

YOUR M&S

This publication includes the Chairman's statement, 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 2 April 2005. Reviews of financial and operating performance are contained in a separate report entitled Annual review and summary financial statement 2005.

This publication, together with the Annual review and summary financial statement 2005, comprise the full Annual Report and Accounts of Marks and Spencer Group plc for 2005, prepared in accordance with the Companies Act 1985.

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Chairman's statement

PAUL MYNERS

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

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

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

The new executive team was charged by the Board with drawing up plans to improve business performance. Six weeks later, Stuart and his team laid these plans before institutional shareholders and analysts. Individual shareholders were given the same presentation at the Annual General Meeting two days later. It was on the strength of these plans that the Board rejected Revival Acquisitions' indicative offer of 400p a share, which we believe undervalued the Company.

We are refocusing the business on its core values, Quality, Value, Service, Innovation and Trust. We are confident that progress is being made, albeit against a more challenging retail environment.

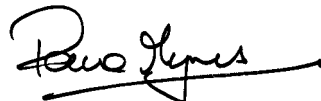
We also said we would acquire per una, dispose of M&S Money and return £2.3bn to shareholders by way of a Tender Offer. Together with the return in 2002, we have returned over £4bn to shareholders in the last four years. The Tender Offer strike price of 362p emerged close to the market price of the shares,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

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

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

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

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



Paul Myners, Chairman

Chief Executive's review

STUART ROSE

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

Last year, within a tough marketplace, we embarked on a programme of change to return the business to growth and to its traditional values, Quality, Value, Service, Innovation and Trust. We did so with a clear understanding that, while we needed to move fast, we also needed to do the right things for the medium to long term and that there were no quick fixes.

At the Operational Review on 12 July 2004, we stated that we would refocus the business in 2004/05, drive it in 2005/06 and, beyond that, broaden its horizons. We also highlighted the actions that needed to be taken to refocus and these have now been achieved.

In 2004/05, we reviewed all expenditure and put tight controls in place. Unacceptably high stock commitments were reduced by over 35% on the year. We are on course to deliver cost and margin savings and have a lower customer-focused capital spend. We simplified processes to make us more product and service driven, and removed over 650 roles from head office. We also focused on 10 strategic projects that will add most value.

We renegotiated supplier terms to reduce the cost of goods by £140m by the end of 2006/07, compared to 2003/04. Overall, we are on course to achieve cost and margin savings of £320m by the end of 2006/07.

Additionally, we closed Lifestore, acquired per una, returned £2.3bn to shareholders and sold M&S Money, our Financial Services business, to HSBC.

We reduced the Executive Board to a team of three. The business unit directors all now report directly to the Chief Executive and we have set up a stock planning function.

These actions have laid the foundations necessary to drive the business in 2005/06. We are focusing on product, service and store environment.

Group profit before tax and exceptional items, although supported by strong cost control, ended the year 19% lower at £618.5m on a 52 week basis. UK retail sales at £7.8bn (inc VAT) were 1.9% lower than last year.

Clothing sales fell 3.1% to £3.8bn, led by continued weakness in Womenswear, although per una performed strongly. All other product groups suffered. Food sales were £3.5bn, 2.4% higher in total and market share was broadly

maintained across the year, although sales dipped by 2.6% in like-for-like terms. Home had a year of transition as we closed Lifestore and refocused on value and our traditional areas of bedroom, bathroom, kitchen and dining. Sales were 21.4% lower at £0.4bn.

Our international operations performed strongly with operating profits up 47.1% at £65m (up 51.2% at constant exchange rates).

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

In Clothing, we have strengthened buying teams, reduced stock commitments and developed consistent working practices. We are establishing regional offices to better manage the supply chain. Prices are constantly monitored. We have reduced the total number of products by around 17% to create more real choice and increased the level of new product in store.

In Food, we have also focused on innovation, removed slow lines, simplified ranges, continued to open more Simply Food stores and begun to emphasise the quality and uniqueness of our food.

We have put our most experienced people in charge of improving standards and service in stores, and are putting more customer assistants on the sales floor. In addition, we simplified our return and refund policy, which remains the most generous on the High Street.

Last year, we de-cluttered stores and improved signage. We also reinforced the Marks & Spencer brand with the launch of the Your M&S campaign, reduced the number of sub-brands and tested a new store concept.

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



Stuart Rose, Chief Executive

Financial review

Group summary

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

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

	2005 52 weeks £m	2004 52 weeks £m	2004 53 weeks £m
Group turnover from continuing operations			
UK Retail	7,034.7	7,159.8	7,293.7
International Retail	675.6	665.0	677.8
Total	7,710.3	7,824.8	7,971.5

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

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

Financial review continued

UK Retail

	2005	2004
	52 weeks	52 weeks
Turnover (£m)	7,034.7	7,159.8
Operating profit (before exceptional items) (£m)	612.1	722.1
Number of stores (at the end of the year)	399	375
Selling space at the end of the year (m sq ft)	12.9	12.8

Turnover, including VAT, was down 1.9% on last year, down 5.1% on a like-for-like basis.

The performance of Clothing for the year as a whole was disappointing, with total Clothing sales down 3.1% on last year. Footfall and clothing volumes were up on the year, but Clothing market share declined by 0.5 percentage points to 10.5%.

Home had a year of transition, as we closed Lifestore and refocused on the traditional areas of bedroom, bathroom, kitchen and dining. Sales were 21.4% lower at £407.6m.

In Food, we continue to benefit from additional footage as we extend the reach of the Food offer. Food sales were up 2.4% on last year, down 2.6% on a like-for-like basis. We opened 31 Simply Food stores during the year, 13 in partnership with Compass. New Simply Food stores opening in 2005/06 will increase our food space by a further 3.3%. Like-for-like food deflation for the year was c.0.2%.

During the year, we renegotiated terms with suppliers across the business as a whole with the aim of reducing the cost of goods sold by £140m by 2006/07 when compared to 2003/04. During the year, however, higher markdowns resulted in a 1.5 percentage points decline in the Clothing and Home gross margin. The Food gross margin was maintained.

Logistics costs of £305.5m, which are included in cost of sales, were marginally below the same period last year benefiting from the full year effect of the changes to the general merchandise logistics operation introduced last year.

UK Retail operating costs of £1,843.1m, excluding exceptional charges, were broadly level on last year:

- employee costs increased by 1.1% to £922.4m as a result of new stores and the annual salary review, offset by a reduction in headcount;
- property, repair and renewal costs of £350.4m increased by 8.3% due to the occupancy costs associated with new footage and the move to a new head office;
- depreciation and amortisation was £242.9m, an increase of 6.9%, due to the effect on the charge of prior year additions, store modernisations, closures and amortisation of goodwill arising on the acquisition of per una; and
- other operating costs of £327.4m decreased by 13.2% as a result of actions taken during the year to reduce the cost of non-merchandise procurement together with savings in IT.

Including logistics costs, operating costs have decreased by 0.1% on last year.

International Retail

	2005	2004
	52 weeks	52 weeks
Turnover (£m)		
– Marks & Spencer branded businesses	455.8	426.2
– Kings Super Markets	219.8	238.8
	675.6	665.0
Operating profit (£m)		
– Marks & Spencer branded businesses	60.7	41.8
– Kings Super Markets	4.3	2.4
	65.0	44.2
Number of stores (at the end of the year)		
– Owned	45	43
– Franchise	191	155
Selling space at the end of the year (000 sq ft)		
– Owned	1,024	908
– Franchise	1,317	1,068

Turnover for the year in the Marks & Spencer branded businesses (Republic of Ireland, franchises and Hong Kong) increased by 6.9% (9.1% at constant exchange rates).

Operating profit for the Marks & Spencer branded businesses increased by 45.2% to £60.7m. In the Republic of Ireland, sales were ahead of last year and the performance of the new stores in Blanchardstown and Dundrum has been encouraging. Our franchisees have seen good like-for-like sales increases and are investing in new footage. Hong Kong had a strong year, however, in 2005/06 some of our leases will be surrendered to the landlord for development.

Sales at Kings Super Markets were broadly level over the period at constant exchange rates, compared with the same period last year. Operating profit at Kings over the period was £4.3m as a result of actions taken last year to improve financial performance.

Financial Services

The Financial Services business was sold to HSBC on 9 November 2004 for £768.6m and the results of the business up to the date of disposal have been included under the heading of discontinued operations.

The Group has also entered into an agreement with HSBC, whereby the Group will continue to share in the success of the Financial Services business. Under this agreement, the Group will receive income in the form of fees representing an amount equivalent to costs incurred, 50% of the profits of M&S Money (after a notional tax charge and after deducting agreed operating and capital costs) plus an amount relating to the growth in sales of financial services products. Fees received under this agreement since the date of disposal have been included within other operating income in UK Retail.

Exceptional items

The Group has recorded exceptional income of £126.8m in the year, as follows:

Exceptional items	2005	2004
	£m	£m
Operating exceptional items		
Head office relocation	8.8	19.6
Head office restructuring programme	6.3	22.5
Board restructure	8.4	–
Closure of Lifestore	29.3	–
Defence costs	38.6	–
	91.4	42.1
Non-operating exceptional items		
Loss/(profit) on sale of property and other fixed assets	0.4	(18.7)
Profit on disposal of Financial Services	(208.9)	–
Release of European closure provision	(9.7)	–
	(218.2)	(18.7)
Total exceptional (income)/charges	(126.8)	23.4

During the year, £8.8m of revenue costs were incurred in connection with the relocation of the head office and have been charged as exceptional operating costs. This relocation was completed at the end of October.

Financial review continued

We have also incurred a further £6.3m of costs in the year in connection with the implementation of the head office restructuring programme which was announced at the end of last year.

