

MARKS &
SPENCER

Annual report
and financial statements
2003



This publication includes the Chairman's message, the Chief Executive's review, the Financial review, the Corporate governance statement, the Remuneration report, the Directors' report, the Financial statements and the Auditors' report for the year ended 29 March 2003. Reviews of financial and operating performance are contained in a separate report entitled Annual Review and Summary Financial Statement 2003.

This publication, together with the Annual Review and Summary Financial Statement 2003, comprise the full Annual Report and Accounts of Marks and Spencer Group p.l.c. for 2003, prepared in accordance with the Companies Act 1985.

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



A journey of continuous improvement

Luc Vandeveldde Chairman

Chairman's message

One question you may be asking is whether the turnaround at Marks & Spencer has been completed. My response will always be that we will never claim to have 'made it'. We are on a journey of continuous improvement and our aspiration is always to do better.

Nevertheless, over the last year we have rebuilt the foundations on which this Group can continue to grow and prosper. Last year I set out the strategies we intended to pursue – to regain our leadership in clothing and special food; to build on our unique customer relationships with new products and services; to shape our store locations, formats and products to the needs of our customers; and to reassert our position as a leading, socially responsible business. These remain in place and the story of the year is one of steady progress on each front.

Of course, no strategy can succeed without the right structure and the right team. Having combined the roles of Chairman and Chief Executive during our turnaround phase, we concluded last year that the time had come to change our leadership structure and to split the roles. I, therefore, reverted to my original role of Chairman while Roger Holmes stepped into the position of Chief Executive. Also this year, we reinforced an already powerful team by appointing Vittorio Radice to head our Home business. We move ahead with a structure and a team that we know is right for the business.

Key to regaining market share and to increasing profitability has been a focus on improving both the appeal and value of our products, thereby making aspirational quality more accessible to our customers. For continuing operations, over the year, Retail sales were up by 6.6%, Group operating profit before exceptional items was up by 21.1% and adjusted earnings per share were up by 39.6%. The final dividend payment will be 6.5p per share, up 12.1%, giving a full year payment of 10.5p per share. It is rewarding to see the contribution of our 67,000 people towards achieving these results, as well as their awareness of the opportunities for further improvement that lie ahead and their willingness to tackle them.

Now that we have restored the fundamentals and won back our customers' trust, we see opportunities to meet their existing needs in new ways and also attract new customers. We have moved ahead to make our products available to more customers with the roll-out of our Simply Food format, the new developments in Home including the opening of our first stand-alone store next spring and proceeding to the next stage of the programme prior to the national launch of our credit and loyalty card in Financial Services. These opportunities confirm our view that we can widen the Marks & Spencer offering and create new sources of growth.

Every product and service we offer is testimony to our aim to be a leading socially responsible company, and we were pleased to be ranked among the top 24 companies in Business in the Community's first Corporate Responsibility Index. You can read about our progress in our first-ever review of corporate social responsibility – now available on our website.

In summary, we have reached a new basis from which we can build our business. We know the competitive environment is not going to get any easier, but we can see plenty of opportunities for further growth. Our challenge, quite simply, is to keep improving every aspect of our business every day of the year and through every one of our products.

A handwritten signature in blue ink that reads "Luc Vandeveldde".

Luc Vandeveldde
Chairman



Further progress in winning back customers and in building a platform for future growth

Roger Holmes Chief Executive

Chief Executive's review

In last year's review we stated that our business had turned the corner, with the recovery of our Clothing business. This year I am pleased to say that we have made further progress, as well as building a platform for further growth.

Group operating profit from continuing operations and before exceptional items was £761.8m, an increase of 21.1%. This was mainly due to the performance of our core UK retailing business, although profits from Financial Services and International retailing were also ahead of last year. Overall sales were £8.1bn, up 6.0% on last year. For UK Retail, the increase in pre-exceptional operating profit of £126.7m to £631.9m was due to sales of £7.1bn (up 7.5% on last year) combined with a better buying margin, offset by a 4.9% increase in underlying operating costs.

Clothing sales (inc. VAT) increased by 10.0%, helped by a strong performance in the first three quarters. We increased market share by 0.7% over the year, with Womenswear, Menswear and Lingerie all showing gains, with a particularly strong performance across casualwear ranges. We also gained a 1.3% improvement in the Clothing primary margin as a result of the relocation of our supply base and we have made progress on delivering the next phase of supply chain efficiencies. This is targeted to improve the Clothing primary margin by 1% per year for the next three years.

Our Food business outperformed the market and has now delivered strong growth for the second year in succession, with our customers continuing to rate us highly on quality, innovation and trust.

We continued the renewal of our stores where we have now completed over 90% of the estate, rolled out more Café Revive coffee shops and opened 13 new Simply Food stores, including one store operated by Compass Group.

In addition, the introduction of performance management, new store management structures and business involvement groups all played a positive role in business performance this year. We have also made a number of improvements in the way we work with our suppliers.

Next year will be about growing our core business, as well as developing our new paths to growth in Food, Financial Services and Home. We will also focus on making our business more efficient, to allow us to invest in our plans for the future.

In Clothing we will be working on three fronts: continuing to drive improvements in our core categories; pursuing opportunities in categories where we still have relatively low share; and through delivering recovery in Childrenswear. In Food, we will continue to differentiate our products through our quality and innovation and make them available to more people by opening Simply Food stores on high streets and railway stations across the country. As at year end we had opened 18 Simply Food stores and aim to open 150 by 2005/06.

In Financial Services, we are very pleased with the progress of our credit and loyalty card pilot, and have started entering into the commitments necessary to enable a national roll-out in the second half of the year. In Home we will be unveiling our first Home concept store 'Marks & Spencer Lifestore' in Gateshead in spring 2004.

In conclusion, we are pleased with a year in which we made further progress in winning back our customers and in building a platform for future growth. But we know we have more to do and further opportunities to attract our customers to shop with us. We also know we can create a more efficient business, which will underpin our performance in a more testing market as we invest in the future development of the Group.

Roger Holmes
Chief Executive

Financial review

Group summary

Summary of results from continuing operations	2003 £m	2002 £m
Turnover (ex VAT)	8,077.2	7,619.4
Operating profit (before exceptional charges)	761.8	629.1
Exceptional operating charges	(43.9)	–
Operating profit (after exceptional charges)	717.9	629.1
Non-operating exceptional income	1.6	41.2
Interest	(40.5)	17.6
Profit on ordinary activities before tax	679.0	687.9
Analysed between:		
Profit on ordinary activities before taxation and exceptional items	721.3	646.7
Exceptional items	(42.3)	41.2
Basic earnings per share	20.7p	17.4p
Adjusted earnings per share	22.2p	15.9p
Dividend per share	10.5p	9.5p

Presented below are the highlights for the year for the Group's continuing businesses. Commentaries are included covering the performance of UK Retail, International Retail, and Financial Services. In addition, key features of the Group's profit and loss account, balance sheet and cash flow are discussed.

Highlights

- Turnover up 6.0%;
- Operating profit before exceptional charges up 21.1%, largely driven by a turnaround in performance by UK Retail;
- Profit on ordinary activities before tax and exceptional items up 11.5%;
- Adjusted earnings per share from continuing operations up 39.6%; and
- Dividend per share up 10.5%.

Group turnover from continuing operations	2003 £m	2002 £m
UK Retail	7,066.0	6,575.2
International Retail	681.3	693.4
Financial Services	329.9	350.8
Total	8,077.2	7,619.4

Operating profit from continuing operations	2003 £m	2002 £m
UK Retail (before exceptional items)	631.9	505.2
International Retail	43.5	33.3
Financial Services	86.4	84.2
Excess interest charged to cost of sales of Financial Services	–	6.4
Total operating profit (before exceptional items)	761.8	629.1

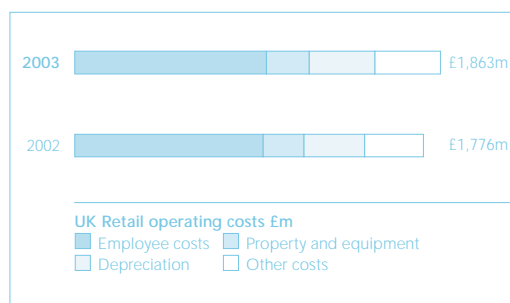
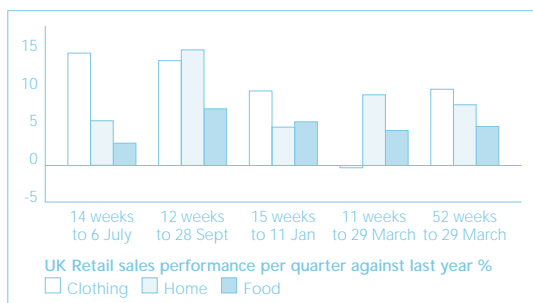
UK Retail	2003	2002
Turnover (£m)	7,066.0	6,575.2
Operating profit (before exceptional items) (£m)	631.9	505.2
Number of stores (at the end of the year)	331	312
Selling space at the end of the year (m sq ft)	12.3	12.2

Turnover was up 7.5% on last year at £7,066m. For the 52 weeks ended 29 March 2003, General Merchandise (which comprises Clothing, footwear, gifts and Home) like-for-like sales increased by 9.0% compared to an actual increase of 9.8%, and Food like-for-like sales increased by 3.7% compared to an actual increase of 5.1%.

Clothing performance during the year was strong, as a result of the focus on the appeal, quality, availability and fit of our product. Womenswear, Menswear and Lingerie all increased market share for the year (source: Fashiontrak). Casualwear performed particularly strongly, with core womenswear ranges, per una and Blue Harbour, all showing strong year-on-year increases. The fourth quarter was a more difficult trading period, particularly in Greater London.

The performance of Childrenswear has been disappointing. Action has been taken to improve design and to consolidate ranges to offer more choice. The initial strong response to the DB07, David Beckham, range has been maintained. In addition to older boyswear, schoolwear is now showing signs of improvement.

Financial review



We are continuing to realise gains in our primary margin as a result of actions taken to increase overseas production and consolidate our supply base. For the full year this delivered a further 1.3 percentage point improvement in the Clothing bought-in margin. In addition, markdowns as a percentage of sales were lower than last year, leading to a further 0.3 percentage point improvement in the Clothing achieved margin. In absolute terms markdowns were higher than planned and largely arose within Womenswear during the autumn season, where we drove for high sales growth and improved availability, and in Childrenswear.

Distribution costs, which are included in cost of sales, increased marginally less than the rate of sales growth. Following a review of the general merchandise logistics operation, we recently announced the closure of our Hayes distribution centre and a reduction in the number of warehousing contractors from four to two. These changes, which are expected to generate annual savings of £20m, have resulted in an exceptional charge of £36.3m in the year.

The Home business benefited from the introduction of new products across the range, particularly within home accessories and bedding, and the performance of furniture was helped by events around bank holidays. However, a reduction in allocated store space in the second half affected underlying sales.

In Food, we have had another year of strong sales growth. We have outperformed the market in the last three quarters of the year, increasing our market share for the year as a whole. Key to this success has been the high quality of our products, continued innovation including the relaunch of our Indian and Chinese ranges, strong, cohesive marketing and a focus on special occasions.

We continue to focus on extending the reach of our Food offer. We are making it accessible to more customers, through the Simply Food format and larger neighbourhood Food stores, opening 15 stores in the year. Progress to date in the Simply Food stores has been encouraging, delivering sales in excess of the average return per square foot for Food, offset by slightly higher costs. These stores are on target to deliver an operating profit which is in line with the rest of the Food business. We have also extended the agreement with Compass Group to place Simply Food stores in railway stations. In total, we plan to have opened 150 Simply Food stores by March 2006.

We have invested further in the in-store environment and have now modernised 256 stores, representing approximately 93% of UK Retail selling space. There are now 141 Café Revive coffee shops in stores; these have contributed almost £80m to turnover (inc. VAT) this year.

Operating costs of £1,863m, excluding exceptional charges, increased by 4.9% over the same period last year:

- employee costs which, at £975m, represent over half of total operating costs increased by 1.8%. Included in this is the anticipated cost of performance bonuses for management and store staff this year is £34m;
- property, repair and renewal costs of £335m have increased by 8.0%, largely as a result of the sale and leaseback transaction entered into last year, which added £15m to rental costs this year;
- depreciation was £218m, an increase of 4.9%; and
- other operating costs of £335m increased by 11.9%. This was largely due to increased expenditure on marketing, rising insurance costs and IT expenditure to upgrade our business systems.

During the year, £7.6m of revenue costs were incurred in connection with the relocation of the corporate head office, which is planned to take place next year. These costs have been charged as exceptional operating costs. A further £25m to £30m of revenue costs are expected to be incurred next year and will also be charged as exceptional operating costs.

UK Retail capital expenditure for the period was £303m. Of this, £81m was spent on new space and £96m on store modernisation and refurbishment. In addition, we are in the second year of a five year programme to upgrade our refrigeration equipment, investing approximately £40m annually.

International Retail	2003	2002
Turnover (£m)		
– Marks & Spencer branded businesses	391.2	364.7
– Kings Super Markets	290.1	328.7
	681.3	693.4
Operating profit (£m)		
– Marks & Spencer branded businesses	35.6	20.7
– Kings Super Markets	7.9	12.6
	43.5	33.3
Number of stores (at the end of the year)		
Owned	43	42
Franchise	152	133
Selling space at the end of the year ('000 sq ft)		
Owned	948	955
Franchise	1,024	920

The results from continuing operations include sales and operating profits from Kings Super Markets as the planned disposal of this business has not taken place to date. The performance of Kings Super Markets has been affected by uncertainty surrounding the sale and a one-off charge of £1.4m in connection with the closure of two stores.

Turnover for the Marks & Spencer branded businesses (Republic of Ireland, franchises and Hong Kong) increased by 7.3% to £391.2m (6.9% at constant exchange rates).

Operating profit for the Marks & Spencer branded businesses increased by 72.0% to £35.6m, an underlying increase of 39% after adding back £5m of abortive sale and restructuring costs in Hong Kong last year. The Republic of Ireland performed ahead of last year and we have also seen an improvement in the performance and profitability of our franchise business. In Hong Kong, actions taken last year to decrease footage in selected locations and reduce costs, together with a new pricing strategy which has increased sales, have delivered results. However, trading in Hong Kong and some franchises in the last month of the year was affected by the outbreak of the SARS virus and the war in Iraq.

Financial Services	2003 £m	2002 £m
Turnover	329.9	350.8
Operating profit	86.4	84.2

Operating profit from Financial Services increased by £2.2m to £86.4m. Within this, the operating profit from existing retail activities increased by £20.2m to £97.5m before expenditure of approximately £25m on the credit card and loyalty programme. The balance of the operating profit is attributable to the captive insurance company which was affected by negative investment returns for the year as a whole due to falls in the underlying markets.

Scale of current business	Account Cards	Personal Lending	Unit Trusts	Life Assurance
Number of accounts/policy holders (000s)				
2003	5,016	488	227	90
2002	5,089	515	223	89
Customer outstandings/funds under management (£m)				
2003	631	1,385	1,017	n/a
2002	653	1,530	1,140	n/a

The Chargecard continues to suffer as a result of our decision to accept credit cards without supporting the Chargecard business. The proportion of retail sales made on the Chargecard fell to approximately 17% and the number of active accounts decreased by 8.2%. However, with an increase in the average outstanding balance per customer, Chargecard borrowing decreased by only 3.2%. Together with improved margins, this resulted in Chargecard operating income increasing by 2.0%.

In personal lending, competitive forces were strong throughout the year and, as a result, outstanding balances decreased by 9.4% on reduced new business volumes. As a consequence, personal lending operating income decreased by 9.1%.

The savings and protection products suffered from uncertain economic conditions and operating income was level with last year. Within this, bearish stock market conditions reduced Unit Trust operating income by 9.4% to £9.9m even though gross new retail investment was £87.8m an increase of 53.5%. In contrast the life, pensions and general insurance products delivered an operating income increase of 8.6%.

Financial review

The introduction of a revised bad debt methodology resulted in a one-off increase in bad debt charges in the second half of last year. Declining customer balances and the absence of that one-off charge, together with the implementation of improved collection procedures, have resulted in the bad debt charge for the year being £20.5m lower than last year.

In order to combat falling income levels, a programme of cost reduction was initiated which resulted in a decrease in operating costs for the existing retailing activities of £10.4m. The reduction in operating costs and bad debt charges more than offset the decline in net income and resulted in operating profit for the existing business increasing by 26%. This strong increase in profitability financed the additional investment during the year of approximately £25m in the credit card and loyalty programme.

