend is credited to your account on payment date; and
- The tax voucher is sent direct to your registered address at the same time that the dividend is paid.

To set up a new dividend mandate or change your existing mandated details, please either log on to www.shareview.co.uk and follow the instructions or telephone Lloyds TSB Registrars.

Dividend Reinvestment Plan

You can elect to receive future dividends as shares, rather than cash, by participating in the Dividend Reinvestment Plan. If you would like to find out more about the Plan, please either log on to www.shareview.co.uk, where there is a detailed feature on 'reinvest your dividends' together with an online application form, or telephone Lloyds TSB Registrars. The terms and conditions of the Plan are being updated and will be sent to participants in due course.

Low Cost Share Dealing

A low cost telephone and internet dealing service, which provides a simple way of buying and selling Marks & Spencer shares, has been arranged through Lloyds TSB Registrars. More information is available online at www.shareview.co.uk or by telephoning Lloyds TSB Registrars.

ShareGift

Shareholders with a small number of shares, the value of which makes it uneconomical to sell, may wish to consider donating them to charity through ShareGift, a registered charity administered by The Orr Mackintosh Foundation. Further information is available by visiting www.sharegift.org or calling 020 7337 0501.

American Depositary Receipts (ADRs)

The Company has a Level 1 ADR programme sponsored by JPMorgan Chase Bank NA to enable US investors to purchase Marks & Spencer American Depositary Shares (ADSs) in US Dollars 'over the counter' (OTC). Each ADS represents six ordinary shares. For further information, please contact:

JPMorgan Chase Bank, NA, P.O. Box 43013, Providence, RI 02940-3013, USA

E-mail: adr@jpmorgan.com

Website: www.adr.com

Toll-free for callers within the US: (800) 990-1135

For those calling outside the US: + 1 (781) 575-4328

Capital Gains Tax

For the purposes of Capital Gains Tax, the price of ordinary shares on 31 March 1982 was 153.5p each which, when adjusted for the 1 for 1 scrip issue in 1984, gives a figure of 76.75p each. Following the capital reorganisation in March 2002, the Inland Revenue has confirmed the base cost for CGT purposes was 372.35p (81.43%) for ordinary shares and 68.75p (18.57%) for B shares.

Unsolicited Mail

The Company is obliged by law to make its share register publicly available and, as a consequence, some shareholders may receive unsolicited mail. If you wish to limit the amount of unsolicited mail you receive, please contact: The Mailing Preference Service (MPS), DMA House, 70 Margaret Street, London W1W 8SS

Alternatively, you may register online at www.mpsonline.org.uk or call the MPS registration line on 0845 703 4599.

The Mailing Preference Service is an independent organisation which offers a free service to the public. Registering with them will stop most unsolicited consumer advertising material.

Additional copies of this document and the Annual report and financial statements 2005 or an audio tape or CD, giving highlights, can be obtained by calling 0800 591 697.

www.marksandspencer.com