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

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

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

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

Interest

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

Taxation

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

Shareholder returns and dividends

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

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

Capital expenditure

Group capital additions for the year were £220m compared to £434m last year. The major components of the additions are analysed below:

	2005 £m	2004 £m
Capital expenditure		
New stores and extensions	88	118
Head office relocation	–	40
Store renewal, refurbishment and new selling initiatives	25	44
Refrigeration equipment	10	39
IT equipment	18	40
Logistics	16	95
Other	29	32
UK Retail capital expenditure	186	408
International Retail	33	20
M&S Money	1	6
Total Group capital expenditure	220	434

The decrease in capital expenditure in part reflects the one-off costs last year relating to the acquisition of warehouses, as part of the restructuring of the general merchandise logistics operation, and the relocation of the head office. It also reflects a reduction in capital expenditure on new and existing footage as we reviewed the performance of new formats to determine how to revitalise the portfolio in a cost effective way. Group capital expenditure for 2005/06 is expected to be £350m.

Balance sheet

	2005 Group £m	2004 Retail & Corporate £m
Fixed assets	3,447.5	3,493.4
Stocks	339.7	398.0
Trade and other debtors	218.2	202.9
Trade and other creditors	(830.4)	(895.7)
Provisions	(80.4)	(49.3)
Net debt	(2,099.0)	(823.7)
Net assets before net post-retirement liability	995.6	2,325.6
Net post-retirement liability	(474.2)	(469.5)
Net assets	521.4	1,856.1
Gearing % (including net post-retirement liability)	84.5%	44.7%

The Group balance sheet has changed significantly since the last year end following the disposal of the Financial Services business during the year. The commentary that follows, where relevant, compares the Group balance sheet at 2 April 2005 to the Retail and Corporate balance sheet at 3 April 2004, which excludes the balance sheet for the Financial Services businesses at that date.

Fixed assets decreased by £45.9m to £3,447.5m. Included within this are properties owned by the Group with a net book value of £2.1bn, of which £1.7bn was unencumbered, and goodwill of £122.4m relating to the acquisition of per una.

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

Stock at the end of the year was £339.7m, a decrease of £58.3m on the balance at the end of last year largely as a result of better controls over stock and commitment.

Provisions for liabilities and charges increased by £31.1m largely as a result of a £30m reduction in the deferred tax asset attributable to the £400m pension contribution last year. The net post-retirement liability remained broadly level with the previous year.

Shareholders' funds amounted to £521.4m, equivalent to 31.4p per share (last year 108.3p per share), a decrease of £1,932.6m in the year primarily due to the £2.3bn Tender Offer. If the recent property valuation is included, Group gearing would have been 61.8% and return on equity 22.0%.

Cash flow

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

	2005 £m	2004 £m
Cash flow analysis		
Operating cash flow from continuing operations	857.5	602.3
Operating cash flow from discontinued operations	717.9	64.2
Capital expenditure	(232.2)	(428.8)
Proceeds from asset disposals	117.8	126.2
Interest paid	(101.6)	(49.8)
Tax paid	(166.7)	(220.4)
Free cash flow	1,192.7	93.7

The Group generated an operating cash inflow for the year of £1,575.4m (last year cash inflow £666.5m). Within this, the cash inflow from continuing operations was £857.5m (last year £602.3m). A major factor in the increase in operating cash flow was the year-on-year net decrease in contributions paid to the UK defined benefit pension scheme, following the one-off injection of £400m in March 2004.

During the period, the Group acquired tangible fixed assets totalling £219.6m (last year £433.5m). After taking into account the timing of payments, the cash outflow for capital expenditure was £232.2m (last year £428.8m). During the year, the Group received £117.8m (last year £126.2m) from the sale of properties, including £115m from the sale of Michael House.

Financial review continued

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

Cash flow analysis	2005 £m	2004 £m
Opening net debt	(1,994.7)	(1,831.4)
Free cash flow	1,192.7	93.7
Equity dividends	(236.9)	(247.1)
Net sale of fixed asset investments	0.8	8.7
Acquisition of per una	(125.9)	–
Sale of Financial Services	1,316.7	–
Closure of Continental European operations	12.7	51.3
Issue of new shares under employee share schemes	68.4	24.8
Purchase of own shares	(2,300.0)	(54.4)
Tender Offer expenses	(14.9)	–
Net sale/(purchase) of own shares held by employee trusts	0.6	(3.6)
Redemption of B shares	(19.2)	(33.4)
Exchange movement	0.7	(3.3)
Closing net debt	(2,099.0)	(1,994.7)
Analysed between:	2005 £m	2004 £m
Continuing operations	(2,099.0)	(823.7)
Discontinued operations	–	(1,171.0)
Closing net debt	(2,099.0)	(1,994.7)

Transactions with shareholders (dividends paid, Tender Offer, redemption of B shares and the issue of new shares under employee share schemes) resulted in a net cash outflow of £2,502.6m (last year £310.1m).

At the end of the period, net debt was £2,099.0m, an increase of £104.3m, giving rise to retail gearing of 84.5% (last year 44.7%) including the net post-retirement liability.

Financing and capital structure

In August 2004, we signed two new banking facilities totalling £2bn, being a £1.2bn five-year term facility and an £800m bridging loan pending completion of the sale of Financial Services. Part utilisation of these facilities, together with existing resources and the resultant proceeds from the sale of Financial Services, were used to fund the return of £2.3bn to shareholders.

We currently have committed facilities of £1,260m available together with uncommitted bank facilities of £190m supporting our £1.5bn Commercial Paper programme.

Average interest rates on borrowings were higher during the year at 5.7% (last year 5.3%). Interest cover was 8.2 times and fixed charge cover was 4.1 times.

On 28 October, we purchased 635,359,116 ordinary shares, representing 27.9% of the issued share capital, for cancellation at a price of 362p per share and a total cost of £2.3bn.

On 27 September 2004 and 29 March 2005, 16,454,305 and 10,967,542 B shares respectively, were redeemed at par, at a total cost of £19.2m. Following this redemption, 93,822,916 B shares remain in issue. The next opportunity for redemption will be on 26 September 2005.

Treasury policy and financial risk management

The Board approves treasury policies and senior management directly control day-to-day operations. The Board delegates certain responsibilities to the treasury committee, comprising one executive director, one non-executive director, the Director of Corporate Finance, the Group Treasurer and the Director, Financial Services. 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, except where financial constraints necessitate the need to liquidate any outstanding investments. The main financial risks faced by the Group relate to interest rates, foreign exchange rates, liquidity and counterparty risks. The policies and strategies for managing these risks are summarised as follows:

(a) Interest rate risk

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

(b) Foreign currency risk

Currency exposure arising from exports from the UK to overseas subsidiaries is managed by using forward currency contracts, out to 15 months forward, to hedge between 80% and 100% of sales. Imports are primarily contracted in Sterling but, where relevant, imports arising in a currency other than Sterling are fully hedged using forward contracts. 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, medium-term note issuance and securitised loan notes. Commercial paper issuance and short-term borrowings are backed by committed bank facilities totalling £1,260m.

(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.

The details of derivatives and other financial instruments required by FRS 13 – 'Derivatives and Other Financial Instruments: Disclosures', are shown in notes 19, 22 and 24 to the financial statements.

Pensions

The Group provides pension arrangements for the benefit of employees through the Marks and Spencer UK Pension Scheme together with some specific arrangements for our overseas operations. The defined benefit section of the UK scheme was closed to new entrants with effect from 31 March 2002. At the year end it had some 35,000 active members, 56,000 deferred members and 36,000 pensioners. The market value of the assets of the UK defined benefit scheme was £3.9bn at 2 April 2005. Full details of these assets, together with the FRS 17 liabilities and the valuation assumptions made, are included in note 11 to the financial statements.

Following the last full actuarial valuation (which showed an actuarial deficit of £585m as at 31 March 2003), the Group paid additional contributions of £400m in March 2004 and agreed a Schedule of Contributions comprising annual service contributions at a level of 15.8% of pensionable salaries and nine annual payments of £33m, commencing 31 March 2007, to fund the remaining actuarial deficit.

During the year there have been ongoing discussions between the Group and the Trustees of the Marks and Spencer UK Pension Scheme with regard to the funding of the UK defined benefit scheme. These discussions have resulted in £115m of additional contributions being paid into the scheme during March and April 2005, of which £64m had been paid in before the year end and is reflected in the assets as at 2 April 2005. These amounts are in addition to the agreed Schedule of Contributions referred to above. They are designed to address the less favourable investment conditions experienced over the last couple of years and anticipate the next full actuarial valuation which is due as at 31 March 2006. The funding of the scheme will be reviewed again at that time and a new funding plan agreed.

The new defined contribution section of the UK scheme, the Marks and Spencer Retirement Plan, has been open to new members from 1 April 2003 and had some 4,000 active members at the year end. The contributions paid by the Group are charged in the accounting period to which they relate and details are set out in note 11 to the financial statements.

Financial review continued

International Financial Reporting Standards

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

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

Going concern statement

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

Corporate governance

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

The Board

On 23 May 2005 the Board comprised the Chairman, Chief Executive, one executive director and four non-executive directors, who are collectively responsible for the success of the Company. On 27 June 2005 our new Finance Director will join the Board. A list of directors, with details of their biographies and committee membership, is given on page 17 of the Annual Review.

Paul Myners is Chairman and he is responsible for the working of the Board, for the balance of its membership subject to Board and shareholder approval, and for ensuring that all directors are enabled to play their full part in its activities to deliver value to shareholders. He ensures effective communication with shareholders and makes sure that Board members develop an understanding of the views of major investors.

Stuart Rose is Chief Executive and he is responsible for all aspects of the management of the Group and its business, which includes developing the appropriate business strategy for Board approval and securing its timely and effective implementation. He ensures that, within the strategies agreed by the Board, appropriate objectives and policies are adopted for each of the businesses of the Company, that appropriate budgets are set for them individually, that their performance is effectively monitored and that guidance or direction is given where appropriate.