Credit card and loyalty pilot

We began a trial in September 2002 in South Wales to validate the business case and our operational capability to deliver a joint credit and loyalty card for our customers.

The key measures we assessed were the take-up of the new card, average balances, the number of new cardholders, propensity to borrow, card penetration and incremental sales. On each of these measures, the pilot was successful. Therefore we are progressing with the necessary commitments for a national roll-out in the second half of the year.

Total revenue costs incurred on the card and loyalty programme during the year amounted to approximately £25m. These costs covered the development of technological and operational infrastructure as well as the costs of running the pilot.

The revenue cost of rolling out the card and loyalty programme will be approximately £60m in the current financial year. This covers: the cost of developing further infrastructure associated with becoming a major new credit card provider; the cost of providing customer service capability; and acquisition and card issue costs up to and through the national launch. The costs of the development of the credit and loyalty card will mean that Financial Services profit will reach a low point in 2003/04 and grow from that base in 2004/05.

Discontinued operations

Last year, we closed the Continental European operations and sold Brooks Brothers. The results of these businesses up until the dates of closure or disposal are reported under discontinued operations.

Interest

Net interest expense was £40.5m compared to net income of £17.6m last year. This arises as a result of the increase in debt following the capital restructuring of the Group at the end of last year, when £1.7bn was returned to shareholders.

Taxation

The tax charge for the year of £197.4m, reflects an effective tax rate before exceptional charges of 28.6% compared to 29.6% last year. This rate is less than the UK corporation tax rate of 30%, largely as a result of prior year contributions to European subsidiary closure costs being accepted as tax deductible in the UK.

Earnings per share

Adjusted earnings per share was 22.2p (last year 15.9p) and is calculated to exclude the effect of exceptional items. Details of the calculation are given in note 9 to the financial statements.

Dividend

A final dividend of 6.5p (last year 5.8p) is proposed, making the total dividend for the year 10.5p (last year 9.5p).

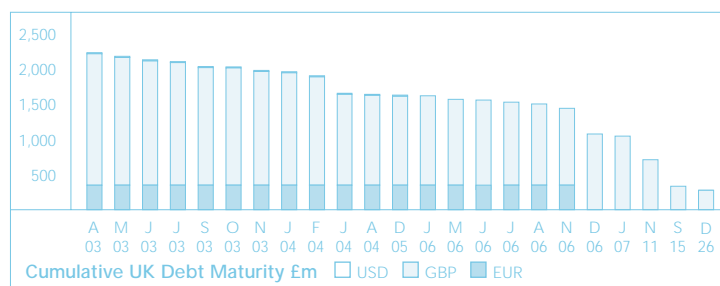
Cash flow

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

Cash flow analysis	2003 £m	2002 £m
Cash inflow from Retail operating activities	848.8	853.5
Cash inflow from Financial Services operating activities	319.9	240.2
Capital expenditure	(324.5)	(285.7)
Proceeds from asset disposals	25.0	455.6
Net interest (paid)/received	(46.2)	36.8
Tax paid	(216.9)	(179.4)
Free cash flow	606.1	1,121.0

The cash inflow from Financial Services operating activities is stated after a £167.1m decrease this year (last year a £76.2m decrease) in loans and advances to customers.

During the year, the Group acquired tangible fixed assets totalling £311.0m (last year £290.5m). After taking into account the timing of payments, the cash outflow for capital expenditure was £324.5m (last year £285.7m).



Capital structure

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

	£m
Opening net debt	(1,907.0)
Free cash flow	606.1
Equity dividends	(225.4)
Net sale of fixed asset investments	4.3
Acquisitions and disposals	(30.8)
Issue of new shares under employee share schemes	19.6
Purchase of own shares	(141.7)
Redemption of B shares	(158.0)
Exchange movement	1.5
Closing net debt	(1,831.4)

Purchase of own shares

During the financial year 44,894,601 ordinary shares (representing 2% of issued share capital of Marks and Spencer Group p.l.c.) were purchased in the market for a total cost of £141.7m, at a weighted average price of 316p.

B share redemption

On 25 September 2002 and 25 March 2003, 181,478,363 and 43,905,265 B shares respectively, were redeemed at par, at a total cost of £158.0m. Following this redemption, 168,819,801 B shares remain in issue. The next opportunity for redemption will be September 2003.

Financing

The Medium Term Note (MTN) programme was renewed in September 2002 and Marks and Spencer Financial Services p.l.c. was added as an Issuer. Five new MTNs were issued during the year by Marks and Spencer Financial Services with a sterling equivalent of £75.1m and maturities ranging from one to three years. The Group's total outstandings within this programme at the end of the financial year were equivalent to £1,754.8m (last year £2,062.6m).

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

We currently have committed facilities of £385m available together with uncommitted bank facilities of £455m supporting our £1bn Commercial Paper programme.

Average interest rates on borrowings were lower during the year at 5.8% (last year 5.9%). Interest cover was 17.7 times and fixed charge cover was 7.6 times.

Financial review

	Retailing £m	Financial Services £m	Total Group £m
Retail and Financial Services balance sheets at 29 March 2003			
Fixed assets	3,455.5	11.1	3,466.6
Stocks	361.8	–	361.8
Loans and advances to customers	–	2,015.9	2,015.9
Other debtors	363.2	76.3	439.5
Trade and other creditors	(838.5)	(347.1)	(1,185.6)
Provisions	(227.1)	(1.3)	(228.4)
Net debt	(701.5)	(1,129.9)	(1,831.4)
Net assets	2,413.4	625.0	3,038.4
Gearing	24.3%	71.0%	43.1%

Treasury policy and financial risk management

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

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

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

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

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

(a) Interest rate risk

Interest rate risk in respect of debt on the retail balance sheet is reviewed on a regular basis. At the balance sheet date interest obligations in respect of the property securitisation and the Eurobond issued in sterling were at fixed rates.

The current Group policy for debt raised to finance the operation of Financial Services (see part (e) below), is to maintain the majority of this portion of debt as floating rate and this is achieved with the help of interest rate swaps.

(b) Foreign currency risk

Currency exposure arising from exports from the UK to overseas subsidiaries is managed by using forward currency contracts to hedge between 80% and 100% of sales for periods averaging 10 to 15 months forward. Imports are primarily contracted in sterling and only economic exposures arise. The Group is increasing the proportion of imports contracted in local currencies and a policy is in place for the hedging of these exposures, principally using forward currency contracts.

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

(c) Liquidity risk

The objective is to ensure a mix of funding methods offering flexibility and cost effectiveness to match the needs of the Group. Operating subsidiaries are financed by a combination of retained profits, bank borrowings, commercial paper and medium term notes and securitised loan notes. Commercial paper issuance is backed by committed bank facilities totalling £385.0m.

(d) Counterparty risk

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

(e) Financial Services

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

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

Pro-forma profit and loss account

The sale and leaseback transaction last year, which has increased property rental costs, and the return of capital to shareholders which introduced a level of debt to the retail balance sheet, have had a significant effect on earnings in the current year. If these transactions had occurred at the beginning of last year, then we estimate that our earnings from continuing operations, but before exceptional items, for last year would have been as follows:

Continuing operations before exceptional items	As reported £m	Sale and leaseback £m	Return of capital £m	Pro-forma earnings £m
Operating profit	629.1	(14.8)	–	614.3
Interest	17.6	–	(66.6)	(49.0)
Profit before tax	646.7	(14.8)	(66.6)	565.3
Tax	(195.1)	4.4	20.0	(170.7)
Profit after tax	451.6	(10.4)	(46.6)	394.6
Adjusted earnings per share	15.9p			17.1p
Number of shares (m)	2,841			2,307

Accounting for pensions

We continue to account for pension costs under SSAP 24 and our UK pension cost for the year was £136m. Under FRS 17 this would have been £95m.

The actuary of the Group's UK defined benefit pension scheme carried out a formal actuarial valuation of the scheme as at 31 March 2001. This valuation revealed a shortfall of £134m (£94m after deferred tax) in the market value of the assets of £3,102m compared to the actuarial liability for pension benefits (a funding level of 96%). As a result, the contributions to the scheme were increased to fund this deficit over 12 years.

Last year, the actuary prepared a valuation of the UK scheme as at 30 March 2002 in accordance with FRS 17. The FRS 17 valuation basis is a more volatile measure reflecting market values at a point in time. This valuation showed a deficit of £400m (£280m after deferred tax). The actuary has updated this FRS 17 valuation as at 29 March 2003. The results of this update reflect the poor performance of the financial markets during the year and show that the deficit has increased to £1.2bn (£0.9bn after deferred tax). On this basis, the profit and loss account charge under FRS 17 in 2003/04 would increase to £142m.

The pension scheme has a positive cash flow which is expected to continue for some time as the Group's contribution to the scheme, together with investment income, is greater than the annual payments to pensioners. It is therefore expected to be many years before the defined benefit scheme needs to liquidate a material portion of scheme assets.

We recognise the importance of pension provision to our employees and we continue to review the long-term funding strategy for the defined benefit scheme. As a result of the deterioration in the value of equities, we will bring forward the next formal actuarial valuation planned for March 2004 to allow us to make an earlier informed decision as to contribution level and asset mix going forward. We recognise this will require increased funding.

Outlook for 2003/04

We anticipate further improvement in the clothing primary margin (bought-in margin) of approximately 1 percentage point for 2003/04 and a further 1 percentage point in each of the two subsequent years.

Underlying UK retailing operating costs, including logistics, for 2003/04 are planned to be held level on this year. However, as a result of investment in growth initiatives, total UK retailing operating costs will increase by approximately 3%. These incremental investment costs cover initiatives such as Simply Food, Home and marketing and system costs in UK Retail associated with the loyalty elements of a national roll-out of the combined credit and loyalty card.

The revenue costs of the head office move to Paddington Basin will be approximately £25m to £30m, compared to £7.6m incurred this year. These costs will be treated as exceptional.

The impact of a national roll-out of the combined credit and loyalty card will be to reduce Financial Services profits by approximately £60m for the financial year 2003/04, compared to the £25m in 2002/03. This is in line with the guidance given at the time of our Interim Results in November 2002.

The financial year incorporates a 53rd week. This will add £30m to £40m to full year profit before tax.

Group capital expenditure will be approximately £560m in 2003/04, compared to £311m this year. This is due to the acquisition of the UK general merchandise warehouses owned by contractors (£100m), the head office move to Paddington Basin (£45m), together with investment in the Simply Food roll-out and the Home business.

Going concern statement

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

Corporate governance

The Board is committed to high standards of corporate governance and has applied the Combined Code principles as shown below. It has reviewed the recommendations of the Higgs Review on non-executive directors and the Smith Report on audit committees, both published in January 2003, which will result in a revised Code. In anticipation of such revision, the Board is putting in place procedures to enable it to report future compliance.

Directors

As at 29 March 2003, the Board comprised 12 directors, being the Chairman, Chief Executive, five executive and five non-executive directors.

Luc Vandeveldel headed the Board as Chairman and Chief Executive until 1 September 2002 when Roger Holmes was appointed Chief Executive and Luc reverted to his original position as Chairman. Since 1 January 2003, he has fulfilled his role as Chairman on a part-time basis, spending 60% of his time on Group business.

Key features of the corporate governance structure are:

- As Chairman, Luc Vandeveldel remains closely involved with the development of corporate strategy and is also Chairman of the Board of Marks and Spencer Financial Services and of the Board's corporate social responsibility committee. He is also a member of the nomination committee which is chaired by our Senior Independent Director, Brian Baldock.
- Roger Holmes exercises his delegated powers as Chief Executive through a newly formed Group Operating Committee comprising the executive directors and members of senior management. It meets fortnightly in retail and finance/operating forums.
- The non-executive directors provide a wide range of skills and experience to the Group. They bring an independent judgement on issues of strategy, performance, risk and people through their membership of the Board and its committees. All non-executive directors are considered independent.
- A new Corporate Governance Group has been formed to advise the Chairman and the Board, led by the Group Secretary, Graham Oakley. It comprises heads of secretariat, legal, audit and risk, insurance, pensions and senior remuneration and senior succession.

A full list of the directors, along with their biographies and the Board committees on which they sit, is given on page 19 of the Annual Review.

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

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

Under the Company's Articles of Association, one-third of the Board retires by rotation each year and all directors are required to offer themselves for re-election at least every three years.

Principal Board committees

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

Audit Committee: assists the Board in fulfilling its overview responsibilities, primarily reviewing the reporting of financial and non-financial information to shareholders, the systems of internal control and risk management, and the audit process. It comprises five non-executive directors, is chaired by Kevin Lomax and meets formally three times per year increasing to four times during 2003. The external auditors and the Chief Internal Auditor attend all meetings.

The Financial Services division has its own Audit and Compliance Committee, which includes independent non-executive directors, and which meets three times per year and reports regularly to the Financial Services Board and the Audit Committee.

The Audit Committee also keeps under review the independence and objectivity of the external auditors. The Committee reviews the nature and amount of non-audit work undertaken by PricewaterhouseCoopers LLP ('PwC') each year to satisfy itself that there is no impact on their independence. In some cases, the nature of the advice may make it more timely and cost-effective to select PwC who already have a good understanding of the Group. PwC may also be appointed for consultancy work, but only after rigorous checks, including competitive tender, to confirm they are the best provider. PwC are also subject to professional standards which safeguard the integrity of the auditing role they perform on behalf of our shareholders. Details of this year's fees are given in note 3 on page 32. A new engagement and fee approvals process was put in place during the year requiring prior Audit Committee approval for some engagements and excluding others.

Remuneration Committee: ensures the executive directors and senior management are appropriately rewarded, giving due regard to the financial and commercial health of the Group. It comprises three non-executive directors, is chaired by Dame Stella Rimington, and meets formally five times per year. The Remuneration Report appears on pages 13 to 20 and contains a statement of remuneration policy and details of the remuneration of each director.

The remuneration of non-executive directors is determined by the Chairman together with the executive Board. In accordance with the Combined Code, the Board considers each year whether shareholders should be invited to consider separately the Remuneration Report at the AGM and is proposing a separate resolution to shareholders at the 2003 AGM, as also required by new legislation.

Nomination Committee: ensures there are appropriate procedures in place for the nomination, selection, training and evaluation of directors and that successional plans are in place. It receives a report twice per year from the Company Chairman on Board structure, size, composition and successional needs, thereby keeping under review the balance of membership between executive and non-executive directors and that the Board has the required blend of skills and experience. It comprises all the non-executive directors together with Luc Vandevelde, is chaired by Brian Baldock, and meets formally twice per year.

Corporate Social Responsibility ('CSR') Committee: provides the Board with an overview of the social, environmental and ethical impacts of the Group's activities. It is chaired by Luc Vandevelde, comprises main Board members (executive and non-executive) and senior management and meets formally three times per year. The Group's risk assessment process is applied to identify key CSR risks and opportunities in areas such as product safety, sustainable raw materials, animal welfare, ethical trading, employment policy, health and safety and community involvement. The Committee then reviews strategy, policy development and performance within this framework. The Group's first CSR Review is available from the website at www.marksandspencer.com/the-company or by telephoning 0800 591 697.

Relations with shareholders

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

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

Accountability and audit

Responsibility for risk and internal control

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

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

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

Risk assessment

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

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

Corporate governance

Internal control

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

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

- communication of the Group's strategy, objectives and targets;
- appointment of employees of the necessary calibre to fulfil their allotted responsibilities;
- review by operating divisions of their annual and three-year operating and capital plans with the relevant executive directors prior to submission to the Board for approval. This includes the identification and assessment of risks;
- regular consideration by the Board of year-end forecasts;
- monthly comparison of operating divisions' actual financial performance with budget;
- clearly defined capital investment control guidelines;
- operating policies and procedures;
- reporting of accounting and legal developments to the Board;
- review of treasury policies by the Treasury Committee with changes approved by the Board; and
- review of social, environmental and ethical matters by the Corporate Social Responsibility Committee.

Assurance

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

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

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

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

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

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

Compliance with the Combined Code

The directors confirm that for the year ended 29 March 2003 the Company complied with all the Code provisions.

Remuneration report

Strategy

The success of Marks & Spencer is dependant 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 alternative rewards to attract, motivate and retain high calibre individuals to drive the performance of the business and secure new paths for growth. The Board considers the principles of good governance when deciding remuneration strategy. The type and level of remuneration and benefits we offer are key to supporting this strategy and maintaining our market position as an employer of choice.

Remuneration Committee

The Committee comprises Dame Stella Rimington (Chairman), Brian Baldock and Jack Keenan all of whom are independent, non-executive directors. Tony Ball was also a member of the Committee until he retired from the Board in September 2002.

The Committee recommends to the Board a reward framework to enable the Company to attract and retain its executive directors and senior management, giving due regard to the financial and commercial health of the Company. The Committee's approach reflects the Company's overall philosophy that all employees should be appropriately and competitively rewarded, in particular for delivering superior performance which contributes to improved business results.

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

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

Remuneration policy

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

Approximate expected relative value of future annual remuneration package for full-time executive directors

Fixed	Performance related	
Salary 50%	On-target annual bonus 20%	Long-term incentives 30%

The value placed on long-term incentives is an estimate of the expected value of option grants and matching shares awarded under the Executive Share Matching Plan based upon the Black-Scholes methodology. In addition to salary and performance pay, executive directors receive benefits in kind as detailed in the emoluments table on page 16. The analysis excludes potential benefits from the pension scheme.

Following the Chairman's change of status from full-time to part-time during the year, his remuneration package consists of salary, annual bonus and benefits. He no longer participates in any share incentive schemes.

The remuneration for the non-executive directors is determined by the Chairman and executive directors and is designed both to recognise the responsibilities of non-executive directors and to attract individuals with the necessary skills and experience to contribute to the future growth of the Company. The non-executives are paid a basic fee with an additional fee payable to the chair of the Remuneration Committee. Their fees are neither performance related nor pensionable. They do not participate in any of the Company's Share Schemes nor the Annual Bonus Scheme. The next review of fees is due in 2003.

Salaries and benefits

Salaries and benefits for executive directors are reviewed annually. Salaries are benchmarked against equivalent market salaries for large retailers and for other FTSE 100 companies with a similar turnover and market capitalisation and are currently set around the median point of the comparator groups. The salaries are set by the Committee after consideration of the Company's performance, market conditions, the level of increase awarded to employees throughout the business and the need to reward individual performance. Consistent with his part-time status, the Chairman's salary is pro-rated accordingly. Current salaries for executive directors are set out in the Directors' emoluments table on page 16.

Annual Bonus Scheme

The Annual Bonus Scheme is designed to reinforce the relationship between individual and corporate performance and reward.

The targets are determined annually by the Committee and incorporate a mixture of financial measures and personal business targets. The achievement of targets for all executive directors is assessed by the Committee, with the help and advice of the Company Chairman.

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

Remuneration report

Long-term Incentive Schemes

(a) Executive Share Option Scheme

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

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

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

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

Performance targets are assessed over an initial three year period from the date of grant. If not met over the initial period, the targets can be retested on two further occasions over the four and five year periods from the date of grant.

The performance conditions were chosen because they require significant improvement in the Company's underlying financial performance for options to become exercisable.

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

(b) Executive Share Matching Plan

An Executive Share Matching Plan for senior management was approved by shareholders at the AGM in 2002 and was introduced for the first time in July 2002.

The Plan currently operates for approximately 25 selected members of senior management. Participants will be required (other than in 2002 when participation was optional) to invest one-third, in shares in the Company, of any annual bonus earned. Any part of the balance of any bonus may be invested voluntarily. In years where there is no bonus payable there is no investment opportunity.

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

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

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

Companies which have dropped out of either group by the end of the period would be included in the calculation if they have been there for 50% or more of the period. If they have been there less than 50% they would be excluded from the calculation.

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

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

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

²The performance period for the plan will consist of three consecutive financial years. However, in the first year of the plan the three year performance period started on the day after the results were announced (22 May 2002).

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

These performance conditions have been chosen because they are felt most closely to align the interests of senior management with the interests of shareholders, by rewarding management for achieving superior relative total shareholder return performance compared to direct competitors and the FTSE 100 as a whole.

(c) All-Employee Share Schemes

Executive directors can also participate in the share schemes open to all employees of the Company, currently the Share Incentive Plan and the SAYE scheme.

Employees have maintained their strong commitment to share ownership in recent years, and currently 42,000 employees hold approximately 26 million shares in their own right and 30,000 employees hold options on 71 million shares under the SAYE scheme.

Details of grants and awards made to executive directors under all schemes are given in section 5 of this report.

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.

Service contracts

All members of senior management have service contracts which can be terminated by the Company with 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 and payment in respect of future bonus entitlement for that period based on a proportion of the on target bonus. However, entitlement to participate in future options under the Company's share schemes ceases on summary termination.

The 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, with the exception of Vittorio Radice who was initially appointed with a service contract entitling him to two years' notice, reducing proportionately during the first year of employment to 12 months' notice following the first anniversary of his appointment.

Name	Date of appointment	Notice period
Luc Vandeveld	28/02/00	12 mths
Roger Holmes	01/01/01	12 mths
Justin King	01/09/02	12 mths
Alan McWalter ¹	01/01/00	n/a
David Norgrove	18/09/00	12 mths
Laurel Powers-Freeling	06/11/01	12 mths
Vittorio Radice	03/03/03	23 mths
Alison Reed	11/07/01	12 mths

¹Alan McWalter retired from the Board on 10 July 2002.

Non-executive directors

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

Name	Date of appointment	Notice period/unexpired term
Brian Baldock ¹	01/10/96	3 mths/-
Tony Ball ²	01/09/00	n/a
Jack Keenan	01/09/01	3 mths/17 mths
Kevin Lomax	01/09/00	3 mths/5 mths
Paul Myners	02/04/02	3 mths/24 mths
Dame Stella Rimington ¹	01/01/97	3 mths/-

¹Brian Baldock and Stella Rimington have both served two terms of three years and continue in office with a three month notice period.

²Tony Ball retired from the Board on 4 September 2002.

External appointments

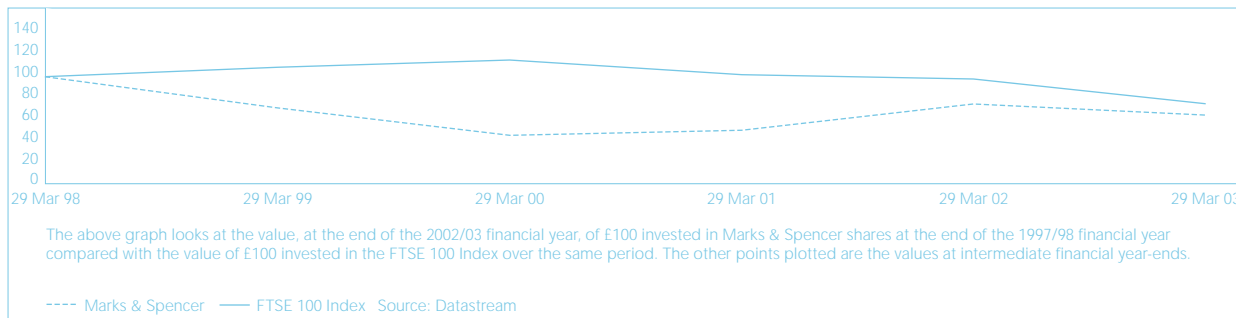
The Company recognises that executive directors may be invited to become non-executive directors of other companies and that such appointments can broaden their knowledge and experience, to the benefit of the Company. Fees are normally retained by the individual director.

Remuneration report

Performance graph

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

Total shareholder return



1 Directors' emoluments

	Current annual salary/fee £000	Salary/fee £000	Benefits £000	Bonus £000	Termination payments £000	Total 2003 £000	Total 2002 £000
Chairman							
Luc Vandavelde	420	630	478	617	–	1,725	2,234
Chief Executive							
Roger Holmes	600	538	109	491	–	1,138	914
Executive directors (appointed from)							
Justin King (1 September 2002)	300	175	35	160	–	370	n/a
David Norgrove	330	307	20	268	–	595	570
Laurel Powers-Freeling (6 November 2001)	340	325	71	303	–	699	333
Vittorio Radice (3 March 2003) ¹	425	35	875	290	–	1,200	n/a
Alison Reed (11 July 2001)	350	335	54	306	–	695	504
Non-executive directors (appointed from)							
Brian Baldock	34	34	–	–	–	34	34
Jack Keenan (1 September 2001)	34	34	–	–	–	34	20
Kevin Lomax	34	34	–	–	–	34	34
Paul Myners (2 April 2002)	34	34	–	–	–	34	n/a
Dame Stella Rimington	50	50	–	–	–	50	50
Retired directors (retirement date)							
Alan McWalter (10 July 2002) ²		100	25	90	451	666	651
Tony Ball (4 September 2002)		15	–	–	–	15	34
Former directors		n/a	n/a	n/a	n/a	n/a	1,007
Total		2,646	1,667	2,525	451	7,289	6,385

¹Details of package for Vittorio Radice are shown in section 2.

²Alan McWalter retired from the Board on 10 July 2002. His termination payment includes one year's salary of £300,000 and £151,000 for loss of benefits which includes bonus, car benefits, pension supplement and loss of pensionable service.

The annual bonus scheme this year has been awarded at a range of 87% to 98% of base salary dependent on the delivery of personal business targets and the financial measure of profit before tax. The bonus figure in the emoluments table is inclusive of the amounts compulsorily and voluntarily invested in shares for the purposes of the Share Matching Plan. Luc Vandavelde does not participate in this plan.

The benefits shown in the emoluments table include the provision of cars, fuel and travel for executive directors. Pension supplements are paid to Luc Vandavelde, of 16% of salary and Vittorio Radice, of 25% of salary as they do not participate in the Marks & Spencer Pension Scheme. A 10% supplement, in respect of the difference between the pensions earnings cap and their base salary (see section 3) is paid to Roger Holmes, Justin King, Laurel Powers-Freeling and was paid to Alan McWalter. In addition, under the terms of Luc Vandavelde's service contract, the Company provides accommodation whilst he is in London on which he is assessed for tax. Accommodation is also provided for Laurel Powers-Freeling in Chester, to accommodate her working pattern (two days in London, three days in Chester – the location of our Financial Services operation). A taxable benefit arises from this which is met by the Company. Luc Vandavelde, Roger Holmes and Alison Reed received a cash sum in lieu of the dividends waived on shares which vested under the Restricted Share Plan.

2 Recruitment of executive directors

During the year Vittorio Radice was recruited and appointed to the Board as an executive director on 3 March 2003 on the following terms:

- salary of £425,000;
- guaranteed bonus of £290,000 as compensation for loss of bonus from his previous employer (included within bonus in the emoluments table);
- shares to the value of £665,000 in compensation for the loss of outstanding Long Term Incentive Plans with his previous employer. These shares will be released in three tranches, subject to continuing employment, in July of 2003, 2004 and 2005 (included within benefits in the emoluments table);
- supplement of 25% of total salary and a payment of £200,000 in compensation for the loss of pension benefits from his previous employer (included within benefits in the emoluments table); and
- award of shares under the 2002 Executive Share Option Scheme with a market value at the date of employment of four times base salary (see Long Term Incentive Schemes).

3 Directors' pension information

The Marks & Spencer Pension Scheme

The executive directors, management and employees (except for staff employed by Marks & Spencer Outlet Ltd) all participate in the Company's Defined Benefit Pension Scheme provided their date of permanent appointment was prior to 1 April 2002. The Scheme is non-contributory and the subject of an Independent Trust. The normal retirement age under the Pension Scheme for senior management is 60 to harmonise with the Company contractual retirement age. For all other employees the normal retirement age is 65 (previously 60) but for those employees who joined the Scheme prior to 1 January 1996 their accrued rights were not affected by this change.

The Pension Scheme enables members to achieve the maximum pension of two-thirds of their salary in the 12 months ending at normal retirement date after 30 years' service. For employees (including senior management) who joined the Scheme prior to 1 January 1996 no actuarial reduction is applied to pensions payable from the age of 58. Employees who joined the Scheme on or after 1 January 1996 are subject to an actuarial reduction in their pension if payment starts prior to their normal retirement date.

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

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

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

Post-retirement increases for pension earned from 6 April 1997 are awarded on a statutory basis. Pension earned prior to 6 April 1997 is guaranteed to increase by the rise in inflation, up to a maximum of 3% per annum. Increases beyond this figure will continue to be reviewed on a discretionary basis.

The Marks & Spencer Pension Scheme was closed to new members with effect from 31 March 2002. For employees joining the Company on or after 1 April 2002, a new contributory Retirement Plan is available (after one year's service), see page 18 for details.

Pension benefits

The Directors' Remuneration Report Regulations 2002 require disclosure of defined benefit pension arrangements on a different basis to that specified in the Listing Rules. Details of pension benefits earned by the executive directors during the year ended 29 March 2003 are shown below on both bases:

	Accrued entitlement at 30 March 2002 £000	Additional pension earned in the year £000	Additional pension earned in the year in excess of inflation £000 ¹	Transfer value of additional pension in excess of director's contribution) £000 ²	Accrued entitlement at 29 March 2003 £000	Age at 29 March 2003	Transfer value of pension at 30 March 2002 £000	Transfer value of pension at 29 March 2003 £000	Increase in transfer value (net of director's contribution) £000
	Required under Listing Rules (as in prior years)						New under Directors' Remuneration Report Regulations		
Roger Holmes ^{1,2}	4	3	3	17	7	43	30	40	10
Justin King ^{1,2}	3	3	2	11	6	41	27	40	13
David Norgrove	86	18	16	213	104	55	1,191	1,348	157
Laurel Powers-Freeling ¹	1	2	2	17	3	45	7	22	15
Alison Reed	75	66	65	462	141	46	708	1,005	297
Alan McWalter ^{1,2,3}	5	4	4	72	9	49	54	119	65

¹Roger Holmes, Alan McWalter, Justin King and Laurel Powers-Freeling are subject to the pension earnings 'cap' (£97,200 at 29 March 2003) which is reviewed annually by the Government. As a result, they also receive a pension-related salary supplement (see section 1).

²The pensions for Roger Holmes, Alan McWalter and Justin King are based on a uniform accrual of two-thirds of the pension earnings 'cap' less the pension which they have accrued from membership of previous employers' pension schemes.

Remuneration report

³Pension figures for Alan McWalter reflect his service to 31 July 2002 when he ceased to be an employee.

⁴The pension entitlements and transfer values shown exclude any additional pension purchased by Additional Voluntary Contributions.

⁵Inflation has been assumed to be equivalent to the actual rate of price inflation which was 1.7% for the year to 30 September 2002. This measurement date accords with the Listing Rules.

The accrued entitlement represents the deferred pension to which directors would have been entitled had they left the Company at the end of March 2002 and 2003 respectively. Under the Listing Rules, the 'additional pension earned' is the increase during the year net of inflation, and the transfer value relating to that increase is shown under the column headed 'transfer value of additional pension'.

Under the Directors' Remuneration Report Regulations the 'additional pension earned' relates to the difference between the accumulated pension at the end of March 2002 and 2003. Also disclosed under the new regulations is the 'transfer value' of the accrued entitlement at the end of March 2002 and 2003. The 'increase in transfer value' is the difference between these values and is therefore dependent on the change in stock market conditions over the course of the year.

The transfer value represents an obligation of the pension fund which could be paid to another pension scheme for the benefit of the director. It is not a sum paid or due to the director.

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

The Marks & Spencer Retirement Plan

Employees joining the Company on or after 1 April 2002 are, on completion of one year's service, invited to join the new, contributory Retirement Plan. The Plan is a defined contribution arrangement, where employees may choose to contribute between 3% and 6% of their salary, and the Company will contribute between 6% and 12%. The employee is free to choose, from a range of investment vehicles, where the total contribution will be invested.

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

4 Payments to former directors

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

	Paid in 2003 £000	Paid in 2002 £000
Early retirement pensions¹ (payable until)		
James Benfield (22 April 2009)	71	70
Lord Stone of Blackheath (7 September 2002)	47	93
Derek Hayes (19 November 2008)	66	65
Chris Littmoden (28 September 2003)	89	88
Keith Oates (3 July 2002)	59	174
Unfunded pensions		
Clinton Silver ²	89	88
Other		
Robert Colvill ³	19	177
Chris Littmoden	-	87
Sir David Sieff	-	13

¹Under the Early Retirement Plan the Remuneration Committee could, at its discretion, offer an unfunded Early Retirement Pension, separate from the Company pension, which was payable from the date of retirement to age 60. With effect from 31 March 2000, the Early Retirement Plan was withdrawn but payments continue for awards made before this date.

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

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

5 Directors' interests in long-term incentive schemes

Share Option Schemes

The Company has operated Executive Option Schemes for over 20 years following shareholder approval for the first scheme in 1977. The Remuneration Committee has imposed performance criteria for the exercise of all options granted since 1996 and the performance targets for outstanding options are described below:

2000 and 2002 Schemes

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

- earnings per share growth over three years of at least inflation plus an average of 3% per annum for 50% of each grant, measured from a fixed base of 14.5p or the EPS figure for the year ending prior to grant if higher; and
- earnings per share growth over three years of inflation plus an average of 4% per annum for the other 50% of each grant, measured from a fixed base of 16.5p or the EPS figure for the year ending prior to grant if higher.