The Chairman ensures that the directors receive accurate, timely and clear information. Directors are encouraged to update their skills, knowledge and familiarity with the Group through their initial induction, ongoing participation at Board and committee meetings, and through meeting our people at store locations and elsewhere. Views of customers and shareholders are also shared through Board presentations and individual meetings. The Board is regularly updated on governance and regulatory matters. There is an established procedure whereby any director, wishing to do so in the furtherance of their duties, may take independent professional advice through the Group Secretary at the Company's expense. This has been extended to the audit, remuneration and nomination committees to take their own independent advice.

Kevin Lomax is Senior Independent Director and he provides a communication channel between the Chairman and the non-executive directors and to ensure that the views of each non-executive director are given due consideration. He is also an additional contact point for shareholders if they have reason for concern which contact through the normal channels of Chairman, Chief Executive or Finance Director has failed to resolve or for which contact is inappropriate. Brian Baldock was the Senior Independent Director until his retirement on 14 July 2004.

The non-executive directors provide a wide range of skills and experience to the Group. They bring an independent judgement on issues of strategy, performance, risk and people through their contribution at Board and committee meetings. The Board considers that throughout the year each non-executive director was independent in character and judgement and that they also met the independence criteria set out in the Code. The non-executive directors have ensured that they have sufficient time to carry out their duties. They are expected to serve two three-year terms, although the Board may invite them to serve an additional period. As a consequence of changes to the Board described in the Directors' report on page 27, less than half the Board were independent non-executive directors for the period from 31 May to 9 November 2004.

Graham Oakley, Group Secretary, acts as a sounding board to the Chairman and individual directors. He plays a key role for the Chairman in ensuring the effective functioning of the Board. He is secretary of the audit, remuneration and nomination committees. He also heads the Corporate Governance Group, which supports the Board and its committees and commercial colleagues on a wide range of issues.

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

The Board receives regular updates on performance against the annual operating plan and investment decisions, together with business reports and presentations from senior management. During 2004/05 we reviewed all expenditure and put tight controls in place. Stock commitments were reduced by over 35% year on year. We are on course to deliver cost and margin savings and have a lower customer-focused capital spend. We simplified processes to make us more product and service driven, and removed 650 roles from head office. We also focused on 10 strategic projects that will add most value.

We renegotiated supplier terms to reduce the cost of goods by £140m by the end of 2006/07 compared to 2003/04. Overall, we expect to achieve cost and margin savings of £320m by the end of 2006/07. Additionally, we closed Lifestore, acquired per una, returned £2.3bn to shareholders and sold M&S Money to HSBC.

We reduced the Executive Board to a team of three. The Business Unit Directors all now report directly to the Chief Executive and give regular presentations to the Board on strategies in their relevant areas of the business.

The Board delegates to management, through the Chief Executive, the overall performance of the Group which is conducted principally through the setting of clear objectives and effective performance coaching, building long-term management capability and ensuring that the business is managed in a fit and proper manner in keeping with its values and business principles.

Corporate governance continued

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

Committees of the Board

The **audit committee** comprises Kevin Lomax (chairman), Anthony Habgood, Steven Holliday and Jack Keenan, all of whom are independent, non-executive directors. Paul Myners was a member until he was appointed Company Chairman on 31 May 2004. Brian Baldock and Dame Stella Rimington were members until they retired on 14 July 2004. Anthony Habgood and Steven Holliday joined the committee on their appointment on 15 July 2004. Its primary function is to maintain the integrity of the financial statements and other information to shareholders, to review the systems of internal control and risk management; to maintain an appropriate relationship with the Company's external and internal auditors and to review the effectiveness and objectivity of the audit process. Additional items reviewed during the year include: international accounting standards, clothing stock and commitment controls, store assurance, business change, information security and cash controls. Private meetings have also been held separately with the external auditors and the Chief Internal Auditor. From 1 May 2005 Stuart Rose and Charles Wilson, supported by the Finance Group, will assume the responsibilities normally performed by a Finance Director until the appointment of Ian Dyson on 27 June 2005.

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

The Board is confident that the collective experience of the audit committee members enables them, as a group, to act as an effective audit committee. The committee also has access to the financial expertise of the Group and its auditors and can seek further professional advice at the Company's expense if required. Our search for a new non-executive director with recent and relevant financial experience to refresh the skills and experience of the committee as a whole continues, having been interrupted by the significant Board restructures in May and November 2004.

The **remuneration committee** comprises Jack Keenan (chairman), Anthony Habgood, Steven Holliday and Kevin Lomax, all of whom are independent, non-executive directors. Dame Stella Rimington was chairman until her retirement on 14 July 2004. Barbara Cassani and Brian Baldock were members until their retirement on 30 April and 14 July 2004 respectively. Kevin Lomax became a member on 15 July 2004. Its primary role is to recommend to the Board the remuneration strategy and framework,

giving due regard to the financial and commercial health of the company and to ensure the executive directors and senior management are fairly rewarded for their individual contributions to the Company's overall performance. The remuneration of the non-executive directors is determined by the Chairman and the executive directors.

The Remuneration Report is set out on pages 16 to 25 as required by the Directors' Remuneration Report Regulations 2002.

The **nomination committee** comprises Paul Myners (chairman), Anthony Habgood, Steven Holliday, Jack Keenan and Kevin Lomax, all of whom are independent non-executive directors, with the exception of the Chairman. Brian Baldock and Dame Stella Rimington were members until their retirement on 14 July 2004. Its role is to ensure that appropriate procedures are in place for the nomination, selection, training and evaluation of directors and for successional plans. It reviews Board structure, size, composition and successional needs, thereby keeping under review the balance of membership and the required blend of skills, knowledge and experience of the Board.

Paul Myners was appointed as Chairman in May 2004 on an interim basis until a permanent appointment is made, having been appointed to the Board in April 2002 as an independent non-executive director. He subsequently made more time available so that he could continue in the role while the search for a permanent Chairman continued. He is chairman of Aspen Insurance Holdings Ltd and of Guardian Media Group plc. He is a non-executive director of the Bank of New York and will join the Court of Directors of the Bank of England on 1 June 2005. In 2004 he retired as a non-executive director of mmO₂ and as a trustee of the Charities Aid Foundation.

Also in May 2004, Stuart Rose was appointed as Chief Executive and Charles Wilson as executive director, both with considerable experience in retail and turnaround situations. During the year further candidate searches resulted in two non-executives being appointed to the Board in July 2004 and a Finance Director to be appointed in June 2005, all recruited externally. In all cases appointments were made on merit and against objective criteria to ensure that the Board maintains an appropriate balance of skills and experience.

Kevin Lomax, an independent non-executive director, has led the search for a new Chairman on behalf of the nomination committee. The committee has also commissioned searches for new non-executive directors to address successional arrangements and broaden the skills, experience and diversity of the Board.

In May 2005 we announced that Lord Burns will be joining the Board as Deputy Chairman with effect from 1 October 2005 and will become Chairman from the Annual General Meeting in July 2006. Paul Myners will then step aside from the Board as, under the Combined Code principles, the Board will not be able to consider him as an independent director.

The **corporate social responsibility ("CSR") committee** comprises Paul Myners (chairman), Jack Keenan, Graham Oakley and seven members of management. Mark McKeon and Alison Reed were members until their retirement on 9 November 2004 and 30 April 2005 respectively. It provides the Board with an overview of the social, environmental and ethical impacts of the Group's activities. Key CSR risks and opportunities are identified in

areas such as product safety, sustainable raw materials, animal welfare, ethical trading, employment policy, health and safety and community programmes. We are pleased that we continue to gain recognition for our CSR performance, including being named as Business in the Community's (BitC) 2004 Company of the Year. Further information is given on page 16 of the Annual Review and our CSR report is available on the Company's website.

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

	Group Board	Audit Committee	Remuneration Committee	Nomination Committee	CSR Committee
Meetings held during the year¹	15	4	9	10	2
Paul Myners, Chairman ²	15	2	–	10	2
Stuart Rose, Chief Executive (appointed 31 May 2004)	12	–	–	–	–
Executive directors					
Maurice Helfgott (retired 9 November 2004)	10	–	–	–	–
Mark McKeon (appointed 5 April 2004; retired 9 November 2004)	10	–	–	–	1
Laurel Powers-Freeling (retired 9 November 2004)	10	–	–	–	–
Vittorio Radice (retired 11 June 2004)	4	–	–	–	–
Alison Reed (retired 30 April 2005)	15	–	–	–	2
Charles Wilson (appointed 31 May 2004)	12	–	–	–	–
Non-executive directors					
Brian Baldock (retired 14 July 2004)	8	2	4	4	–
Anthony Habgood (appointed 15 July 2004)	5	1	5	5	–
Steven Holliday (appointed 15 July 2004)	5	1	5	5	–
Jack Keenan	15	4	9	8	2
Kevin Lomax ³	13	4	5	9	–
Dame Stella Rimington (retired 14 July 2004)	8	2	4	4	–

¹These figures include a number of meetings held by the Board and its remuneration and nomination committees at short notice to deal with potential bid activity and senior management changes throughout the year. Members of the Board and respective committees attended the majority of these meetings in person or by telephone. Occasionally the short notice of such meetings prevented attendance when other fixed commitments had been made.

²Paul Myners retired from the Audit Committee on his appointment as Chairman on 31 May 2004.

³Kevin Lomax was appointed to the Remuneration Committee on 15 July 2004.

Luc Vandevelde attended the two Board meetings and one Nomination Committee, and Roger Holmes attended the two Board meetings, held before they both retired from the Board on 31 May 2004. Barbara Cassani retired on 30 April 2004 and did not attend any of the above meetings. Ian Dyson is being appointed to the Board on 27 June 2005. Lord Burns is being appointed to the Board on 1 October 2005.