Luc Vandavelde, Roger Holmes, Justin King, David Norgrove, Laurel Powers-Freeling, Vittorio Radice, Alison Reed and Alan McWalter hold options under these schemes.

5 Directors' interests in long-term incentive schemes continued

1997 Scheme

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

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

Luc Vandeveld, David Norgrove, Alison Reed and Alan McWalter hold options under this scheme.

1984 and 1987 Schemes

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

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

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

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

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

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

	At 1 April 2002 or date of appointment	Granted during the year	Exercised/ lapsed during the year	At 29 March 2003 or date of retirement	Option price (pence)	Exercise price (pence)	Option period
Directors							
Luc Vandeveld							
Not exercisable (B) ⁷	4,365,532			4,365,532	261.0 ¹		Mar 2003 – Jun 2011
Not exercisable (A) ⁶				500,000	350.0		Jun 2005 – Jun 2012
Granted		500,000			350.0		Jun 2005 – Jun 2012
Roger Holmes							
Not exercisable (B) ⁷	1,120,816			1,120,816	209.0 ¹		Dec 2003 – Jun 2011
Not exercisable (A) ⁶	182,142			439,284	350.0		Dec 2004 – Jun 2012
Granted		257,142			350.0		Jun 2005 – Jun 2012
Justin King							
Not exercisable (B) ⁷	377,148			377,148	223.0 ¹		Mar 2004 – Mar 2011
Not exercisable (A) ⁶	34,284			137,140	350.0		Dec 2004 – Jun 2012
Granted		102,856			350.0		Jun 2005 – Jun 2012
David Norgrove ²							
Exercisable (A) ⁴	55,249			23,612	386.0 ¹		May 1996 – Jun 2005
Not exercisable (B) ⁷				384,386	232.0 ¹		Sep 2003 – Jun 2011
Not exercisable (A) ⁶	681,807			415,277	426.0 ¹		Jun 1999 – Jun 2012
Granted		117,856			350.0		Jun 2005 – Jun 2012
Lapsed			9,461				
Exercised			22,176		329.0	387.9	
SAYE	5,089			2,483	156.0		Jan 2004 – Jun 2004
SAYE	2,363			2,363	330.0		Jan 2003 – Jun 2003
SAYE exercised			2,606		223.0	305.0	

Remuneration report

	At 1 April 2002 or date of appointment	Granted during the year	Exercised/ lapsed during the year	At 29 March 2003 or date of retirement	Option price (pence)	Exercise price (pence)	Option period
Directors continued							
Laurel Powers-Freeling							
Not exercisable (A) ⁶	365,713			548,569	350.0		Dec 2004 – Jun 2012
Granted		182,856			350.0		Jun 2005 – Jun 2012
Vittorio Radice							
Granted (A) ⁶	555,553			555,553	306.0		Mar 2006 – Mar 2013
Alison Reed							
Exercisable (A) ⁴	85,053			54,788	407.0 ¹		May 1996 – Jun 2005
Not exercisable (B) ⁷	289,460			289,460	235.0 ¹		Sep 2003 – Jun 2011
Not exercisable (A) ⁶	276,929			465,499	377.0 ¹		Jun 1999 – Jun 2012
Granted		188,570			350.0 ¹		Jun 2005 – Jun 2012
Lapsed			30,265				
SAYE	10,166			10,166	166.0 ¹		Jan 2005 – Jun 2006
Retired directors							
Alan McWalter ³							
Exercisable (B) ⁵				175,780	256.0		Aug 2002 – Jul 2003
Exercisable (A) ⁴				721,310	305.0		Aug 2002 – Jul 2003
Not exercisable	897,090				295.0 ¹		

¹Weighted average price.

²David Norgrove was the only director who exercised options during the year. The gain was £15,000.

³Alan McWalter retired as a director 10 July 2002. Options are carried into retirement under the terms of the various schemes (see above).

⁴Exercisable (A) – option price is above market value on 29 March 2003, options have vested.

⁵Exercisable (B) – option price is below market value on 29 March 2003, options have vested.

⁶Not exercisable (A) – option price is above market value on 29 March 2003, options have not vested.

⁷Not exercisable (B) – option price is below market value on 29 March 2003, options have not vested.

⁸The market price of the shares at the end of the financial year was 289.25p; the highest and lowest share price during the financial year were 423.0p and 262.5p respectively.

Executive Share Matching Plan

Name of director	Date of award	Maximum potential number of matching shares ¹	Market price on award date	Performance period for matching award
Luc Vandavelde	30 July 2002	178,788	339.0p	2002–05
Roger Holmes	30 July 2002	113,525	339.0p	2002–05
Justin King	30 July 2002	37,907	339.0p	2002–05
David Norgrove	30 July 2002	71,625	339.0p	2002–05
Laurel Powers-Freeling	30 July 2002	26,324	339.0p	2002–05
Alison Reed	30 July 2002	76,841	339.0p	2002–05

¹The number of matching shares are the maximum (a match of 1:2.5) that could be receivable by the executive if performance conditions outlined in the policy section above are fully met.

After one year of the 2002–05 performance period, Marks & Spencer's TSR is ranked 27th in the FTSE 100 Comparator Group and 4th in the Retailers Comparator Group. A match of 1:1.99 (79% of the maximum potential) shares would be receivable if these positions were to be maintained for the full three-year performance period. These calculations have been independently made by New Bridge Street Consultants using data from Datastream (an independent data services provider). Arcadia will not be included within the Retailer Comparator Group at the end of the three-year period as they will not have existed for more than 50% of the time.

Sections 1, 3, 4 and the table in section 5 of this report have been audited.

Approved by the Board
19 May 2003

Dame Stella Rimington DCB, Chairman of the Remuneration Committee

Directors' interests

The beneficial interests of the directors and their families in the shares of the Company are shown below. These include shares held under the Delayed Profit Sharing Scheme. Options granted under the Save As You Earn (SAYE) Share Option and Executive Share Option Schemes are shown on pages 35 to 37. Further information regarding employee share option schemes is given in note 10E.

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

Shares in the Company – beneficial and family interests	Ordinary shares at 29 March 2003	B shares at 29 March 2003	Ordinary shares at 30 March 2002 or date of appointment	B shares at 30 March 2002 or date of appointment
Luc Vandevelde	880,686	–	654,160	808,080
Roger Holmes	200,084	3,130	173,588	3,130
Justin King	24,875	–	24,768	–
David Norgrove	41,363	2,886	19,697	19,849
Laurel Powers-Freeling	9,681	–	2,639	–
Alison Reed	84,109	2,474	61,974	4,425
Vittorio Radice	10,000	–	10,000	–
Brian Baldock	56,584	–	56,584	–
Jack Keenan	3,238	–	3,238	4,000
Kevin Lomax	16,190	–	16,190	20,000
Paul Myners	30,000	–	30,000	–
Dame Stella Rimington	2,870	–	2,791	–

Directors' responsibilities

Directors' responsibilities for preparing the financial statements

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

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

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

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

In addition, the directors are responsible for maintaining adequate accounting records and sufficient internal controls to safeguard the assets of the Group and to prevent and detect fraud or any other irregularities, as described more fully on pages 11 and 12.

Directors' report

Principal activities

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

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

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

Review of activities and future performance

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

Profit and dividends

The profit for the financial year, after taxation, minority interests and non-equity dividends, amounts to £473.7m (last year £153.0m). The directors have declared dividends as follows:

Ordinary shares	£m
Interim paid, 4.0p per share (last year 3.7p)	91.8
Proposed final, 6.5p per share (last year 5.8p)	147.4
Total ordinary dividends, 10.5p per share (last year 9.5p)	239.2

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

The final dividend will be paid on 18 July 2003 to shareholders whose names are on the Register of Members at the close of business on 30 May 2003.

Changes in share capital

(i) Issue of new ordinary shares

During the period, 7,960,946 ordinary shares in the Company were issued as follows:

- 513,987 shares under the terms of the 1984 Executive Share Option Scheme at prices between 329p and 404p;
- 575,629 shares under the terms of the 1997 Executive Share Option Scheme at prices between 260p and 358p;
- 1,779,021 shares under the terms of the 2000 Executive Share Option Scheme at prices between 195p and 256p; and
- 5,092,309 shares were issued under the terms of the United Kingdom Employees' Save As You Earn Share Option Scheme at prices between 156p and 389p.

(ii) Purchase of ordinary shares

The Company is authorised by the shareholders to purchase, in the market, the Company's own shares, as permitted under the Company's Articles of Association. During the year the Company purchased and subsequently cancelled 44,894,601 ordinary shares at a cost of £141.7m, with a nominal value of £11.2m, at prices between 266.1p and 354.8p, representing 2.0% of its issued share capital. This authority is renewable annually and approval will be sought from shareholders at the AGM in 2003 to renew the authority for a further year.

(iii) Redemption of B shares

During the year the Company redeemed 225,383,628 B shares at par.

Major shareholders

As at 13 May 2003, the Company's share register of substantial shareholdings showed the following interests in 3% or more of the Company's shares:

	Ordinary shares	% share capital
The Capital Group Companies, Inc.	138,883,735	6.12
Brandes Investment Partners, L.P.	122,592,739	5.40
Legal and General Investment Management	94,771,750	4.17
Barclays	80,622,984	3.55

In addition, JP Morgan has notified us that it is holding 69,833,873 ordinary shares (3.08%) as American Depositary Receipts, 52,498,950 of which are included in the above figures for Brandes Investment Partners.

Directors and their interests

The current directors are listed on page 19 of the Annual Review and Summary Financial Statement.

Justin King and Vittorio Radice were appointed executive directors of the Company on 1 September 2002 and 3 March 2003, respectively. Alan McWalter retired from the Board on 10 July 2002.

On 2 April 2002, Paul Myners was appointed non-executive director of the Company. Tony Ball retired from the Board on 4 September 2002.

The beneficial interests of the directors and their families in the shares of the Company and its subsidiaries are given on page 21.

Employee involvement

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

Employees are kept well informed of the performance and objectives of the Group through personal briefings, regular meetings and e-mail. These are supplemented by our employee publication, On Your Marks, and video presentations. Business Involvement Groups in stores, distribution centres and head office represent employees in two way communication and are involved in the delivery of change and driving business improvement.

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

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

We continue to support employee share ownership through long-established employee share schemes, membership of which is service-related, details of which are given on pages 35 to 37.

Equal opportunities

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

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

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

Employees with disabilities

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

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

Creditor payment policy

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

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

The main trading company's (Marks and Spencer p.l.c.) policy concerning the payment of its trade creditors is as follows:

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

Trade creditor days for Marks and Spencer p.l.c. for the year ended 29 March 2003 were 14.3 days (10.3 working days), based on the ratio of company trade creditors at the end of the year to the amounts invoiced during the year by trade creditors.

Directors' report

Charitable and political donations

During the year, £6.5m (last year £4.9m) was spent in the UK in support of the community. Within this figure, direct donations to charitable organisations amounted to £4.9m (last year £2.8m).

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

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

Auditors

In the year 2000, a change in the law enabled any UK accounting firm to become a limited liability partnership ('LLP'), a new legal entity. The change to LLP has not affected the relationship between PricewaterhouseCoopers and shareholders. The partnership continues to have unlimited liability in respect of statutory audit engagements, but the liability of individual partners is limited.

On 1 January 2003, PricewaterhouseCoopers ('PwC') transferred its business to PricewaterhouseCoopers LLP ('PwC LLP'). On 29 January 2003, PwC resigned as the Company's auditors and, on the Audit Committee's recommendation, the Board subsequently appointed PwC LLP as auditors of the Company to fill the casual vacancy thereby created.

Special notice having been received in accordance with the Companies Act 1985, a resolution to reappoint PwC LLP as auditors of the Company will be proposed at the Annual General Meeting.

Annual General Meeting

The Notice of the Annual General Meeting to be held on 16 July 2003 (together with explanatory notes) is given in the booklet which accompanies this report.

By order of the Board
Luc Vandeveldde, Chairman

London, 19 May 2003

Auditors' report

Independent auditors' report to the members of Marks and Spencer Group p.l.c.

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

Respective responsibilities of directors and auditors

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the directors' remuneration report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report, the unaudited part of the directors' remuneration report, the chairman's statement, the operating and financial review and the corporate governance statement.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group at 29 March 2003 and of the profit and cash flows of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the directors' remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
19 May 2003

Consolidated profit and loss account

	Notes	52 weeks ended 29 March 2003			52 weeks ended 30 March 2002		
		Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
Total turnover	2	8,077.2	–	8,077.2	7,619.4	516.0	8,135.4
Operating profit:							
Continuing operations:							
Before exceptional operating charges		761.8	–	761.8	629.1	–	629.1
Exceptional operating charges	4A	(43.9)	–	(43.9)	–	–	–
Discontinued operations:							
Continental European operations		–	–	–	–	(42.5)	(42.5)
Less provision made in 2001		–	–	–	–	42.5	42.5
Other discontinued operations		–	–	–	–	14.7	14.7
Total operating profit	2,3	717.9	–	717.9	629.1	14.7	643.8
Profit on sale of property and other fixed assets	4B	1.6	–	1.6	41.2	–	41.2
Loss on sale/termination of operations:	4C						
Loss arising on sale/closure		–	(12.3)	(12.3)	–	(102.8)	(102.8)
Less provision made in 2001		–	10.8	10.8	–	104.3	104.3
Goodwill previously written off		–	(1.5)	(1.5)	–	1.5	1.5
Net loss on sale/termination of operations		–	(1.5)	(1.5)	–	(366.7)	(366.7)
Net interest (expense)/income	5	(40.5)	–	(40.5)	17.6	–	17.6
Profit/(loss) on ordinary activities before taxation		679.0	(1.5)	677.5	687.9	(352.0)	335.9
Analysed between:							
Profit on ordinary activities before taxation and exceptional items		721.3	–	721.3	646.7	14.7	661.4
Exceptional items		(42.3)	(1.5)	(43.8)	41.2	(366.7)	(325.5)
Taxation on ordinary activities	6	(197.4)	–	(197.4)	(195.1)	12.6	(182.5)
Profit/(loss) on ordinary activities after taxation		481.6	(1.5)	480.1	492.8	(339.4)	153.4
Minority interests (all equity)		0.4	–	0.4	1.1	(1.5)	(0.4)
Profit/(loss) attributable to shareholders		482.0	(1.5)	480.5	493.9	(340.9)	153.0
Dividends (including dividends in respect of non-equity shares)	8	(246.0)	–	(246.0)	(238.9)	–	(238.9)
Retained profit/(loss) for the period		236.0	(1.5)	234.5	255.0	(340.9)	(85.9)
Earnings per share	9	20.7p		20.7p	17.4p		5.4p
Diluted earnings per share	9	20.4p		20.4p	17.3p		5.4p
Adjusted earnings per share	9	22.2p		22.2p	15.9p		16.3p
Diluted adjusted earnings per share	9	21.9p		21.9p	15.8p		16.2p
Dividend per share	8			10.5p			9.5p

Note of group historical cost profits and losses

	Notes	52 weeks ended 29 March 2003 £m	52 weeks ended 30 March 2002 £m
Profit on ordinary activities before taxation		677.5	335.9
Realisation of property revaluation surplus	25	4.1	67.2
Share of joint venture's revaluation surplus realised on disposal	25	10.4	–
Revaluation element of depreciation charge	25	1.4	1.6
Historical cost profit on ordinary activities before taxation		693.4	404.7
Historical cost retained profit/(loss) for the period		250.4	(17.1)

Consolidated statement of total recognised gains and losses

	Notes	52 weeks ended 29 March 2003 £m	52 weeks ended 30 March 2002 £m
Profit attributable to shareholders		480.5	153.0
Exchange differences on foreign currency translation	25	3.4	0.1
Unrealised (deficit)/surplus on revaluation of investment properties	25	(0.8)	0.5
Total recognised gains and losses relating to the period		483.1	153.6

Balance sheets

	Notes	Group		Company	
		29 March 2003 £m	30 March 2002 £m	29 March 2003 £m	30 March 2002 £m
Fixed assets					
Tangible assets:					
Land and buildings		2,148.4	2,166.9	–	–
Fit out, fixtures, fittings and equipment		1,248.2	1,187.3	–	–
Assets in the course of construction		38.5	27.0	–	–
	13	3,435.1	3,381.2	–	–
Investments	14	31.5	50.3	7,643.2	7,643.2
		3,466.6	3,431.5	7,643.2	7,643.2
Current assets					
Stocks		361.8	325.3	–	–
Debtors:					
Receivable within one year	15A	907.9	952.1	247.8	134.2
Receivable after more than one year	15B	1,547.5	1,667.2	–	–
Investments	16	304.0	272.7	–	–
Cash at bank and in hand	17	167.9	543.4	–	–
		3,289.1	3,760.7	247.8	134.2
Current liabilities					
Creditors: amounts falling due within one year	19	(1,678.9)	(1,750.8)	(2,246.8)	(1,858.1)
Net current assets/(liabilities)		1,610.2	2,009.9	(1,999.0)	(1,723.9)
Total assets less current liabilities					
		5,076.8	5,441.4	5,644.2	5,919.3
Creditors: amounts falling due after more than one year					
Provisions for liabilities and charges	20	(1,810.0)	(2,156.3)	–	–
	22	(228.4)	(203.8)	–	–
Net assets		3,038.4	3,081.3	5,644.2	5,919.3
Capital and reserves					
Called up share capital	24,25	685.7	852.7	685.7	852.7
Share premium account	25	23.8	2.8	23.8	2.8
Capital redemption reserve	25	1,886.9	1,717.9	1,886.9	1,717.9
Revaluation reserve	25	370.6	387.3	–	–
Other reserve	25	(6,542.2)	(6,542.2)	–	–
Profit and loss account	25	6,613.6	6,662.4	3,047.8	3,345.9
Shareholders' funds (including non-equity interests)	25	3,038.4	3,080.9	5,644.2	5,919.3
Minority interests (all equity)		–	0.4	–	–
Total capital employed		3,038.4	3,081.3	5,644.2	5,919.3
Equity shareholders' funds					
Non-equity shareholders' funds		2,920.2	2,804.9	5,526.0	5,643.3
		118.2	276.0	118.2	276.0
Total shareholders' funds		3,038.4	3,080.9	5,644.2	5,919.3

Approved by the Board
19 May 2003

Luc Vandeveld, Chairman
Roger Holmes, Chief Executive
Alison Reed, Chief Financial Officer

Consolidated cash flow information

FOR THE PERIOD ENDED 29 MARCH 2003

	Notes	52 weeks ended 29 March 2003 £m	52 weeks ended 30 March 2002 £m
Cash flow statement			
Cash inflow from operating activities	27	1,168.7	1,093.7
Dividend received from joint venture		8.0	–
Returns on investments and servicing of finance			
Interest received		11.9	38.8
Interest paid		(51.3)	(2.0)
Non-equity dividends paid		(6.8)	–
Net cash (outflow)/inflow from returns on investments and servicing of finance		(46.2)	36.8
Taxation			
UK corporation tax paid		(212.0)	(172.0)
Overseas tax paid		(4.9)	(7.4)
Cash outflow for taxation		(216.9)	(179.4)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(324.5)	(285.7)
Sale of tangible fixed assets		25.0	455.6
Purchase of fixed asset investments		(2.9)	(2.9)
Sale of fixed asset investments		7.2	9.0
Net cash (outflow)/inflow for capital expenditure and financial investment		(295.2)	176.0
Acquisitions and disposals			
Closure of operations		(10.8)	122.2
Sale of subsidiaries		(30.2)	139.4
Repayment of loan by joint venture		2.2	–
Cash (outflow)/inflow from acquisitions and disposals		(38.8)	261.6
Equity dividends paid		(225.4)	(256.7)
Cash inflow before management of liquid resources and financing		354.2	1,132.0
Management of liquid resources and financing			
Management of liquid resources	28B	(46.9)	(29.1)
Financing	28C	(711.5)	(730.2)
		(758.4)	(759.3)
(Decrease)/increase in cash		(404.2)	372.7
Reconciliation of net cash flow to movement in net debt			
		2003 £m	2002 £m
(Decrease)/increase in cash		(404.2)	372.7
Cash outflow from increase in liquid resources	28B	46.9	29.1
Cash outflow/(inflow) from decrease/(increase) in debt financing	28C	431.4	(1,031.7)
Exchange and other movements		1.5	0.7
Movement in net debt		75.6	(629.2)
Opening net debt		(1,907.0)	(1,277.8)
Closing net debt		(1,831.4)	(1,907.0)

Notes to the financial statements

1. Accounting policies

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

Accounting convention and basis of consolidation

The Group financial statements incorporate the financial statements of Marks and Spencer Group p.l.c. and all its subsidiaries for the 52 weeks ended 29 March 2003.

The financial statements are drawn up on the historical cost basis of accounting, modified to include the valuation of certain United Kingdom properties at 31 March 1988 and the valuation of investment properties. Compliance with SSAP 19, 'Accounting for Investment Properties' requires a departure from the requirements of the Companies Act 1985 relating to the depreciation of investment properties as explained below.

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

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

Turnover

Turnover comprises sales of goods to customers outside the Group less returns, VAT and sales taxes, together with interest and other income attributable to the Financial Services operations.

Operating leases

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

Pensions

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

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

Goodwill

Prior to 31 March 1998, goodwill arising on consolidation was written off to reserves in the year of acquisition. As permitted by FRS 10, this goodwill has not been reinstated in the balance sheet and remains written off to reserves. Goodwill arising on subsequent acquisitions is capitalised and amortised over its useful economic life. The profit or loss arising on the sale of a previously acquired business includes the attributable goodwill.

Fixed assets

a Capitalised interest

Interest is not capitalised.

b Depreciation

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

- Land: not depreciated.
- Freehold and leasehold buildings over 50 years: depreciated to their estimated residual value over their estimated remaining economic lives.
- Leasehold land and buildings under 50 years: over the remaining period of the lease.
- Fit out: 10–25 years according to the estimated life of the asset.
- Fixtures, fittings and equipment: 3–15 years according to the estimated life of the asset.

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

Any impairment in value is charged to the profit and loss account.

Notes to the financial statements

1. Accounting policies continued

c Land and buildings

The Group's freehold and leasehold properties in the United Kingdom were valued on the basis of open market value for existing use in 1982. At 31 March 1988, those same properties (excluding subsequent additions and adjusted for disposals) were revalued. On adoption of FRS 15, the Group followed the transitional provisions to retain the book value of land and buildings which were revalued in 1988, but not to adopt a policy of revaluation in the future.

These values are retained subject to the requirement to test assets for impairment in accordance with FRS 11.

d Investment properties

Investment properties are revalued annually and included in the balance sheet at their open market value. In accordance with SSAP 19, no depreciation is provided in respect of investment properties. This represents a departure from the Companies Act 1985 requirements concerning the depreciation of fixed assets. These properties are held for investment and the directors consider that the adoption of this policy is necessary to give a true and fair view.

Current asset investments

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

Stocks

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

Loans and advances to customers

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

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

Long-term assurance business

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

Derivative financial instruments

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

Foreign currencies

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

Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction.

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

Deferred taxation

Deferred taxation is accounted for on an undiscounted basis at expected tax rates on all differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. A deferred tax asset is only recognised when it is more likely than not that the asset will be recoverable in the foreseeable future out of suitable taxable profits from which the underlying timing differences can be deducted.

2. Segmental information

A Classes of business

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

	Turnover		Operating profit		Operating assets	
	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m
Continuing operations:						
Retailing activities	7,747.3	7,268.6	631.5	538.5	3,555.2	3,565.0
Before exceptional operating charges			675.4	538.5		
Exceptional operating charges			(43.9)	–		
Financial Services ^{1,2}	329.9	350.8	86.4	84.2	648.7	576.7
Total continuing operations	8,077.2	7,619.4	717.9	622.7	4,203.9	4,141.7
Discontinued operations – retailing activities	–	516.0	–	14.7	(36.6)	(60.4)
Total operating activities	8,077.2	8,135.4	717.9	637.4	4,167.3	4,081.3
Add: excess interest charged to cost of sales of Financial Services ²			–	6.4		
Total operating profit			717.9	643.8	4,167.3	4,081.3
Profit on sale of property and other fixed assets			1.6	41.2		
Net loss on sale/termination of operations			(1.5)	(366.7)		
Net interest (expense)/income			(40.5)	17.6		
Profit on ordinary activities before taxation			677.5	335.9	4,167.3	4,081.3
Unallocated net liabilities					(1,128.9)	(1,000.0)
Net assets					3,038.4	3,081.3

B Geographical split

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

	Turnover		Operating profit		Operating assets	
	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m
United Kingdom						
Retail	7,066.0	6,575.2	588.0	505.2	3,438.1	3,445.6
Before exceptional operating charges			631.9	505.2		
Exceptional operating charges			(43.9)	–		
Financial Services ^{1,2}	329.9	350.8	86.4	84.2	648.7	576.7
	7,395.9	6,926.0	674.4	589.4	4,086.8	4,022.3
International Retail	681.3	693.4	43.5	33.3	117.1	119.4
Total continuing operations	8,077.2	7,619.4	717.9	622.7	4,203.9	4,141.7
Discontinued operations – International	–	516.0	–	14.7	(36.6)	(60.4)
Total operating activities	8,077.2	8,135.4	717.9	637.4	4,167.3	4,081.3
Add: excess interest charged to cost of sales of Financial Services ²			–	6.4		
Total operating profit			717.9	643.8		

¹ Operating profit for Financial Services includes £14.1m of merchant fee income (last year £15.0m) arising on Marks & Spencer Chargecard transactions. This fee is payable by UK Retail and has been deducted in arriving at UK Retail operating profit.

² Financial Services operating profit is stated after charging £85.7m (last year £103.7m) of interest to cost of sales. This interest represents the cost of funding the Financial Services business as a separate segment, including both intra-group interest and third party funding. The amount of third party interest payable by the Group amounted to £137.0m (last year £116.9m) (see note 5). Intra-group interest of £nil (last year £6.4m), being the excess over third party interest payable, has been added back in the segmental analysis to arrive at total operating profit.

³ UK Retail turnover including VAT comprises clothing, footwear and gifts £4,149.1m (last year £3,773.4m); home £403.2m (last year £373.3m) and foods £3,252.7m (last year £3,093.5m). VAT on UK Retail turnover was £739.0m (last year £665.0m).

⁴ Turnover from continuing operations originates in the following geographical segments: United Kingdom £7,539.4m (last year £7,055.9m) and International £537.8m (last year £563.5m).

⁵ The value of goods exported from the UK, including shipments to international subsidiaries, amounted to £271.6m (last year £329.8m).

Notes to the financial statements

3. Operating profit

	2003			2002		
	Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
Turnover	8,077.2	–	8,077.2	7,619.4	516.0	8,135.4
Cost of sales	(5,137.9)	–	(5,137.9)	(4,888.6)	(302.8)	(5,191.4)
Gross profit	2,939.3	–	2,939.3	2,730.8	213.2	2,944.0
Employee costs (see note 10)	(1,116.2)	–	(1,116.2)	(1,093.6)	(99.8)	(1,193.4)
Occupancy costs	(264.7)	–	(264.7)	(249.4)	(60.1)	(309.5)
Repairs, renewals and maintenance of fixed assets	(114.8)	–	(114.8)	(111.8)	(4.6)	(116.4)
Depreciation	(234.9)	–	(234.9)	(225.9)	(23.7)	(249.6)
Other costs ²	(490.8)	–	(490.8)	(421.0)	(52.8)	(473.8)
Total net operating expenses ³	(2,221.4)	–	(2,221.4)	(2,101.7)	(241.0)	(2,342.7)
Less provision made in 2001	–	–	–	–	42.5	42.5
Operating profit	717.9	–	717.9	629.1	14.7	643.8

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

¹Operating profit includes £43.9m exceptional operating charges, of which £2.5m is included within employee costs and £41.4m within other costs.

²Included in 'Other costs' is the auditors' remuneration for audit and non-audit services as follows:

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Audit fees	0.9	1.0	0.1	0.1
Non-audit services	1.4	2.5	–	0.8

Included in non-audit fees above are amounts paid to PricewaterhouseCoopers LLP for non-audit related services, relating to taxation services £0.4m (last year £0.3m), general advisory services £0.6m (last year £0.3m) and corporate finance and assurance related services £0.4m (last year £1.9m).

³Included in 'Total net operating expenses' are rentals under operating leases, comprising £3.8m for hire of plant and machinery (last year £7.1m) and £102.0m of other rental costs (last year £124.6m).

4. Exceptional items

A Exceptional operating charges

	2003 £m	2002 £m
Head office relocation	7.6	–
Restructuring of general merchandise logistics operations	36.3	–
Exceptional operating charges	43.9	–

B Profit on sale of property and other fixed assets

	2003 £m	2002 £m
Profit on sale of property and other fixed assets	1.6	41.2

C Loss on sale/termination of operations

	2003 £m	2002 £m
Loss on sale/termination	(12.3)	(102.8)
Goodwill previously written off	–	(368.2)
	(12.3)	(471.0)
Less provision made in 2001	10.8	104.3
Loss on sale/termination of operations	(1.5)	(366.7)

The loss on sale/termination of operations in the current year is analysed as follows:

	Continental Europe £m	Brooks Brothers £m	Total £m
Net closure costs	(10.8)	(1.5)	(12.3)
Less provision made in 2001	10.8	–	10.8
Loss on sale/termination of operations	–	(1.5)	(1.5)

5. Net interest (expense)/income

	2003		2002	
	£m	£m	£m	£m
Bank and other interest income	272.8		321.1	
Less: amounts included in turnover of Financial Services	(262.0)		(283.9)	
		10.8		37.2
Interest expenditure	(137.0)		(116.9)	
Less: interest charged to cost of sales of Financial Services	85.7		103.7	
Intra-group interest charged to cost of sales of Financial Services (see note 2)	–		(6.4)	
		(51.3)		(19.6)
Net interest (expense)/income		(40.5)		17.6
Interest expenditure comprises:				
Amounts repayable within five years:				
Bank loans, overdrafts and other borrowings	(22.4)		(38.0)	
Medium term notes	(70.8)		(63.1)	
		(93.2)		(101.1)
Amounts repayable after five years:				
Medium term notes		(43.8)		(15.8)
		(137.0)		(116.9)

6. Taxation on ordinary activities

A Taxation charge for the period

	2003		2002	
	£m	£m	£m	£m
Current taxation				
UK corporation tax at 30% (last year 30%):				
Current year	211.2		190.1	
Prior years	(16.4)		4.4	
		194.8		194.5
Double taxation relief		–		(0.1)
		194.8		194.4
Overseas taxation		3.7		6.3
Total current taxation		198.5		200.7
Deferred taxation (see note 22)				
Current year	(4.0)		(4.4)	
Prior years	2.9		(13.8)	
Total deferred taxation		(1.1)		(18.2)
		197.4		182.5

Included in the tax charge for the year is a credit of £9.1m (last year £13.2m credit) which is attributable to exceptional charges.

B Taxation reconciliation

	2003	2002
	£m	£m
Profit before taxation	677.5	335.9
Taxation at the standard UK corporation tax rate of 30% (last year 30%)	203.3	100.8
Permanent differences	10.5	18.4
Capital allowances less than/(in excess of) depreciation	2.4	(3.3)
Other timing differences	1.7	(5.6)
Net effect of restructuring charges	0.6	(24.2)
Write-off of goodwill for which no tax relief available	–	110.5
Net effect of different rates of tax in overseas businesses	(3.6)	(2.0)
Adjustments to tax charge in respect of prior periods	(16.4)	4.4
Other differences	–	1.7
Total current taxation	198.5	200.7

Notes to the financial statements

7. Profit for the financial year

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

The consolidated profit for the financial year of £480.5m (last year £153.0m) includes a £247.6m profit (last year £134.0m) which is dealt with in the financial statements of the Company.