Performance evaluation

Collective performance: Board and Committees

The nomination committee, through the Chairman, agreed our approach to reviewing the collective performance of the Board and its committees, together with individual contributions, through a combination of questionnaire and individual feedback.

The Chairman issued a detailed questionnaire to all directors in March 2005 with specific questions grouped into areas headed 'processes', 'roles and responsibilities' and 'committee and individual contributions'. Appreciating that time together as a new Board was relatively short and that the reconstitution of the Board was not yet complete, it was still felt that a rigorous review would be valuable. Directors were invited to focus specifically on areas requiring priority action and to give honest and constructive suggestions/comments so that the Board could review its performance in a thorough and thoughtful manner.

The process was extended further this year to include external advice and support together with individual discussions with the Head of Senior Succession and Board Performance allowing greater opportunity to explore issues on an individual basis. An executive summary focusing on the key themes that emerge will be distributed to directors. The Chairman will lead a Board discussion based on the results of the evaluation and use the process to improve constructively the effectiveness of the Board by maximising the strengths and tackling any issues of concern.

Individual performance

The executive directors continue to have their performance individually reviewed by the Chief Executive against set objectives. Remuneration and bonus is directly linked to these reviews and determined by the remuneration committee. Similarly, the Chief Executive and Group Secretary's performance is reviewed by the Chairman. The performance of the non-executive directors is reviewed individually by the Chairman and that of the Chairman by the non-executive directors led by the Senior Independent Director. This year's questionnaire also allowed each director to comment on the individual performance of themselves, other directors and the Chairman.

Corporate governance continued

Accountability and audit

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

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

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

Risk assessment

Every six months the Board reviews the Group Risk Profile – the tool that drives risk assessment and action planning. This is supported by an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. As an integral part of planning and review, managers from each business area and major projects identify the risks to their plans, the probability of those risks occurring, the impact if they do occur and the actions being taken to manage those risks to the agreed boundaries for risk taking. This information is communicated upwards on a filter basis, culminating in a comparison with the executive directors' assessment of the Group's risks and discussion by the Board.

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

Internal control

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

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

Plans and policies

- communication of the Group's strategy, objectives and targets;
- annual operating and capital plans and future projections;
- operating policies and procedures;
- clearly defined capital investment control guidelines;
- review of treasury policies by the treasury committee; and
- review of social, environmental and ethical matters by the corporate social responsibility committee.

Competent people

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

Monitor and control

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

Regulatory update

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

Assurance

On behalf of the Board, the audit committee examines the effectiveness of the Group's:

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

Any significant findings or identified risks are closely examined so that appropriate action can be taken. Management is called upon to present action plans and give representation. The audit committee has completed its review of the effectiveness of the Group's systems of internal control during the year.

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

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

Relations with shareholders

We are committed to ongoing engagement with shareholders and have a well established cycle of communication based on the Group's financial reporting calendar. At times of rapid change it is even more important to keep all investors properly informed. We promote the use of electronic communication and relaunched our corporate website in May 2005. All Company announcements and presentations are made available simultaneously on our website, which also contains corporate and customer information updated on a regular basis. There is a corporate governance section which includes our full response to the Code and terms of reference for the principal Board committees. Our registrars have also developed www.shareview.co.uk – an electronic service where

shareholders can check their shareholding, update their personal details and elect to receive communications electronically, rather than through the post.

Our Investor Relations department is the focal point for contact with institutional investors and maintains regular dialogue throughout the year. The Chairman ensures that the Board is regularly updated on the views of our major shareholders, following meetings they have with him, the Chief Executive, the Finance Director or Investor Relations. In June the Board receives a presentation from external advisers summarising the opinions of our principal shareholders following an extensive survey on their views after the release of our fourth quarter trading statement in April.

We regard the Annual General Meeting as an important forum for us to engage with shareholders, particularly our private shareholders, and it is very well attended. The business presentations from the Chairman and Chief Executive are made available on our website, together with the questions and answers raised at the meeting.

The Board has taken the following steps to encourage increased shareholder voting and improve the integrity and effectiveness of the voting process:

- campaigned 'your vote counts' and encouraged the greater use of electronic voting;
- invited three-way voting on Annual General Meeting resolutions: 'for', 'against' and 'vote withheld'; and
- conducted the vote at the Annual General Meeting by poll rather than by show of hands.

The results of our voting are declared at the meeting, announced to the London Stock Exchange and published on our website. In July 2004 all Annual General Meeting resolutions were passed on a poll conducted electronically. Approximately 40% of the ordinary share capital was voted with 'for' resolutions ranging from 89.23% to 99.98%.

At this year's Annual General Meeting, in addition to routine resolutions, shareholders will be asked to vote on:

- separate resolutions relating to the Company's auditors, PricewaterhouseCoopers LLP. The first relates to their re-appointment and the second seeks authority for the audit committee to determine the remuneration of the auditors on behalf of the Board;
- amendments to the Company's Articles of Association to authorise the Company to indemnify directors and fund legal defence costs as now permitted by the Companies (Audit, Investigations and Community Enterprise) Act 2004;
- the introduction of a new Performance Share Plan and Executive Share Option Plan following a review by the remuneration committee to put in place an effective incentive structure to focus senior executives on driving the Company's recovery whilst taking account of investor views and market practice; and
- the appointment of Lord Burns as a director with effect from 1 October 2005.

At last year's Annual General Meeting, the Chairman made a commitment to explore how we could best reward our loyal shareholders who are also customers. In August 2004 we sent Café Revive and Spend and Save vouchers to shareholders offering Autumn discounts in stores, which proved very popular. We will be repeating this in July 2005, extending our offer to those who hold shares through nominee accounts.

We encourage shareholders to make their views known to us by e-mail at chairman@marks-and-spencer.com, by telephone on 0845 302 1234 for customer queries and 0845 609 0810 for shareholder queries as we continue to develop our products and services.

Compliance with the combined code

For the year ended 2 April 2005 the Company complied with all the provisions of the Combined Code on Corporate Governance, except as follows:

Board Balance

A.3.2 At least half the Board, excluding the Chairman, should comprise non-executive directors determined by the Board to be independent. The Company's position is explained on page 11.

Audit Committee Membership

C.3.1 The Board should satisfy itself that at least one member of the Audit Committee has recent and relevant financial experience. The Company's position is explained on page 11.

Remuneration report

Compliance

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

Part 1: Unaudited Information

Remuneration Committee

With effect from 15 July 2004, the Committee comprises Jack Keenan (Chairman), Anthony Habgood, Steven Holliday and Kevin Lomax, all of whom are independent, non-executive directors. Dame Stella Rimington and Brian Baldock were members of the Committee until they left the Company on 14 July 2004 and Barbara Cassani, until she left the Company on 30 April 2004. There were six meetings of the Remuneration Committee during the period under review and all individuals who were a member of the Committee at that time attended the meetings, with the exception of Barbara Cassani, who did not attend the meeting on 21 April 2004. The Committee recommends to the Board the remuneration framework to allow the Company to attract and retain its executive directors and senior management, giving due regard to the financial and commercial health of the Company. In addition, the Committee is responsible for setting the remuneration for the Chairman. The Committee's approach reflects the Company's overall philosophy that all employees should be appropriately and competitively rewarded, in particular to recognise that the highest standards of performance deliver improved business results.

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

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

Remuneration policy

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

Total remuneration for executive directors comprises base pay, variable pay, pension and benefits. Base pay and benefits are set having regard to market practice and levels paid by similar companies. Variable pay provides the opportunity to earn greater amounts for the highest standards of performance. The performance-related element forms a significant proportion of the total potential package.

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

In summary, the proposals are:

- To enhance annual bonus potential for approximately 400 of the more senior executives. Payment will require the satisfaction of stretching targets and a significant proportion of the bonus payable will be deferred into shares for three years;
- To adopt a new Performance Share Plan as the Company's primary long-term incentive arrangement. It is intended to make awards under this Plan to approximately 100 of the most senior executives. Vesting of these awards will be based on demanding earnings per share growth targets;
- To adopt a new Executive Share Option Scheme to be used by the Remuneration Committee upon recruitment or in exceptional circumstances, if it considers it appropriate to do so; and
- To make no further awards under the Company's Share Matching Plan.

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

The proposals will use substantially fewer shares than the current arrangements, resulting in a lower cost to the Company at target performance than is currently the case, and only results in additional cost at high levels of performance.

Expected proportions of future annual remuneration package for executive directors

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

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

Chairman's and non-executive directors' remuneration

The remuneration for the non-executive directors is determined by the Chairman and executive directors and is designed to recognise both the responsibilities of non-executive directors and to attract individuals with the necessary skills and experience to contribute to the future growth of the Company. The non-executives are paid a basic fee with additional fees payable for committee membership and to the chair of the committees. These fees are neither

performance related nor pensionable. They do not participate in any of the Company's incentive plans or share schemes. The fees for non-executive directors are reviewed regularly and the last change was effective from 1 April 2003.

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

Salaries and benefits

Salaries and benefits for executive directors are reviewed annually and any change to salary is normally effective from 1 January. The Remuneration Committee takes into consideration a range of factors when reviewing salaries such as the Company performance, level of salaries for large retailers and for other major FTSE 100 companies, market conditions, the level of increase awarded to employees throughout the business, and the wish to recognise the responsibilities of individual directors. Current annual salaries for executive directors are set out in the Directors' emoluments table (see page 21).

Stuart Rose and Charles Wilson receive a payment of 20% of total salary in respect of pension. A payment was also made in respect of pension in the form of a supplement of 10% of the difference between the pension earnings cap and their base salary to Roger Holmes, Mark McKeon and Laurel Powers-Freeling up until their respective leaving dates. These amounts are included in the emoluments table as part of benefits.

Laurel Powers-Freeling was provided with accommodation in Chester to accommodate her working pattern (two days in London, three days in Chester – the location of M&S Money). A taxable benefit arose, which was met by the Company. For executive directors, the provision of a car and fuel is included in the emoluments table as part of benefits, where relevant.

Annual Bonus Scheme

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

This year, the financial targets have not been met and no award has been made to any executive director under this element of the scheme. Two directors received an award for delivery of revised objectives relating to corporate activities following the possible offer for the Company in May 2004, as shown in the emoluments table.

No director has been invited to invest any element of their bonus in the Share Matching Plan for 2005.

The Company is proposing to make changes to the bonus scheme with effect from the 2005/06 financial year to focus senior executives on the specific operational improvements which need to be made over the next year in order to drive the Company's recovery. The key measure for executive directors will be Group profit before tax, with demanding targets that require a significant recovery in the Company's Performance.

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

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

Long-term Incentive Schemes

(a) Executive Share Matching Plan

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

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

- 50% of the invested bonus receives a matching award based on the Company's Total Shareholder Return ('TSR')¹ compared to the constituents of the FTSE 100 at the start of the performance period; and
- 50% of the invested bonus receives a matching award based on the Company's TSR compared to a selected comparator group of UK retailers, which for 2004 is as follows:

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

Remuneration report continued

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

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

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

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

³With the exception of the 2002 Plan, any element of bonus that is compulsorily invested in the Plan receives a minimum matching ratio of 0.25:1 irrespective of performance.

(b) Executive Share Option Scheme

Executive Share Option Schemes have operated for over 20 years and in recent years have been open to approximately 400 senior management.

Under the 2002 scheme, annual awards of up to 150% of basic salary may be offered based on performance and potential and, for exceptional performance and potential, grants of up to 250% of basic salary may be awarded. Recruitment grants can be made up to 400% of salary.

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

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

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

The Remuneration Committee will ensure that during the transition to International Financial Reporting Standards, a consistent basis is used in the measurement of EPS.

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

2000 and 2002 Schemes

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

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

- EPS growth of inflation plus an average of 4% per annum for the other 50% of each grant, measured from a fixed base of 16.5p, or the EPS figure for the year ending prior to grant if higher.

For options granted since 2004, the measurement is from the EPS figure at the end of the financial year prior to the grant date as published in Company's Report and Accounts.

1997 Scheme

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

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

1984 and 1987 Schemes

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

(c) Performance Share Plan

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

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

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

The Committee considers that EPS within the Performance Share Plan is the most appropriate measure because it is the key indicator of management performance and will reward significant increases in profits which then flow through to increased shareholder value.

(d) All-Employee Share Schemes

Executive directors can also participate in the share schemes open to all employees of the Company. The Save As You Earn (SAYE) Scheme is currently offered annually. Details of grants and awards made to executive directors under all schemes are given in part 2 of this report.

An SAYE Option Scheme was approved by shareholders in 1981 and renewed by shareholders in 1987 and 1997. Inland Revenue rules limit the maximum amount saved to £250 per month. When the savings contract is started, options are granted to acquire the number of shares that the total savings will buy when the contract matures. Options cannot normally be exercised until a minimum of three years has elapsed.

Senior management restructure

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

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

Shareholding policy

A requirement was introduced in 2002 that the executive directors, within five years of 1 June 2002 or within five years of appointment (whichever is the later), should hold shares whose market value at that time is equivalent to or greater than their then current gross annual base salary. It is intended to increase this holding for the Chief Executive to shares whose market value at that time is equivalent to or greater than twice his then current gross annual base salary. The Remuneration Committee is satisfied that under these rules, all current executive directors will have sufficient holdings in the Company to be able to comply with this requirement in the appropriate timescale.

The Marks & Spencer Pension Scheme

Executive directors and all employees with a permanent appointment date prior to 1 April 2002 are eligible to participate in the Company's Defined Benefit Pension Scheme. The Scheme is non-contributory and the subject of an Independent Trust. Final pension is based on basic salary. The normal retirement age under the Pension Scheme for senior management is 60 to harmonise with the Company contractual retirement age. Alison Reed was the only executive director who was a member of this Scheme at 2 April 2005.

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

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

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

For death before retirement, a capital sum equal to four times salary is payable, together with a spouse's pension of two-thirds of the member's prospective pension at the age of 65 (60 for senior management). For death in retirement, a spouse's pension is paid equal to two-thirds of the member's current pension. In the event of death after leaving service but prior to commencement of pension,

a spouse's pension of two-thirds of the accrued preserved pension is payable. In all circumstances, children's allowances are also payable, usually up to the age of 16. Substantial protection is also offered in the event of serious ill health.

Post-retirement increases for pensions earned from 6 April 1997 are awarded on a statutory basis. Pension earned prior to 6 April 1997 is guaranteed to increase by the rise in inflation, up to a maximum of 3% per annum.

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

The Marks & Spencer Retirement Plan

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

During the one-year waiting period before joining the Plan, employees will be covered for death in service by a capital payment of twice salary, increasing to four times salary from the date of joining the Plan, subject to the statutory earnings cap. No current executive director is a member of the Retirement Plan.

The Company is considering its response to the impact of the change in pensions legislation which will take effect in April 2006.

In making our final decision, we will take account of our remuneration principles and market practice in addition to investors' views that companies should not compensate individuals for changes in personal taxation.

External appointments

The Company recognises that executive directors may be invited to become non-executive directors of other companies and that such appointments can broaden their knowledge and experience, to the benefit of the Company. The individual director retains the fees. The following current executive directors served as non-executive directors elsewhere during the year and received fees as follows: Stuart Rose (Land Securities plc – £39,500, NSB Retail Systems plc – £14,850) and Alison Reed (British Airways plc – £36,800, HSBC Bank plc – £10,800).

Service contracts

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

Remuneration report continued

The Company retains the right to terminate the contract of any director summarily in accordance with the terms of their service agreement, on payment of a sum equivalent to the contractual notice entitlement of 12 months' salary and benefits. In the case of service agreements concluded from 1 April 2004, any such payments will be subject to mitigation and paid in monthly instalments. However, entitlement to participate in future awards under the Company's share schemes ceases on summary termination.

Executive directors

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

Non-executive directors

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

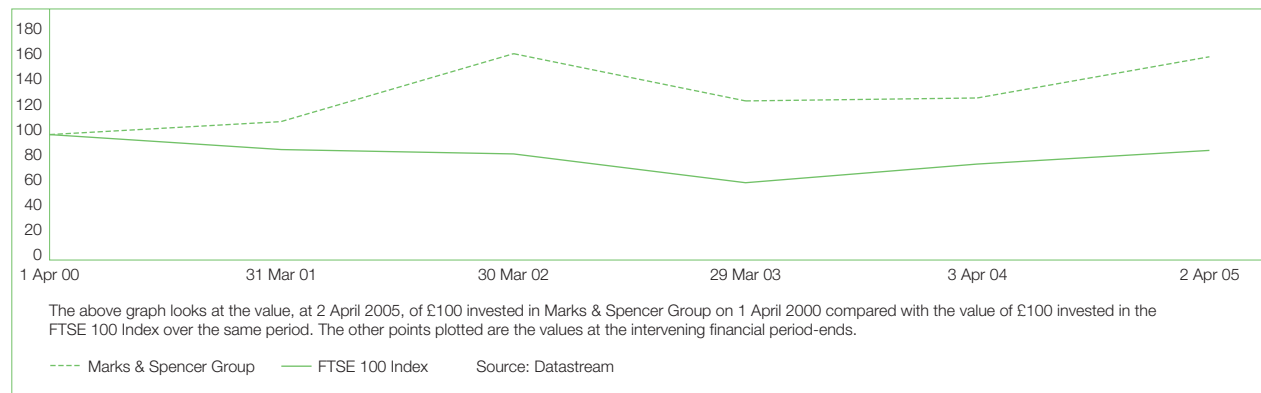
The non-executive directors have service agreements with the Company for an initial three-year term, which are terminable on three months' notice.

Name	Date of appointment	Notice period/unexpired term
Anthony Habgood	15 July 2004	3 mths/3 mths
Steven Holliday	15 July 2004	3 mths/3 mths
Jack Keenan	1 September 2001	3 mths/3 mths
Kevin Lomax	1 September 2000	3 mths/3 mths

Performance graph

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

Total Shareholder Return



Part 2: Audited Information

1 Directors' emoluments

	Current annual salary/fee £000	Salary/fee £000	Benefits £000	Bonus £000	Termination payments ⁶ £000	Total 2005 £000	Total 2004 £000
Chairman							
Paul Myners ¹	200	147	2	–	–	149	50
Chief Executive (appointed from)							
Stuart Rose (31 May 2004) ²	850	708	1,411	–	–	2,119	–
Executive directors							
Alison Reed ³	400	389	35	200	–	624	388
Charles Wilson (31 May 2004) ²	500	417	997	–	–	1,414	–
Non-executive directors							
Steven Holliday (15 July 2004)	50	36	–	–	–	36	–
Anthony Habgood (15 July 2004)	50	36	–	–	–	36	–
Jack Keenan ⁴	60	56	–	–	–	56	50
Kevin Lomax	60	60	–	–	–	60	60
Directors retiring from the Board during the year							
Brian Baldock (14 July 2004) ⁵	–	30	–	–	–	30	60
Barbara Cassani (30 April 2004)	–	4	–	–	–	4	25
Maurice Helfgott (9 November 2004) ⁷	–	213	20	–	509	742	126
Roger Holmes (31 May 2004) ⁸	–	103	15	–	847	965	693
Mark McKeon (9 November 2004) ⁹	–	211	24	–	464	699	–
Laurel Powers-Freeling (9 November 2004) ¹⁰	–	262	52	350	502	1,166	447
Vittorio Radice (11 June 2004) ¹¹	–	97	30	–	731	858	556
Dame Stella Rimington (14 July 2004) ⁵	–	30	–	–	–	30	60
Luc Vandeveldelde (31 May 2004) ¹²	–	76	5	–	598	679	547
Former directors							
	–	–	–	–	–	–	1,461
Total		2,875	2,591	550	3,651	9,667	4,523