8. Dividends

	2003 £m	2002 £m
Dividends on equity shares		
Paid interim ordinary dividend of 4.0p per share (last year 3.7p per share)	91.8	105.2
Proposed final ordinary dividend of 6.5p per share (last year 5.8p per share)	147.4	133.7
Total ordinary dividend of 10.5p per share (last year 9.5p per share)	239.2	238.9
Dividends on non-equity shares		
Interim B share dividend paid at 3.32%	4.6	–
Final B share dividend paid at 2.98%	2.2	–
	6.8	–
	246.0	238.9

9. Earnings per share

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

An adjusted earnings per share figure has been calculated in addition to the earnings per share required by FRS 14, 'Earnings per Share' and is based on earnings excluding the effect of the exceptional items. It has been calculated to allow shareholders to gain a clearer understanding of the trading performance of the Group. Details of the adjusted earnings per share are set out below:

	2003			2002		
	£m	Basic pence per share	Diluted pence per share	£m	Basic pence per share	Diluted pence per share
Basic earnings	473.7	20.7	20.4	153.0	5.4	5.4
Exceptional operating charges	34.8	1.5	1.5	–	–	–
Profit on sale of property and other fixed assets	(1.6)	(0.1)	(0.1)	(41.2)	(1.5)	(1.5)
Loss on sale/termination of operations	1.5	0.1	0.1	353.5	12.4	12.3
Adjusted earnings	508.4	22.2	21.9	465.3	16.3	16.2
Operating profit from discontinued operations	–	–	–	(12.6)	(0.4)	(0.4)
Adjusted earnings from continuing operations	508.4	22.2	21.9	452.7	15.9	15.8

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

	2003 m	2002 m
Weighted average ordinary shares in issue during the year	2,293.9	2,841.7
Potentially dilutive share options under the Group's share option schemes	29.0	23.7
Weighted average ordinary shares for diluted earnings per share	2,322.9	2,865.4

10. Employees

A Aggregate remuneration

The aggregate remuneration and associated costs of Group employees were:

	2003			2002		
	Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
Wages and salaries	835.1	–	835.1	799.7	87.0	886.7
Share Incentive Plan (see note 10D)	8.8	–	8.8	12.6	–	12.6
Social security costs	47.7	–	47.7	48.8	11.5	60.3
Pension costs (see note 11A)	144.8	–	144.8	142.7	5.2	147.9
Employee welfare and other personnel costs	79.8	–	79.8	89.8	9.7	99.5
Employee costs	1,116.2	–	1,116.2	1,093.6	113.4	1,207.0
Classified as:						
Employee costs (see note 3)	1,116.2	–	1,116.2	1,093.6	99.8	1,193.4
Manufacturing cost of sales	–	–	–	–	13.6	13.6
	1,116.2	–	1,116.2	1,093.6	113.4	1,207.0

B Average number of employees

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

		2003	2002
UK stores	Management and supervisory categories	4,335	3,939
	Other	53,191	50,583
UK head office	Management and supervisory categories	2,616	2,369
	Other	997	1,038
Financial Services	Management and supervisory categories	200	208
	Other	1,267	1,370
Overseas	Continuing operations	4,527	4,988
	Discontinued operations	–	5,404
		67,133	69,899

If the number of hours worked was converted on the basis of a normal working week, the equivalent average number of full-time employees for continuing operations would have been 47,756 (last year 45,979).

C Post-retirement health benefits

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

At 30 March 2002, the Group reassessed this liability in accordance with the advice of an independent qualified actuary. The resulting discounted present value of £25.3m was fully provided at 30 March 2002. The valuation assumed a premium inflation of 7.5% and an after-tax discount rate of 5.9%.

The current provision, which is included in the accounts on a SSAP 24 basis, is £25.0m (see note 22). There is a matching deferred taxation asset of £7.5m. The provision has been estimated to be £24m on an FRS 17 basis (last year £25m). See note 11.

The next actuarial valuation will be carried out as at 31 March 2005.

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

The last payment under the 1997 UK Profit Sharing Scheme was made in June 2002, in respect of the financial year ending 30 March 2002. The Company has now adopted the free share element of the new all-employee Share Incentive Plan, which is approved by the Inland Revenue. This is a discretionary plan and the Company will decide each year whether an award is to be made, depending upon the year-end profits. The Republic of Ireland Profit Sharing Scheme remains unchanged. An award will be made in July 2003 in respect of the financial year ending 29 March 2003. This has been fixed at £8.8m (last year £12.6m), representing 2.0% (last year 2.5%) of the earnings of 53,418 (last year 44,197) eligible employees (with a maximum award of approximately £220).

These shares are purchased in the market: 2,846,100 ordinary shares were purchased by the Profit Sharing Trustees in respect of the 2001/2002 allocation.

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

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

Notes to the financial statements

10. Employees continued

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

Options granted	Number of shares		Option price
	2003	2002	
January 1995	Expired	1,564,963	322p
January 1996	1,180,359	2,240,437	330p
January 1997	1,564,432	3,542,787	389p
January 1998	1,607,993	3,234,005	467p
January 1999	4,262,582	6,350,030	324p
January 2000	13,540,426	20,736,825	223p
January 2001	26,601,132	29,106,220	156p
January 2002	10,462,668	11,706,883	250p
January 2003	11,809,605	–	283p

F Executive Share Option Schemes

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

Options granted	Number of shares		Option price	Option dates
	2003	2002		
(1984 Scheme)				
May 1993	725,149	995,806	341p	May 1996 – May 2003
October 1993	19,576	19,576	399p	Oct 1996 – Oct 2003
May 1994	1,174,865	1,440,145	404p	May 1997 – May 2004
October 1994	21,541	21,541	402p	Oct 1997 – Oct 2004
May 1995	1,139,414	1,275,778	414p	May 1998 – May 2005
May 1996	45,850	45,850	458p	May 1999 – May 2006
November 1996	6,172	6,172	486p	Nov 1999 – Nov 2006
June 1997	17,076	28,460	527p	June 2000 – June 2007
(1987 Scheme)				
May 1996	1,097,040	1,248,170	458p	May 1999 – May 2003
November 1996	14,546	14,546	486p	Nov 1999 – Nov 2003
June 1997	1,323,650	1,509,228	527p	June 2000 – June 2004
(1997 Scheme – Tier 1)				
June 1998	273,683	309,093	557p	June 2001 – June 2008
November 1998	247,221	247,221	404p	Nov 2001 – Nov 2008
June 1999	562,374	681,181	358p	June 2002 – June 2009
November 1999	59,352	95,323	278p	Nov 2002 – Nov 2009
January 2000	360,655	360,655	305p	Jan 2003 – Jan 2010
March 2000	1,992,337	1,992,337	261p	Mar 2003 – Mar 2010
June 2000	11,538	184,615	260p	June 2003 – June 2010
(1997 Scheme – Tier 2)				
June 1998	1,409,816	1,738,920	557p	June 2003 – June 2008
November 1998	99,261	99,261	404p	Nov 2003 – Nov 2008
June 1999	1,067,713	1,280,047	358p	June 2004 – June 2009
November 1999	59,352	59,352	278p	Nov 2004 – Nov 2009
January 2000	360,655	360,655	305p	Jan 2005 – Jan 2010
March 2000	1,992,337	1,992,337	261p	Mar 2005 – Mar 2010
June 2000	–	184,615	260p	June 2005 – June 2010
(2000 Scheme +3%)				
September 2000	2,493,207	3,191,827	215p	Sept 2003 – Sept 2010
December 2000	574,358	574,358	195p	Dec 2003 – Dec 2010
March 2001	270,641	270,641	218p	Mar 2004 – Mar 2011
June 2001	6,059,643	6,490,703	256p	June 2004 – June 2011
July 2001	168,674	168,674	249p	July 2004 – July 2011
December 2001	1,263,166	1,286,778	350p	Dec 2004 – Dec 2011

10. Employees continued

Options granted	Number of shares		Option price	Option dates
	2003	2002		
(2000 Scheme +4%)				
September 2000	2,511,067	3,341,639	215p	Sept 2003 – Sept 2010
December 2000	443,358	574,358	195p	Dec 2003 – Dec 2010
March 2001	270,641	270,641	218p	Mar 2004 – Mar 2011
June 2001	3,264,203	3,454,239	256p	June 2004 – June 2011
July 2001	156,626	156,626	249p	July 2004 – July 2011
December 2001	1,027,586	1,034,056	350p	Dec 2004 – Dec 2011
(2002 Scheme +3%)				
June 2002	4,585,112	–	350p	June 2005 – June 2012
November 2002	575,115	–	353p	Nov 2005 – Nov 2012
January 2003	242,424	–	297p	Jan 2006 – Jan 2013
March 2003	282,678	–	306p	Mar 2006 – Mar 2013
March 2003	111,486	–	296p	Mar 2006 – Mar 2013
(2002 Scheme +4%)				
June 2002	3,900,988	–	350p	June 2005 – June 2012
November 2002	338,142	–	353p	Nov 2005 – Nov 2012
January 2003	222,222	–	297p	Jan 2006 – Jan 2013
March 2003	272,875	–	306p	Mar 2006 – Mar 2013
March 2003	101,351	–	296p	Mar 2006 – Mar 2013

G Executive Share Matching Plan

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

The pre-tax value of the invested bonus will be matched by an award of shares, with the extent of the match determined by performance conditions over a three year period. Further details of the plan are given in the Remuneration Report on page 14. £0.5m (last year Enil) has been charged against profits for this year.

11. Pension costs**A SSAP 24 disclosure**

The total pension cost for the Group was £144.8m (last year £147.9m) of which £135.7m (last year £138.5m) relates to the UK defined benefit pension scheme.

The latest full actuarial valuation of the UK defined benefit pension scheme was carried out at 1 April 2001 by an independent actuary using the projected unit method. The key assumptions adopted were:

	%
Inflation rate	2.5
Rate of increase in pensions in payment	2.5
Rate of increase in salaries	4.0
Discount rate and rate of return on investments	6.0

This actuarial valuation revealed a shortfall of £134m in the market value of the assets of the UK Scheme of £3,102m compared to the actuarial liability for pension benefits. This represents a funding level of 96%.

The shortfall of £134m together with the unamortised accounting deficit relating to prior periods gives a total unamortised deficit of £177m. This is being amortised in accordance with SSAP 24 over a period of 12 years from 1 April 2001, being the remaining estimated service lives of the current Scheme members.

The total UK pension cost under the defined benefit pension scheme is analysed as follows:

	2003 £m	2002 £m
Normal pension cost ¹	114.9	116.1
Amortisation of deficit	14.8	14.8
Net interest elements	6.0	7.6
Total	135.7	138.5

¹At standard contribution rate of 19.7% (last year 19.7%).

As shown in note 15, the Group has prepaid pension costs of £161.0m in relation to the UK scheme. This includes the partial funding of the deficit, offset by the amortisation and interest elements shown above, with the balance being prepaid contributions to the UK scheme.

Notes to the financial statements

11. Pension costs continued

B FRS 17 disclosure

Financial Reporting Standard 17 (FRS 17) 'Retirement benefits' was issued in November 2000 to replace SSAP 24 'Accounting for pension costs' and will be fully mandatory for the Group for the year ending 31 March 2006. This year the Group has continued to account for pension costs under SSAP 24 as shown on page 37, although in accordance with the FRS 17 transitional arrangements, certain additional disclosures are required as shown below.

(a) The major assumptions used by the independent qualified actuaries in updating the most recent valuations of the UK and Republic of Ireland defined benefit pension schemes to 29 March 2003 for FRS 17 purposes were:

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

(b) On full compliance with FRS 17, on the basis of the above assumptions, the amounts that would have been charged to the consolidated profit and loss account and consolidated statement of total recognised gains and losses for the year ended 29 March 2003 are set out below:

	2003 £m
Operating profit	
Current service costs	124
Finance income	
Expected return on scheme assets	231
Interest on scheme liabilities	(204)
Net credit to finance income	27
Total charge	97
Consolidated statement of total recognised gains and (losses)	
Actual return less expected return on scheme assets	(713)
Experience gains and losses arising on scheme liabilities	16
Changes in assumptions underlying the present value of scheme liabilities	(196)
Actuarial loss recognisable in consolidated statement of total recognised gains and losses	(893)

(c) The assets in the UK and Republic of Ireland defined benefit pension schemes and the expected long-term rates of return as at 29 March 2003 were:

	Expected long-term rate of return p.a.		2003 £m	Value 2002 £m
	2003 %	2002 %		
UK equities	8.7	7.9	766	1,156
Overseas equities	9.0	8.3	785	992
Government bonds	4.6	5.3	499	301
Corporate bonds (Triple B or above)	5.5	5.9	560	770
Other	4.0	4.6	145	9
Total market value of assets	7.3	7.3	2,755	3,228
Present value of scheme liabilities			(3,883)	(3,498)
Pension scheme deficit before adjustment for prepayment			(1,128)	(270)
Prepaid pension costs included in assets noted above			(120)	(119)
Pension scheme deficit			(1,248)	(389)
Unfunded pension plans			(4)	(5)
Post-retirement healthcare			(24)	(25)
Total post-retirement liabilities			(1,276)	(419)
Less: Related deferred tax asset			383	126
Net post-retirement liability			(893)	(293)

11. Pension costs continued

(d) The Group financial statements already reflect a number of liabilities and assets relating to the retirement benefit schemes which give rise to the net post-retirement liabilities of £893m (last year £293m). If FRS 17 had been adopted in the financial statements, the net effect of this change on shareholders' funds would be as follows:

	2003 £m	2002 £m
Net post-retirement liability	(893)	(293)
Amounts currently recognised in:		
Debtors – prepayments and accrued income	(41)	(50)
Provisions for liabilities and charges		
– unfunded pension plans	4	5
– post-retirement healthcare	24	25
– deferred tax	4	6
Effect on shareholders' funds	(902)	(307)

The Group's net assets at 29 March 2003 would be as follows:

	2003 £m	2002 £m
Net assets, excluding post-retirement liability	3,038	3,081
Effect on shareholders' funds (above)	(902)	(307)
Net assets, including post-retirement liability	2,136	2,774

(e) Movements in liability during year:

	2003 £m
Post-retirement liability at beginning of year	(419)
Current service cost	(124)
Cash contribution	133
Other finance income	27
Actuarial loss	(893)
Post-retirement liability at end of year	(1,276)

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

	2003 £m	2003 %
Actual return less expected return on scheme assets:		
Amount	(713)	
% of scheme assets at end of year		27.1
Experience gains and losses arising on scheme liabilities:		
Amount	16	
% of scheme liabilities at end of year		0.4
Total amount recognised in statement of total recognised gains and losses:		
Amount	(893)	
% of scheme liabilities at end of year		23.0

12. Directors**A Emoluments**

Emoluments of directors of the Company are summarised below. Further details are given in the Remuneration Report on pages 13 to 20.

	2003 £000	2002 £000
Aggregate emoluments	6,838	5,987
Termination payments	451	398

B Transactions with directors

During the year, transactions entered into by Marks and Spencer Financial Services p.l.c. with directors and connected persons resulted in the following outstanding balances on their combined credit and loyalty cards as at 29 March 2003:

	2003 Total balances £	2002 Total balances £
	No. of persons	No. of persons
	5	–
	11,888	–

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

Notes to the financial statements

13. Tangible fixed assets

A Tangible fixed assets

				Group
	Land & buildings £m	Fixtures, fittings & equipment £m	Assets in the course of construction £m	Total £m
Cost or valuation				
At 31 March 2002	2,280.6	2,746.1	27.0	5,053.7
Additions	13.2	259.4	38.4	311.0
Transfers	4.0	22.7	(26.7)	–
Revaluation deficit	(0.8)	–	–	(0.8)
Disposals	(36.9)	(57.3)	–	(94.2)
Differences on exchange	5.8	(4.7)	(0.2)	0.9
At 29 March 2003	2,265.9	2,966.2	38.5	5,270.6
Accumulated depreciation				
At 31 March 2002	113.7	1,558.8	–	1,672.5
Depreciation for the year	12.1	222.8	–	234.9
Disposals	(8.6)	(56.2)	–	(64.8)
Release of provision for loss on disposal	–	(4.5)	–	(4.5)
Differences on exchange	0.3	(2.9)	–	(2.6)
At 29 March 2003	117.5	1,718.0	–	1,835.5
Net book value				
At 29 March 2003	2,148.4	1,248.2	38.5	3,435.1
At 30 March 2002	2,166.9	1,187.3	27.0	3,381.2

Analysis of land & buildings

				Group
	Freehold £m	Long leasehold £m	Short leasehold £m	Total £m
At valuation	598.5	403.7	12.2	1,014.4
At cost	719.2	449.4	82.9	1,251.5
	1,317.7	853.1	95.1	2,265.9
Accumulated depreciation	(31.6)	(18.4)	(67.5)	(117.5)
Net book value				
At 29 March 2003	1,286.1	834.7	27.6	2,148.4
At 30 March 2002	1,291.9	848.7	26.3	2,166.9

B Investment properties

Freehold land and buildings include investment properties as follows:

	Group £m
Cost or valuation	
At 30 March 2002	31.3
Revaluation deficit	(0.8)
At 29 March 2003	30.5

The properties were valued as at 29 March 2003, by qualified professional valuers working for the company of DTZ Debenham Tie Leung, Chartered Surveyors, acting in the capacity of External Valuers. All such valuers are Chartered Surveyors, being members of the Royal Institution of Chartered Surveyors.