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

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

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

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

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

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

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

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

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

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

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

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

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

Remuneration report continued

2 Directors' interests in long-term incentive schemes

a) Executive Share Matching Plan

	Maximum receivable at 3 April 2004 or date of appointment ¹	Awarded in year	Vested in year	Lapsed in year	Maximum receivable at 2 April 2005 or date of leaving ¹	Date of award	Performance period for matching award
Executive directors							
Alison Reed	76,841	–	–	–	76,841	30 July 2002 ²	2002 – 2005
	246,983	–	–	–	246,983	23 June 2003 ³	2003 – 2006
	323,824	–	–	–	323,824		
Directors leaving during the year							
Maurice Helfgott ⁵	35,064	–	–	35,064	–	30 July 2002 ²	2002 – 2005
	108,188	–	1,702	106,486	–	23 June 2003 ³	2003 – 2006
	143,252	–	1,702	141,550	–		
Roger Holmes ⁶	113,525	–	–	113,525	–	30 July 2002 ²	2002 – 2005
	396,279	–	3,302	392,977	–	23 June 2003 ³	2003 – 2006
	509,804	–	3,302	506,502	–		
Laurel Powers-Freeling ⁷	26,324	–	5,686	20,638	–	30 July 2002 ²	2002 – 2005
	244,860	–	8,162	236,698	–	23 June 2003 ³	2003 – 2006
	–	8,236	8,236	–	–	28 June 2004 ⁴	2004 – 2007
	271,184	8,236	22,084	257,336	–		
Vittorio Radice ⁸	234,181	–	2,384	231,797	–	23 June 2003 ³	2003 – 2006
Luc Vandeveld ⁹	178,788	–	–	178,788	–	30 July 2002 ²	2002 – 2005

¹The number of matching shares are the maximum (a match of 2.5:1) that could be receivable by the executive if the TSR performance conditions are fully met as outlined in pages 17 and 18. These calculations have been independently performed by New Bridge Street Consultants using data from Datastream (an independent data services provider).

²Market price on date of award was 339.0p. As at the end of March 2005, Marks & Spencer's TSR was ranked 53rd out of 96 in the FTSE 100 Comparator Group and 13th out of 19 in the Retailers Comparators Group. No match would be receivable if these positions are maintained. The final measure for this scheme will be 21 May 2005.

³Market price on date of award was 304.5p. After two years of the 2003-06 performance period, Marks & Spencer's TSR was ranked 87th out of 98 in the FTSE 100 Comparator Group and 14th out of 17 in the Retailers Comparators Group. No matching shares would be receivable on shares purchased voluntarily with bonus if these positions were to be maintained for the full three-year performance period. A minimum match of 0.25:1 is receivable on shares purchased compulsorily with bonus.

⁴Market price on date of award was 362.25p. Laurel Powers-Freeling was the only executive director who was a member of this scheme until she left the Group.

⁵All outstanding shares lapsed when Maurice Helfgott left the Group's employment, apart from the 1,702 matching shares which represented a 0.25:1 match on shares purchased with compulsorily invested bonus. These matching shares vested on 30 November 2004 when the share price was 328.25p, giving an equivalent gain of £6,000.

⁶All outstanding shares lapsed when Roger Holmes left the Group's employment, apart from the 3,302 matching shares which represented a 0.25:1 match on shares purchased with compulsorily invested bonus. These matching shares vested on 31 May 2004 when the share price was 359.5p, giving an equivalent gain of £12,000.

⁷All outstanding matching shares lapsed when Laurel Powers-Freeling left the Group's employment, apart from 5,686 and 8,236 shares which represented a 0.54:1 and 2.5:1 match respectively on shares purchased with invested bonus, and 8,162 matching shares which represented a 0.25:1 match on shares purchased with compulsorily invested bonus. These matching shares vested on 31 December 2004 when the share price was 343.0p, and when the TSR performance was calculated, giving an equivalent gain of £76,000.

⁸All outstanding shares lapsed when Vittorio Radice left the Group's employment, apart from the 2,384 matching shares which represented a 0.25:1 match on shares purchased with compulsorily invested bonus. These matching shares vested on 11 June 2004 when the share price was 366.0p, giving an equivalent gain of £9,000.

⁹All outstanding matching shares lapsed when Luc Vandeveld left the Group's employment.

b) Directors' Share Option Schemes

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

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

	At 3 April 2004 or date of appointment	Granted during the year	Exercised/ lapsed during the year	At 2 April 2005 or date of leaving	Option price (p)	Exercise price (p)	Option period
Chief Executive							
Stuart Rose							
Not Exercisable (A)				979,825	347.0		Jul 2007 – Jul 2014
Granted		979,825			347.0		Jul 2007 – Jul 2014
Executive directors							
Alison Reed							
Exercisable (B)	148,836			289,460	234.9 ¹		Sept 2003 – Jun 2011
Exercisable (A)	70,661			286,150	388.0 ¹		Jun 1998 – Dec 2011
Not Exercisable (B)	140,624			235,690	297.0 ¹		Jun 2006 – Jul 2013
Not Exercisable (A)	677,691			344,188	348.6 ¹		Jun 2005 – Jul 2014
Granted		155,618			347.0		Jul 2007 – Jul 2014
Lapsed ³			37,942				
SAYE	10,166			10,166	166.0 ¹		Jan 2005 – Jun 2006
Charles Wilson							
Not Exercisable (A)				576,367	347.0		Jul 2007 – Jul 2014
Granted		576,367			347.0		Jul 2007 – Jul 2014
Directors leaving during the year							
Maurice Helfgott							
Exercisable (B)	139,534			75,251	288.1 ¹		Nov 2004 – Nov 2005
Exercisable (A)	41,899			250,067	352.7 ¹		Jun 2002 – Nov 2005
Not Exercisable (B)	173,682						
Not Exercisable (A)	334,683						
Granted		138,328			347.0		Jul 2007 – Jul 2014
Exercised ²			239,142		232.1 ¹	352.5	
Lapsed ³			263,666				
Roger Holmes							
Exercisable (B)	871,794			1,449,243	240.6 ¹		Dec 2003 – May 2005
Not Exercisable (B)	249,022						
Not Exercisable (A)	893,828						
Lapsed ³			565,401				
SAYE	6,951						
SAYE Lapsed			6,951				
Mark McKeon							
Granted		276,655			347.0		Jul 2007 – Jul 2014
Lapsed ³			276,655				
Laurel Powers-Freeling							
Exercisable (B)				235,690	297.0		Dec 2004 – Dec 2005
Exercisable (A)				548,569	350.0		Dec 2004 – Dec 2005
Not Exercisable (B)							
Not Exercisable (A)	784,259						
Granted		201,728			347.0		Jul 2007 – Jul 2014
Lapsed ³			201,728				
SAYE	4,046			4,046	228.0		Jan 2005 – Jun 2005

Remuneration report continued

b) Directors' Share Option Schemes continued

	At 3 April 2004 or date of appointment	Granted during the year	Exercised/ lapsed during the year	At 2 April 2005 or date of leaving	Option price (p)	Exercise price (p)	Option period
Vittorio Radice							
Exercisable (B)				216,048	306.0		Jun 2004 – Jun 2005
Not Exercisable (B)							
Not Exercisable (A)	555,553						
Lapsed ³			339,505				
Luc Vandavelde							
Exercisable (B)	1,992,337			4,684,976	266.7 ¹		Mar 2003 – May 2005
Not Exercisable (B)	2,373,195						
Not Exercisable (A)	500,000						
Lapsed ³			180,556				

¹Weighted average price.

²Maurice Helfgott exercised 139,534 options at an option price of 215.0p and 99,608 options at an option price of 256.0p. All were exercised at 352.5p, giving a gain of £288,000.

³Options may have lapsed under one of the following scheme rules:

- (i) The options have not been held for 12 months as at date of leaving.
- (ii) The options vesting period has expired.
- (iii) The options exercisable on leaving have been pro-rated with the balance lapsing.

The market price of the shares at the end of the financial year was 344.75p; the highest and lowest share price during the financial year were 374.0p and 264.0p respectively.

Within the table, the breakdown of options is as follows:

Exercisable (A) – option price is above the market value on 2 April 2005, or date of leaving, options have vested.

Exercisable (B) – option price is below the market value on 2 April 2005, or date of leaving, options have vested.

Not Exercisable (A) – option price is above the market value on 2 April 2005, options have not matured.

Not Exercisable (B) – option price is below the market value on 2 April 2005, options have not matured.

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

3 Directors' pension information

a) Pension benefits

The Directors' Remuneration Report Regulations 2002 require disclosure of defined benefit pension arrangements on a different basis to that specified in the Listing Rules. Details of pension benefits earned by the executive directors during the year ended 2 April 2005 are shown below on both bases.

	Accrued entitlement at 3 April 2004 £000	Additional pension earned in the year £000	Additional pension earned in the year in excess of inflation £000	Transfer value of additional pension in excess of inflation (net of director's contribution) £000	Accrued entitlement at 2 April 2005 or date of leaving £000	Age at 2 April 2005 or date of leaving	Transfer value of pension at 3 April 2004 £000	Transfer value of pension at 2 April 2005 or date of leaving £000	Increase in transfer value (net of director's contribution) £000
Roger Holmes ^{1,2}	10	2	2	18	12	44	71	91	20
Maurice Helfgott ²	89	20	18	96	109	37	455	573	118
Laurel Powers-Freeling ^{1,2}	5	4	4	32	9	47	46	81	35
Alison Reed	157	25	20	186	182	48	1,369	1,697	328

¹Roger Holmes and Laurel Powers-Freeling were subject to the pensions earnings 'cap' (£102,000 at 6 April 2004) which is reviewed annually by the Government. As a result, they also received a pension-related salary supplement of 10% of the difference between the pensions earnings 'cap' and their base salary.

²The pensions for Roger Holmes, Maurice Helfgott and Laurel Powers-Freeling are based on their deferred pension on respective leaving dates of 31 May 2004, 30 November 2004 and 31 December 2004.

a) Pension benefits *continued*

The accrued entitlement represents the deferred pension at age 60 to which the director would have been entitled had they left the Company on 3 April 2004 and 2 April 2005 respectively. The additional pension relates to the increase in the deferred pension during the year gross and net of inflation under the Directors' Remuneration Report Regulations 2002, and the Listing Rules respectively.

The transfer value of the deferred pension calculated as at 2 April 2005 is calculated by the actuary of the relevant Company Pension Scheme in accordance with actuarial guidance note GN11. The equivalent transfer value calculated as at 3 April 2004 is on the assumption that the director had left service at that date.

Inflation has been assumed to be equivalent to the actual rate of price inflation which was 3.1% for the year to 30 September 2004. The measurement date accords with the Listing Rules.

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

Luc Vandevelde, Vittorio Radice and Mark McKeon left the Company on 31 May 2004, 11 June 2004 and 30 November 2004 respectively. None of them participated in the Company Pension Scheme.

Stuart Rose and Charles Wilson do not participate in the Company Pension Scheme.

b) Payments to former directors

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

	2005	2004
	£000	£000
Early retirement pensions ¹ (payable until)		
James Benfield (22 April 2009)	75	74
Derek Hayes (19 November 2008)	70	69
Chris Littmoden (28 September 2003)	–	44
Unfunded pensions		
Clinton Silver ²	94	93

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.

Approved by the Board

Jack Keenan, Chairman of the Remuneration Committee

London

23 May 2005

Directors' interests

The beneficial interests of the directors and connected persons in the shares of the Company are shown below. These include shares held under the Delayed Profit Sharing Scheme. Options granted under the Save As You Earn (SAYE) Share Option and Executive Share Option Schemes are shown on pages 40 to 41. Further information regarding employee share option schemes is given in note 10 to the financial statements.

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.

	Ordinary shares as at 2 April 2005	B shares as at 2 April 2005	Ordinary shares as at 3 April 2004 or date of appointment	B shares as at 3 April 2004 or date of appointment
Paul Myners	50,660	–	50,000	–
Stuart Rose (appointed 31 May 2004)	350,416	–	135,416	–
Alison Reed (retired 30 April 2005)	147,153	–	144,861	1,069
Charles Wilson (appointed 31 May 2004)	100,000	–	–	–
Anthony Habgood (appointed 15 July 2004)	2,500	–	–	–
Steven Holliday (appointed 15 July 2004)	2,500	–	–	–
Jack Keenan	3,238	–	3,238	–
Kevin Lomax	16,190	–	16,190	–

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 page 14.

Directors' report

Principal activities

During the year, the principal activities of the Group were Retailing and Financial Services. Financial Services activities were discontinued during the period.

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

Review of activities and future 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 £584.2m (last year £549.3m). The directors have declared dividends as follows:

	£m
Paid interim dividend of 4.6p per share (last year 4.4p per share)	76.3
Proposed final dividend of 7.5p per share (last year 7.1p per share)	124.2
Total ordinary dividend, 12.1p per share (last year 11.5p per share)	200.5

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

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

Changes in share capital

(i) Issue of new ordinary shares

During the period, 28,309,324 ordinary shares in the Company were issued as follows:

- 4,102,080 shares under the terms of the 1997 Executive Share Option Scheme at prices between 261p and 358p;
- 11,072,116 shares under the terms of the 2000 Executive Share Option Scheme at prices between 195p and 350p;
- 1,805,439 shares under the terms of the 2002 Executive Share Option Scheme at prices between 270p and 353p; and
- 11,329,689 shares under the terms of the United Kingdom Employees' Save As You Earn Share Option Scheme at prices between 156p and 324p.

(ii) Purchase of ordinary shares

The Company is authorised by the shareholders to purchase, in the market, the Company's own shares, as permitted under the Company's Articles of Association. The Company engages in share buy-backs to create value for the shareholders, when cash flow permits and there is not an immediate alternative investment use for the funds. During the year, no shares were bought back under this authority. This authority is renewable annually and approval will be sought from shareholders at the Annual General Meeting in 2005 to renew the authority for a further year.

(iii) Tender Offer

Under authority granted to the Company by the shareholders at the Extraordinary General Meeting held on 22 October 2004, the Company purchased, and subsequently cancelled, by way of Tender Offer, 635,359,116 ordinary shares at a cost of £2.3bn, with a nominal value of £158.8m, at a price of 362p, representing 27.9% of the issued share capital.

(iv) Redemption of B shares

During the year, the Company redeemed 27,421,847 B shares, with a nominal value of £19.2m.

Major shareholders

As at 10 May 2005, the Company's register of substantial shareholdings showed the following interests in 3% or more of the Company's shares:

	Ordinary shares	% share capital
Brandes Investment Partners, LLC	251,969,136	15.30
Legal & General Investment Management	55,510,977	3.37

Directors and their interests

On 23 May 2005, the directors were Paul Myners, Stuart Rose, Charles Wilson, Anthony Habgood, Steven Holliday, Jack Keenan and Kevin Lomax. Their biographical details, together with those of Ian Dyson who joins the Board on 27 June 2005 and Lord Burns who joins the Board on 1 October 2005, are given on page 17 of the Annual review and summary financial statement.

Paul Myners was appointed as Chairman in May 2004, having been appointed to the Board in April 2002 as non-executive director. Stuart Rose was appointed as Chief Executive and Charles Wilson was appointed as executive director of the Company on 31 May 2004. On 15 July 2004, Anthony Habgood and Steven Holliday were appointed non-executive directors. Ian Dyson will join as Finance Director on 27 June 2005. Lord Burns will join as Deputy Chairman on 1 October 2005 and will become Chairman from the Annual General Meeting in July 2006.

Luc Vandeveldt retired as Chairman and Roger Holmes retired as Chief Executive on 31 May 2004. Alison Reed retired as Group Finance Director on 30 April 2005. Vittorio Radice retired as an executive director on 11 June 2004. Laurel Powers-Freeling and Maurice Helfgott

Directors' report continued

retired as executive directors on 9 November 2004. Mark McKeon was appointed as executive director on 5 April 2004 and later retired from that position on 9 November 2004. Brian Baldock and Dame Stella Rimington retired as non-executive directors on 14 July 2004 and Barbara Cassani retired as non-executive director on 30 April 2004.

The beneficial interests of the directors and connected persons in the shares of the Company and its subsidiaries are given on page 26.

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 tenth meeting of the European Council took place last September. 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 40 to 41.

Equal opportunities

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

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

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

Employees with disabilities

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

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

Creditor payment policy

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

- agree the terms of payment at the start of business with that supplier;

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

The main trading company, Marks and Spencer plc, has a policy concerning the payment of trade creditors as follows:

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

Trade creditor days for Marks and Spencer plc for the year ended 2 April 2005 were 12.0 days, or 8.0 working days (last year 12.3 days, or 8.3 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.

Market value of properties

The directors are of the opinion that market value of the Group's properties at 2 April 2005 exceeded the net book value by approximately £1.3bn.

Charitable and political donations

During the year, the Group made charitable donations to support the community of £9.8m (last year £7.2m). These principally consisted of cash donations of £3.0m (last year £5.1m) which includes the cost of our flagship community programme Marks & Start, Breakthrough Breast Cancer and other charitable donations, £2.0m (last year £1.2m) of employee time principally for the Marks & Start programme and local community projects, and stock donations of £4.3m (last year £0.4m) to a variety of charities including Shelter, Fareshare, Birth Defects Foundation as well as to the local community.

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

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

Auditors

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

Annual General Meeting

The Notice of the Annual General Meeting to be held on 13 July 2005 is given, together with explanatory notes, in the booklet which accompanies this report.

By order of the Board

Graham Oakley, Group Secretary

London

23 May 2005

Auditors' report

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

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

Respective responsibilities of directors and auditors

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

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

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

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Chairman's statement, Chief Executive's and Financial review, the Corporate governance statement, the unaudited part of the Remuneration report, Directors' interests and the statement of Directors' responsibilities, the Directors' report, the Group financial record and the Annual review and summary financial statement.