The properties were valued on the basis of open market value at an aggregate value of £30.5m. All valuations were carried out in accordance with the RICS Appraisal and Valuation Manual.

13. Tangible fixed assets continued**C Tangible fixed assets at cost**

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

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

	2003 £m	2002 £m
At valuation at 31 March 1975 ¹	228.7	228.7
At cost	1,368.6	1,383.3
	1,597.3	1,612.0
Accumulated depreciation	(146.0)	(133.7)
Closing net book value	1,451.3	1,478.3

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

14. Fixed asset investments**A Investments**

	Joint venture ^{1,2} £m	Other investments ³ £m	Own shares ⁴ £m	Group Total £m
Cost				
At 31 March 2002	20.7	34.8	1.4	56.9
Additions	–	0.7	2.2	2.9
Disposals	(10.2)	(5.8)	(1.4)	(17.4)
Share of joint venture's losses	(1.7)	–	–	(1.7)
Differences on exchange	–	(0.6)	–	(0.6)
At 29 March 2003	8.8	29.1	2.2	40.1
Accumulated provision and amortisation				
At 31 March 2002	–	6.6	–	6.6
Amortisation	–	–	0.4	0.4
Provision for impairment	–	1.0	–	1.0
Differences on exchange	–	0.6	–	0.6
At 29 March 2003	–	8.2	0.4	8.6
Net book value				
At 29 March 2003	8.8	20.9	1.8	31.5
At 30 March 2002	20.7	28.2	1.4	50.3

¹The joint venture represents a 50% interest in Hedge End Park Ltd, a property investment company. The partner in the joint venture is J Sainsbury plc.

²The Group's investment in the joint venture includes £nil (last year £2.2m) of loans and accumulated reserves of £2.7m (last year £12.4m).

³Investments include listed securities held by a subsidiary. The difference between their book value and market value is negligible.

⁴Own shares represent 705,237 of shares held in employee trusts. The shares held in the QUEST have now been issued to employees; there were no shares held in the QUEST at 29 March 2003.

	Company Shares in group undertakings £m
At 29 March 2003	7,643.2
At 30 March 2002	7,643.2

Shares in group undertakings represents the Company's investment in Marks and Spencer p.l.c.

Notes to the financial statements

14. Fixed asset investments continued

B Principal subsidiary undertakings

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

	Principal activity	Country of incorporation and operation	Proportion of voting rights and shares held by:	
			Company	A subsidiary
Marks and Spencer p.l.c.	Retailing	Great Britain	100%	–
Marks and Spencer International Holdings Limited	Holding Company	Great Britain	–	100%
Marks and Spencer (Nederland) BV	Holding Company	The Netherlands	–	100%
Marks & Spencer Finance Inc	Holding Company	United States	–	100%
Marks and Spencer Ventures Limited	Holding Company	Great Britain	–	100%
Marks and Spencer (Ireland) Limited	Retailing	Republic of Ireland	–	100%
Kings Super Markets Inc	Retailing	United States	–	100%
Marks and Spencer (Asia Pacific) Limited	Retailing	Hong Kong	–	100%
M&S Card Services Limited	Credit Card Handling	Great Britain	–	100%
Marks and Spencer Retail Financial Services Holdings Limited	Holding Company	Great Britain	–	100%
Marks and Spencer Financial Services p.l.c.	Financial Services	Great Britain	–	100%
Marks and Spencer Unit Trust Management Limited	Financial Services	Great Britain	–	100%
Marks and Spencer Savings and Investments Limited	Financial Services	Great Britain	–	100%
Marks and Spencer Life Assurance Limited	Financial Services	Great Britain	–	100%
MS Insurance Limited	Financial Services	Guernsey	–	100%
St Michael Finance p.l.c.	Finance	Great Britain	–	100%
Marks and Spencer Finance p.l.c.	Finance	Great Britain	–	100%
Marks and Spencer Property Holdings Limited	Property Investment	Great Britain	–	100%
Amethyst Leasing (Properties) Limited	Finance	Great Britain	–	100%
Amethyst Finance p.l.c.	Finance	Great Britain	–	– ¹
The Zip Project Limited	Procurement	Great Britain	–	75%

¹Amethyst Finance p.l.c. is a wholly owned subsidiary of a non-group company but has been consolidated in these accounts as a quasi-subsiary in accordance with FRS 5. The quasi-subsiary has net assets of Enil (last year Enil), the material balances being securitised loan notes of £328.7m (last year £331.0m) offset by an inter-company group receivable.

15. Debtors

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
A Amounts receivable within one year				
Trade debtors	32.1	21.9	–	–
Customer advances	534.3	579.9	–	–
Amounts owed by Group undertakings	–	–	247.7	133.9
Other debtors ¹	110.7	118.1	0.1	0.3
Prepayments and accrued income ²	230.8	232.2	–	–
	907.9	952.1	247.8	134.2
B Amounts receivable after more than one year³				
Customer advances	1,481.6	1,603.1	–	–
Other debtors ¹	15.7	23.2	–	–
Prepayments and accrued income ²	50.2	40.9	–	–
	1,547.5	1,667.2	–	–

¹Other debtors include an interest-free loan to an officer of the Company of £16,944 (last year £28,279).

²Prepayments and accrued income include £161.0m (last year £169.4m) in respect of the UK pension scheme. Of this, £49.4m (last year £40.1m) is included in amounts receivable after more than one year.

³Amounts receivable after more than one year include £52.4m (last year £52.8m) of non-financial assets which have been excluded from the analysis in note 18.

16. Current asset investments

	2003 £m	Group 2002 £m
Listed investments:		
Government securities	131.4	121.9
Listed in the United Kingdom	108.5	87.7
Listed overseas	59.5	57.0
Unlisted investments	4.6	6.1
	304.0	272.7

17. Cash at bank and in hand

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

18. Analysis of financial assets

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

A Interest rate and currency analysis

Currency	2003				Group 2002			
	Fixed rate £m	Floating rate £m	Non-interest bearing £m	Total £m	Fixed rate £m	Floating rate £m	Non-interest bearing £m	Total £m
Sterling	144.4	1,641.2	53.8	1,839.4	115.4	2,016.2	130.6	2,262.2
US dollar	6.2	18.0	0.4	24.6	7.5	29.7	2.0	39.2
Euro	27.6	30.3	11.5	69.4	27.1	12.1	12.3	51.5
Other	19.5	34.4	0.6	54.5	14.4	92.1	0.7	107.2
	197.7	1,723.9	66.3	1,987.9	164.4	2,150.1	145.6	2,460.1

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

B Analysis of fixed interest rate

Currency	2003	2002	2003	Group
	Weighted average interest rate %	Weighted average interest rate %	Weighted average period for which rate is fixed Years	2002 Weighted average period for which rate is fixed Years
Sterling	5.6	6.0	10.1	9.0
US dollar	3.8	6.0	9.5	11.1
Euro	4.8	5.1	8.9	13.6
Other	2.6	3.8	6.6	11.3

C Analysis of financial assets

	2003 £m	Group 2002 £m
Cash at bank and in hand	167.9	543.4
Current asset investments	304.0	272.7
Customer advances falling due in more than one year	1,481.6	1,603.1
Fixed asset investments	20.9	29.6
Other amounts receivable after more than one year	13.5	11.3
Financial assets as defined by FRS 13	1,987.9	2,460.1
Customer advances falling due in less than one year	534.3	579.9
Financial assets including short-term customer advances	2,522.2	3,040.0

Notes to the financial statements

19. Creditors: amounts falling due within one year

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Bank loans, overdrafts and commercial paper	150.2	265.4	-	-
Medium term notes (see note 21B)	443.9	382.7	-	-
Securitised loan notes	2.5	2.3	-	-
Trade creditors	201.6	199.6	-	-
Amounts owed to Group undertakings	-	-	2,099.0	1,724.4
Taxation	96.9	115.9	-	-
Social security and other taxes	30.5	31.7	-	-
Other creditors ¹	367.1	340.9	0.4	-
Accruals and deferred income	238.8	278.6	-	-
Proposed final dividend	147.4	133.7	147.4	133.7
	1,678.9	1,750.8	2,246.8	1,858.1

¹Other creditors include £31.7m (last year £27.3m) which is shown in the calculation of the Group's net debt and is treated as financing within the cash flow statement.

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

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Medium term notes (see note 21B)	1,310.9	1,679.9	-	-
Securitised loan notes	315.7	317.1	-	-
Other creditors ^{1,2}	183.4	159.3	-	-
	1,810.0	2,156.3	-	-

¹Other creditors include £48.4m (last year £48.4m) which is shown in the calculation of the Group's net debt and is treated as financing within the cash flow statement.

²Other creditors include £132.6m (last year £109.7m) of non-financial liabilities which have been excluded from the analysis in note 21.

21. Analysis of financial liabilities

A Interest rate and currency analysis

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

Currency	2003			Group 2002		
	Fixed rate £m	Floating rate £m	Total £m	Fixed rate £m	Floating rate £m	Total £m
Sterling ¹	780.9	1,633.3	2,414.2	729.6	2,070.5	2,800.1
US dollar	-	9.5	9.5	-	199.2	199.2
Euro	-	0.2	0.2	0.3	-	0.3
Other	-	-	-	0.7	-	0.7
	780.9	1,643.0	2,423.9	730.6	2,269.7	3,000.3

¹Included within floating rate liabilities are £118.2m (last year £276.0m) of unredeemed B Shares.

The floating rate sterling and US dollar borrowings are linked to interest rates related to LIBOR. These rates are for periods ranging from one month to six months. The fixed rate sterling borrowings are at a weighted average rate of 6.2% (last year 6.4%) and the weighted average time for which the rate is fixed is 13.2 years (last year 15.2 years).

21. Analysis of financial liabilities continued

B Maturity of financial liabilities¹

	2003 £m	Group 2002 £m
Repayable within one year:		
Bank loans, overdrafts and commercial paper	150.2	265.4
Medium term notes	443.9	382.7
Securitised loan notes	2.5	2.3
B shares (see note 24)	118.2	276.0
Other creditors	31.7	27.3
	746.5	953.7
Repayable between one and two years:		
Medium term notes	26.6	393.7
Securitised loan notes	5.9	2.5
Other creditors	22.3	18.6
	54.8	414.8
Repayable between two and five years:		
Medium term notes	915.2	917.8
Securitised loan notes	11.4	9.4
Other creditors	24.3	28.0
	950.9	955.2
Repayable in five years or more:		
Medium term notes ²	369.1	368.4
Securitised loan notes ³	298.4	305.2
Other creditors	4.2	3.0
	671.7	676.6
	2,423.9	3,000.3

¹Financial liabilities include £2.4m (last year £1.2m) of other creditors which is excluded from the reconciliation of net debt in note 29.

²Relates to a fixed rate bond at a rate of 6.375% and is repayable in full on 7 November 2011.

³Relates to three separate bonds securitised against 45 of the Group's properties. Two are repayable in instalments. The gross amounts before finance costs are £57.7m and £131m respectively. The first is a floating rate bond which has been swapped into a fixed rate of 6.34%, amortised on a quarterly basis from 12 March 2002, with final payment due on 12 September 2015. The second is a floating rate bond which has been swapped into a fixed rate of 6.344%, amortised on a quarterly basis from 12 September 2015, with final payment due on 12 December 2026. The gross amount of the remaining bond is £140m before finance costs. It relates to a fixed rate bond at a rate of 6.282% and is repayable in full on 12 December 2026.

C Borrowing facilities

At 29 March 2003, the Group had an undrawn committed facility of £385.0m (last year £425.0m) linked to its commercial paper programme and subject to annual review. The Group also has a number of undrawn uncommitted facilities available to it. At 29 March 2003 these amounted to £402.2m (last year £376.8m).

22. Provisions for liabilities and charges

	Post-retirement health benefits ¹ £m	UK restructuring ² £m	Overseas restructuring ³ £m	Deferred tax ⁴ £m	Group Total £m
At 31 March 2002	25.3	20.1	52.0	106.4	203.8
Provided in the period	–	45.4	–	2.9	48.3
Utilised during the period	(1.9)	(11.5)	(12.4)	–	(25.8)
Credited to the profit and loss account	–	–	–	(4.0)	(4.0)
Increase due to unwinding of discount	1.6	–	–	–	1.6
Exchange differences	–	–	4.5	–	4.5
At 29 March 2003	25.0	54.0	44.1	105.3	228.4

¹The £25.0m provision for post-retirement health benefits represents the estimated value of the Group's subsidy of the Marks & Spencer Health Insurance Scheme, in so far as it relates to private medical benefits for retired employees and their dependants, for whom the Group meets the whole, or part, of the cost (see note 10C for further details).

²The provision for UK restructuring costs relates to the costs of restructuring the Group's UK operations. The majority of these costs are expected to be incurred during the next financial year with the exception of costs associated with the Early Retirement Plan which are anticipated to be incurred over the next seven years.

³The provision for Overseas restructuring costs primarily relates to further closure costs in respect of the discontinuation of the Group's operations in Continental Europe, the majority of which are expected to be incurred during the next financial year.

Notes to the financial statements

22. Provisions for liabilities and charges continued

⁴The deferred tax balance comprises the following:

	2003 £m	2002 £m
Accelerated capital allowances	67.1	69.0
Pension prepayment	48.4	50.8
Other short-term timing differences	(10.2)	(13.4)
	105.3	106.4

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

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

23. Financial instruments and risk management

A Fair values of financial instruments

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

Assets/(liabilities)	2003		Group 2002	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Customer advances falling due in more than one year	1,481.6	1,495.0	1,603.1	1,610.9
Current asset investments ¹	304.0	304.0	272.7	272.7
Fixed asset investments ²	20.9	20.9	29.6	29.6
Cash at bank and in hand ¹	167.9	167.9	543.4	543.4
Other financial assets due after more than one year	13.5	13.5	11.3	11.3
Borrowings due within one year ¹	(628.3)	(652.8)	(677.7)	(675.6)
B shares	(118.2)	(118.2)	(276.0)	(276.0)
Financial liabilities due after more than one year ¹	(1,677.4)	(1,763.2)	(2,046.6)	(2,081.1)
Cross currency swaps ³	-	90.1	-	24.5
Interest rate swaps ³	-	(24.9)	-	(7.6)
Forward foreign currency contracts ³	-	(8.0)	-	2.1
FTSE 100 put options ⁴	-	-	0.4	1.3

¹Current asset investments and cash at bank are predominantly short-term deposits placed with banks, financial institutions and on money markets, and investments in short-term securities. Borrowings are predominantly at floating rates. Therefore, these fair values closely approximate book values.

²Fixed asset investments comprise listed securities held by a subsidiary which are stated at market value.

³Interest rate, cross currency swaps and forward foreign currency contracts have been marked to market to produce a fair value figure.

⁴FTSE 100 put options provided no loss guarantees on certain Unit Trust offers. The options were on a fully matched basis and were not traded. They were marked to market to produce a fair value figure.

B Hedges of future transactions

Unrecognised gains and losses on instruments used for hedging and those recognised in the period ended 29 March 2003 are as follows:

	2003			2002		
	Gains £m	Losses £m	Net total £m	Gains £m	Losses £m	Net total £m
Unrecognised gains/(losses) on hedges at beginning of the period	66.5	(46.6)	19.9	55.9	(33.2)	22.7
(Gains)/losses arising in previous years recognised in the period	(13.7)	15.4	1.7	(6.2)	13.3	7.1
Gains/(losses) in previous years not recognised in the period	52.8	(31.2)	21.6	49.7	(19.9)	29.8
Gains/(losses) arising in the period	62.0	(26.4)	35.6	16.8	(26.7)	(9.9)
Unrecognised gains/(losses) on hedges at end of the period	114.8	(57.6)	57.2	66.5	(46.6)	19.9
Of which:						
Gains/(losses) expected to be recognised within one year	26.1	(12.7)	13.4	13.7	(15.6)	(1.9)
Gains/(losses) expected to be recognised after one year	88.7	(44.9)	43.8	52.8	(31.0)	21.8

23. Financial instruments and risk management continued

C Currency risk

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

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

24. Called up share capital

	2003 £m	2002 £m
Authorised:		
3,200,000,000 ordinary shares of 25p each	800.0	800.0
3,200,000,000 non-equity B shares of 70p each (last year 3,200,000,000)	2,240.0	2,240.0
Allotted, called up and fully paid:		
2,270,018,288 ordinary shares of 25p each (last year 2,306,951,943)	567.5	576.7
168,819,801 non-equity B shares of 70p each (last year 394,203,429)	118.2	276.0
	685.7	852.7

Issue of new shares:

7,960,946 ordinary shares having a nominal value of £2.0m were allotted during the year under the terms of the Company's share schemes which are described in note 10. The aggregate consideration received was £23.0m.

Of the 7,960,946 ordinary shares referred to above, 3,823,448 ordinary shares were subscribed for by the Marks and Spencer p.l.c. Qualifying Employee Share Ownership Trust (the 'QUEST') at market value of £11.9m. All of these shares were allocated to employees, including executive directors, in satisfaction of options exercised under the Marks and Spencer United Kingdom Employees' Save As You Earn Share Option Scheme. The Group provided £2.9m (last year received £2.5m) to the QUEST for this purpose. At 29 March 2003, no shares were held by the QUEST (see note 14).

Purchase of own shares:

During the period, 44,894,601 ordinary shares having a nominal value of £11.2m were purchased by the Group for an aggregate consideration of £141.7m. These shares were then cancelled and the nominal value of the shares transferred to the capital redemption reserve (see note 25).

Redemption of B shares:

During the period 225,383,628 B shares were redeemed at par at a total cost of £158.0m. The nominal value of £157.8m has been transferred to the capital redemption reserve (see note 25).

The holders of B shares are not entitled to receive notification of any general meeting of Marks and Spencer Group p.l.c., or to attend, speak or vote at any such meeting. B shares carry the right to a sub-LIBOR dividend paid on a semi-annual basis in priority to any dividend paid to the holders of ordinary shares. In the event of the winding up of Marks and Spencer Group p.l.c., the holders of B shares will be entitled to 70p in respect of each B share held, together with the relevant proportion of the dividend payable. The B shares may be redeemed at six monthly intervals. The next redemption date will be 25 September 2003. At any time after 19 March 2005, or earlier, when the total number of B shares remaining in issue becomes less than 25% of the total number of B shares originally issued, Marks and Spencer Group p.l.c. may, on giving notice in writing to the holders of the B shares, redeem all, but not some, of the B shares in issue on that date. The redemption shall be on the basis of 70p per share.

25. Shareholders' funds

	Share capital		Share premium account £m	Capital redemption reserve £m	Revaluation reserve £m	Other reserve £m	Profit and loss account £m	Group
	Ordinary shares £m	Non-equity B shares £m						Total £m
At 31 March 2002	576.7	276.0	2.8	1,717.9	387.3	(6,542.2)	6,662.4	3,080.9
Purchase of own shares	(11.2)	–	–	11.2	–	–	(141.7)	(141.7)
Redemption of B shares	–	(157.8)	–	157.8	–	–	(158.0)	(158.0)
Shares issued on exercise of share options	2.0	–	21.0	–	–	–	(2.9)	20.1
Revaluation of investment properties	–	–	–	–	(0.8)	–	–	(0.8)
Revaluation surplus realised on disposals	–	–	–	–	(4.1)	–	4.1	–
Revaluation element of depreciation charge	–	–	–	–	(1.4)	–	1.4	–
Share of joint venture's revaluation surplus realised on disposals	–	–	–	–	(10.4)	–	10.4	–
Exchange differences on foreign currency translation	–	–	–	–	–	–	3.4	3.4
Profit for the period	–	–	–	–	–	–	234.5	234.5
At 29 March 2003	567.5	118.2	23.8	1,886.9	370.6	(6,542.2)	6,613.6	3,038.4

Notes to the financial statements

25. Shareholders' funds continued

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

	Share capital		Share premium account £m	Capital redemption reserve £m	Profit and loss account £m	Company
	Ordinary shares £m	Non-equity B shares £m				Total £m
At 31 March 2002	576.7	276.0	2.8	1,717.9	3,345.9	5,919.3
Purchase of own shares	(11.2)	–	–	11.2	(141.7)	(141.7)
Redemption of B shares	–	(157.8)	–	157.8	(158.0)	(158.0)
Shares issued on exercise of share options	2.0	–	21.0	–	–	23.0
Profit for the period	–	–	–	–	1.6	1.6
At 29 March 2003	567.5	118.2	23.8	1,886.9	3,047.8	5,644.2

26. Reconciliation of movements in Group shareholders' funds

	Group	
	2003 £m	2002 £m
Profit attributable to shareholders	480.5	153.0
Dividends	(246.0)	(238.9)
	234.5	(85.9)
Other recognised gains and losses relating to the year	2.6	0.6
New share capital subscribed	23.0	8.9
Issue/redemption expenses	–	(9.3)
Amounts (deducted from)/added to profit and loss account reserve in respect of shares issued to the QUEST	(2.9)	2.5
Redemption of B shares	(158.0)	(1,717.9)
Purchase of own shares	(141.7)	(52.0)
Goodwill transferred to profit and loss account on sale/closure of businesses	–	368.2
Net reduction in shareholders' funds	(42.5)	(1,484.9)
Opening shareholders' funds	3,080.9	4,565.8
Closing shareholders' funds	3,038.4	3,080.9

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

	Group	
	2003 £m	2002 £m
Operating profit	717.9	643.8
Exceptional operating charges (see note 4A)	43.9	–
Operating profit before exceptional charges	761.8	643.8
Utilisation of provision against European trading losses	–	(42.5)
Depreciation	234.9	249.6
(Increase)/decrease in stocks	(37.5)	66.2
Decrease in customer advances	167.1	76.2
Decrease/(increase) in other debtors	9.6	(44.5)
Increase in creditors	52.1	174.9
Net cash inflow before exceptional items	1,188.0	1,123.7
Exceptional operating cash outflow (see note 28A)	(19.3)	(30.0)
Net cash inflow from operating activities	1,168.7	1,093.7

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

	Group	
	2003 £m	2002 £m
A Exceptional operating cash flows		
UK restructuring costs paid	(11.7)	(30.0)
Head office relocation	(7.6)	–
Exceptional operating cash outflow	(19.3)	(30.0)
B Management of liquid resources		
Increase in cash deposits treated as liquid resources	(14.6)	(16.3)
Net (purchase)/sale of government securities	(9.5)	19.6
Net purchase of listed investments	(24.3)	(36.8)
Net sale/(purchase) of unlisted investments	1.5	(0.3)
Net sale of unlisted investments on sale of business	–	4.7
Cash (outflow)/inflow from (increase)/decrease in liquid resources	(46.9)	(29.1)
C Financing		
Decrease in bank loans, overdrafts and commercial paper treated as financing	(125.1)	(268.6)
(Redemption)/issue of medium term notes	(308.4)	977.5
(Redemption)/issue of securitised loan notes	(2.3)	319.4
Increase in other creditors treated as financing	4.4	3.4
Debt financing as shown in analysis of net debt (see note 29)	(431.4)	1,031.7
Purchase of own shares	(141.7)	(52.0)
Redemption of B shares	(158.0)	(1,717.9)
Issue/redemption expenses	–	(9.3)
Shares issued under employees' share schemes	19.6	17.3
Net cash outflow from decrease in financing	(711.5)	(730.2)

29. Analysis of net debt

	At 31 March 2002 £m	Cash flow £m	Exchange and other movements £m	At 29 March 2003 £m
Net cash:				
Cash at bank and in hand (see note 18C)	543.4	(379.3)	3.8	167.9
Less: deposits treated as liquid resources (see below)	(41.3)	(14.6)	(0.2)	(56.1)
	502.1	(393.9)	3.6	111.8
Bank loans, overdrafts and commercial paper (see note 21B)	(265.4)	114.8	0.4	(150.2)
Less: amounts treated as financing (see below)	203.0	(125.1)	–	77.9
	(62.4)	(10.3)	0.4	(72.3)
Net cash per cash flow statement	439.7	(404.2)	4.0	39.5
Liquid resources:				
Deposits included in cash (see above)	41.3	14.6	0.2	56.1
Current asset investments (see note 16)	272.7	32.3	(1.0)	304.0
Liquid resources per cash flow statement	314.0	46.9	(0.8)	360.1
Debt financing:				
Bank loans, overdrafts and commercial paper treated as financing (see above)	(203.0)	125.1	–	(77.9)
Medium term notes (see note 21B)	(2,062.6)	308.4	(0.6)	(1,754.8)
Securitised loan notes (see note 21B)	(319.4)	2.3	(1.1)	(318.2)
Other creditors (see note 21B)	(75.7)	(4.4)	–	(80.1)
Debt financing (see note 28C)	(2,660.7)	431.4	(1.7)	(2,231.0)
Net debt	(1,907.0)	74.1	1.5	(1,831.4)

Notes to the financial statements

30. Commitments and contingent liabilities

	2003 £m	Group 2002 £m
A Commitments in respect of properties in the course of development	75.8	19.3

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

C Other material contracts:

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

D Commitments under operating leases:

At 29 March 2003 the Group had annual commitments under operating leases as follows:

	2003		2002	
	Land & buildings £m	Other £m	Land & buildings £m	Other £m
Expiring within one year	3.5	0.7	5.2	0.6
Expiring in the second to fifth years inclusive	13.5	2.7	11.0	2.4
Expiring in more than five years	82.3	–	75.9	–
	99.3	3.4	92.1	3.0

31. Foreign exchange rates

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

	Sales average rate		Profit average rate		Balance sheet rate	
	2003	2002	2003	2002	2003	2002
Euro	1.56	1.62	1.56	1.63	1.46	1.63
US dollar	1.55	1.43	1.54	1.43	1.57	1.42
Hong Kong dollar	12.05	11.17	12.01	11.11	12.23	11.10

32. Related party transactions

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

Group financial record

	2003 £m 52 weeks	2002 £m 52 weeks	2001 £m 52 weeks	2000 £m 53 weeks	1999 £m 52 weeks
Profit and loss account¹					
Turnover:					
Continuing operations					
General	4,205.3	3,848.1	3,740.7	3,985.4	4,151.8
Foods	3,542.0	3,420.5	3,238.8	3,133.6	3,030.5
Retailing	7,747.3	7,268.6	6,979.5	7,119.0	7,182.3
Financial Services	329.9	350.8	363.1	364.6	348.6
Total continuing operations	8,077.2	7,619.4	7,342.6	7,483.6	7,530.9
Discontinued operations	–	516.0	733.1	711.9	693.1
Total turnover (excluding sales taxes)	8,077.2	8,135.4	8,075.7	8,195.5	8,224.0
Operating profit					
Continuing operations					
United Kingdom	674.4	589.4	404.6	472.7	565.1
Overseas	43.5	33.3	41.9	24.0	14.5
Excess interest charged to cost of sales of Financial Services	–	6.4	7.9	–	25.5
	717.9	629.1	454.4	496.7	605.1
Discontinued operations	–	14.7	(13.9)	(25.7)	(93.1)
Total operating profit	717.9	643.8	440.5	471.0	512.0
Analysed as:					
Before exceptional operating income	761.8	643.8	467.0	543.0	600.5
Exceptional operating charges	(43.9)	–	(26.5)	(72.0)	(88.5)
	631.5	538.5	350.2	380.8	468.9
Retailing					
Continuing	631.5	538.5	350.2	380.8	468.9
Discontinued	–	14.7	(13.9)	(25.7)	(93.1)
Financial Services	86.4	84.2	96.3	115.9	110.7
Excess interest charged to cost of sales of Financial Services	–	6.4	7.9	–	25.5
	–	–	(224.0)	–	–
Provision for loss on operations to be discontinued	(1.5)	(366.7)	(1.7)	(45.4)	–
Loss on closure of businesses	1.6	41.2	(83.2)	(22.3)	6.2
Profit/(loss) on disposal of property and other fixed assets	(40.5)	17.6	13.9	14.2	27.9
Net interest (expense)/income	677.5	335.9	145.5	417.5	546.1
Profit before taxation	677.5	335.9	145.5	417.5	546.1
Taxation on ordinary activities	(197.4)	(182.5)	(149.5)	(140.4)	(175.7)
Minority interests	0.4	(0.4)	(1.5)	(0.6)	2.1
Profit attributable to shareholders	480.5	153.0	(5.5)	276.5	372.5
Dividends	(246.0)	(238.9)	(258.3)	(258.6)	(413.3)
Profit/(loss) for the period	234.5	(85.9)	(263.8)	17.9	(40.8)
Balance sheet¹					
Intangible fixed assets	–	–	–	1.3	–
Tangible fixed assets	3,435.1	3,381.2	4,118.9	4,242.1	4,387.5
Fixed asset investments	31.5	50.3	58.3	55.0	61.2
Current assets	3,289.1	3,760.7	3,516.2	3,717.1	3,355.9
Total assets	6,755.7	7,192.2	7,693.4	8,015.5	7,804.6
Creditors due within one year	(1,678.9)	(1,750.8)	(1,981.6)	(2,162.8)	(2,029.8)
Total assets less current liabilities	5,076.8	5,441.4	5,711.8	5,852.7	5,774.8
Creditors due after more than one year	(1,810.0)	(2,156.3)	(735.1)	(804.3)	(772.6)
Provisions for liabilities and charges	(228.4)	(203.8)	(395.3)	(199.4)	(195.6)
Net assets	3,038.4	3,081.3	4,581.4	4,849.0	4,806.6

¹Restated for 2001 and prior years for the change in accounting policy for deferred taxation.

Group financial record

	2003 £m 52 weeks	2002 £m 52 weeks	2001 £m 52 weeks	2000 £m 53 weeks	1999 £m 52 weeks	
Cash flow						
Net cash inflow from operating activities	1,168.7	1,093.7	676.4	641.5	472.3	
Dividends received from joint venture	8.0	–	–	–	–	
Returns on investments and servicing of finance	(46.2)	36.8	12.6	15.2	29.0	
Taxation	(216.9)	(179.4)	(164.6)	(145.7)	(345.9)	
Capital expenditure and financial investment	(295.2)	176.0	(258.2)	(167.0)	(628.1)	
Acquisitions and disposals	(38.8)	261.6	5.9	(21.1)	1.0	
Equity dividends paid	(225.4)	(256.7)	(258.6)	(413.5)	(412.6)	
Cash inflow/(outflow) before management of liquid resources and financing	354.2	1,132.0	13.5	(90.6)	(884.3)	
Management of liquid resources	(46.9)	(29.1)	263.7	(162.5)	180.6	
Financing	(711.5)	(730.2)	(265.4)	260.3	505.0	
(Decrease)/increase in cash	(404.2)	372.7	11.8	7.2	(198.7)	
(Decrease)/increase in net debt defined by FRS 1	(75.6)	629.2	26.4	69.8	862.3	
Key performance measures						
Gross margin ^{1,2}	$\frac{\text{Gross profit}}{\text{Turnover}}$	36.4%	35.8%	34.3%	31.8%	31.1%
Net margin ^{1,2}	$\frac{\text{Operating profit}}{\text{Turnover}}$	8.9%	8.3%	6.2%	6.6%	8.0%
Net margin excluding exceptional items ^{1,3}		9.4%	8.3%	6.5%	7.5%	8.4%
Profitability ¹	$\frac{\text{Profit before tax}}{\text{Turnover}}$	8.4%	9.0%	5.2%	6.3%	8.6%
Profitability excluding exceptional items ¹		8.9%	8.5%	6.7%	7.3%	8.8%
Earnings per share ³ (Defined by FRS 14)	$\frac{\text{Standard earnings}}{\text{Weighted average ordinary shares in issue}}$	20.7p	5.4p	(0.2)p	9.6p	13.0p
Earnings per share adjusted for exceptional items		22.2p	16.3p	11.2p	13.8p	15.6p
Dividend per share		10.5p	9.5p	9.0p	9.0p	14.4p
Dividend cover ^{3,4}	$\frac{\text{Profit attributable to shareholders}}{\text{Dividends}}$	2.0x	2.2x	n/a	1.1x	0.9x
Return on equity ^{3,4}	$\frac{\text{Profit attributable to equity shareholders}}{\text{Average equity shareholders' funds}}$	16.5%	11.5%	(0.1)%	5.7%	7.8%
Retail gearing	$\frac{\text{Retail debt}}{\text{Retail debt+retail shareholders' funds}}$	24.3%	27.0%	n/a	n/a	n/a
Fixed charge cover	$\frac{\text{Operating profit before depreciation and rent payable}}{\text{Fixed charges}^5}$	7.6x	14.0x	10.9x	11.1x	19.8x
Capital expenditure		£311.0m	£290.5m	£255.7m	£450.6m	£683.1m

¹Based on results from continuing operations only.²Based on segmental results.³Restated for 2001 and prior years for the change in accounting policy for deferred taxation.⁴Stated before goodwill written off of £368.2m in 2002. Dividend cover and return on equity are 0.6 times and 3.4% respectively after writing off of goodwill.⁵Fixed charges are defined as interest and rent payable.

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