We review whether the Corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC 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 Remuneration report. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and Group's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group at 2 April 2005 and of the profit and cash flows of the Group for the period then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
London
23 May 2005

Consolidated profit and loss account

	Notes	52 weeks ended 2 April 2005			53 weeks ended 3 April 2004		
		Before exceptional items £m	Exceptional items (note 4) £m	After exceptional items £m	Before exceptional items £m	Exceptional items (note 4) £m	After exceptional items £m
Turnover							
Continuing operations		7,710.3	–	7,710.3	7,971.5	–	7,971.5
Discontinued operations		232.0	–	232.0	330.0	–	330.0
Total turnover	2, 3	7,942.3	–	7,942.3	8,301.5	–	8,301.5
Operating profit							
Continuing operations		667.6	(91.4)	576.2	809.4	(42.1)	767.3
Acquired operations		9.5	–	9.5	–	–	–
		677.1	(91.4)	585.7	809.4	(42.1)	767.3
Discontinued operations		32.3	–	32.3	56.6	–	56.6
Total operating profit	2, 3	709.4	(91.4)	618.0	866.0	(42.1)	823.9
(Loss)/profit on sale of property and other fixed assets	4B	–	(0.4)	(0.4)	–	18.7	18.7
Profit on sale/closure of operations:	4C						
Profit/(loss) arising on sale/closure		–	208.9	208.9	–	(26.8)	(26.8)
Release/utilisation of prior year provision		–	9.7	9.7	–	26.8	26.8
Net profit on sale/closure of operations		–	218.6	218.6	–	–	–
Net interest expense	5	(102.3)	–	(102.3)	(45.8)	–	(45.8)
Other finance income/(charges)	11C	11.4	–	11.4	(15.2)	–	(15.2)
Profit/(loss) on ordinary activities before taxation		618.5	126.8	745.3	805.0	(23.4)	781.6
Analysed between:							
Continuing operations (including acquired operations)		586.2	(91.8)	494.4	748.4	(23.4)	725.0
Discontinued operations		32.3	218.6	250.9	56.6	–	56.6
Taxation on ordinary activities	6	(176.5)	18.2	(158.3)	(242.0)	12.7	(229.3)
Profit/(loss) attributable to shareholders		442.0	145.0	587.0	563.0	(10.7)	552.3
Dividends (including dividends in respect of non-equity shares)	8	(203.3)	–	(203.3)	(263.2)	–	(263.2)
Retained profit/(loss)		238.7	145.0	383.7	299.8	(10.7)	289.1
Earnings per share	9			29.1p			24.2p
Diluted earnings per share	9			28.9p			24.1p
Adjusted earnings per share	9			21.9p			24.7p
Diluted adjusted earnings per share	9			21.7p			24.6p
Dividend per share	8			12.1p			11.5p

NOTE OF GROUP HISTORICAL COST PROFITS AND LOSSES

	Notes	52 weeks ended 2 April 2005 £m	53 weeks ended 3 April 2004 £m
Profit on ordinary activities before taxation		745.3	781.6
Revaluation surplus realised on disposals	26	28.6	0.5
Revaluation element of depreciation charge	26	1.0	1.0
Historical cost profit on ordinary activities before taxation		774.9	783.1
Historical cost retained profit for the period		413.3	290.6

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Notes	52 weeks ended 2 April 2005 £m	53 weeks ended 3 April 2004 £m
Profit attributable to shareholders		587.0	552.3
Exchange differences on foreign currency translation	26	0.2	(15.9)
Unrealised surplus on revaluation of investment properties	26	4.0	7.3
Impairment of previously revalued properties		–	(20.0)
Actuarial (losses)/gains net of taxation	26	(55.1)	150.4
Total recognised gains and losses relating to the period		536.1	674.1

Balance sheets

	Notes	Group		Company	
		2 April 2005 £m	3 April 2004 £m	2 April 2005 £m	3 April 2004 £m
Fixed assets					
Intangible assets	13	122.4	–	–	–
Tangible assets	14	3,316.1	3,497.6	–	–
Investments	15	9.0	10.0	7,648.7	7,643.2
		3,447.5	3,507.6	7,648.7	7,643.2
Current assets					
Stocks		339.7	398.0	–	–
Debtors:					
Receivable within one year	16A	212.0	971.6	205.3	262.7
Receivable after more than one year	16B	6.2	1,779.3	–	–
Investments	17	67.0	325.9	–	–
Cash at bank and in hand	18	212.6	394.7	–	–
		837.5	3,869.5	205.3	262.7
Current liabilities					
Creditors: amounts falling due within one year	20	(1,289.3)	(1,884.7)	(2,225.2)	(2,325.9)
Net current (liabilities)/assets		(451.8)	1,984.8	(2,019.9)	(2,063.2)
Total assets less current liabilities					
		2,995.7	5,492.4	5,628.8	5,580.0
Creditors: amounts falling due after more than one year	21	(1,919.7)	(2,519.6)	–	–
Provisions for liabilities and charges	23	(80.4)	(49.3)	–	–
Net assets before net post-retirement liability		995.6	2,923.5	5,628.8	5,580.0
Net post-retirement liability	11	(474.2)	(469.5)	–	–
Net assets		521.4	2,454.0	5,628.8	5,580.0
Capital and reserves					
Called up share capital	25,26	480.2	651.2	480.2	651.2
Share premium account	26	106.6	45.2	106.6	45.2
Capital redemption reserve	26	2,102.8	1,924.8	2,102.8	1,924.8
Revaluation reserve	26	330.8	356.4	–	–
Other reserve	26	(6,542.2)	(6,542.2)	–	–
Profit and loss account	26	4,043.2	6,018.6	2,939.2	2,958.8
Shareholders' funds (including non-equity interests)	26,27	521.4	2,454.0	5,628.8	5,580.0
Equity shareholders' funds		455.7	2,369.1	5,563.1	5,495.1
Non-equity shareholders' funds		65.7	84.9	65.7	84.9
Total shareholders' funds	27	521.4	2,454.0	5,628.8	5,580.0

Approved by the Board

23 May 2005

Stuart Rose, Chief Executive

Charles Wilson, Executive Director

Consolidated cash flow information

CASH FLOW STATEMENT

	Notes	52 weeks ended 2 April 2005 £m	53 weeks ended 3 April 2004 £m
Cash inflow from continuing operating activities before contribution to the pension fund		857.5	1,002.3
Contribution to the pension fund following 2003 actuarial valuation		–	(400.0)
Cash inflow from continuing operating activities		857.5	602.3
Cash inflow from discontinued operating activities		717.9	64.2
Cash inflow from operating activities	28	1,575.4	666.5
Returns on investments and servicing of finance			
Interest received		15.4	14.4
Interest paid		(114.2)	(61.2)
Non-equity dividends paid		(2.8)	(3.0)
Net cash outflow from returns on investments and servicing of finance		(101.6)	(49.8)
Taxation			
UK corporation tax paid		(161.3)	(216.3)
Overseas tax paid		(5.4)	(4.1)
Cash outflow for taxation		(166.7)	(220.4)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(232.2)	(428.8)
Sale of tangible fixed assets		117.8	126.2
Purchase of fixed asset investments		–	(0.6)
Sale of fixed asset investments		0.8	9.3
Net cash outflow for capital expenditure and financial investment		(113.6)	(293.9)
Acquisitions and disposals			
Closure of operations		12.7	51.3
Sale of subsidiaries	30B	477.0	–
Purchase of subsidiaries	30A	(125.9)	–
Net cash inflow from acquisitions and disposals		363.8	51.3
Equity dividends paid		(236.9)	(247.1)
Cash inflow/(outflow) before management of liquid resources and financing		1,320.4	(93.4)
Management of liquid resources and financing			
Management of liquid resources	29B	66.7	(89.0)
Financing	29C	(1,507.5)	347.0
		(1,440.8)	258.0
(Decrease)/increase in cash		(120.4)	164.6

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	Notes	52 weeks ended 2 April 2005 £m	53 weeks ended 3 April 2004 £m
(Decrease)/increase in cash		(120.4)	164.6
Cash (inflow)/outflow from (decrease)/increase in liquid resources	29B	(66.7)	89.0
Cash inflow from increase in debt financing	29C	(757.6)	(413.6)
Debt financing net of liquid resources disposed with subsidiary		839.7	–
Exchange and other movements	31	0.7	(3.3)
Movement in net debt		(104.3)	(163.3)
Opening net debt	31	(1,994.7)	(1,831.4)
Closing net debt	31	(2,099.0)	(1,994.7)

Notes to the financial statements

1 ACCOUNTING POLICIES

Basis of preparation

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

A summary of the more important Group accounting policies, which have been consistently applied, is given below.

Accounting convention and basis of consolidation

The Group financial statements incorporate the financial statements of Marks and Spencer Group plc and all its subsidiaries for the 52 weeks ended 2 April 2005.

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

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

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

Turnover

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

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

Operating leases

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

Pensions

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

Regular valuations are prepared by independent professionally qualified actuaries. These determine the level of contributions required to fund the benefits set out in the rules of the plans and allow for the periodic increase of pensions in payment. Following the full adoption of FRS 17, the regular service cost of providing retirement benefits to employees during the year, together with the cost of any benefits relating to past service, is charged to operating profit in the year.

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

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

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

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

Goodwill

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

Fixed assets

- a Capitalised interest
Interest is not capitalised.
- b Depreciation
Depreciation is provided to write off the cost or valuation of tangible fixed assets, less residual value, by equal annual instalments as follows:
 - land: not depreciated;
 - freehold and leasehold buildings over 50 years; depreciated to their estimated residual value over their estimated remaining economic lives;
 - leasehold land and buildings under 50 years: over the remaining period of the lease;
 - fit out: 10-25 years according to the estimated life of the asset; and
 - 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 except where, in certain circumstances, it relates to a previously revalued asset, in which case it is charged through the statement of total recognised gains and losses.

Notes to the financial statements continued

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

Stocks

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

Derivative financial instruments

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

Foreign currencies

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

Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction, or the forward exchange contract rate where appropriate. 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.

Policies relating to discontinued operations

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.

2 SEGMENTAL INFORMATION

A Classes of business

During the year, the Group had two classes of business: Retailing and Financial Services. Financial Services activities were discontinued during the period.

	Turnover		Operating profit		Operating assets	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
Retailing activities						
Continuing operations:	7,710.3	7,971.5	576.2	767.3	3,066.6	3,071.5
Before exceptional operating charges			667.6	809.4		
Exceptional operating charges			(91.4)	(42.1)		
Acquired operation	–	–	9.5	–	(2.8)	–
Discontinued operations¹	232.0	330.0	32.3	56.6	–	601.2
Total	7,942.3	8,301.5	618.0	823.9	3,063.8	3,672.7
(Loss)/profit on sale of property and other fixed assets			(0.4)	18.7		
Profit on sale/closure of operations			218.6	–		
Net interest expense			(102.3)	(45.8)		
Other finance income/(charges)			11.4	(15.2)		
Profit on ordinary activities before taxation			745.3	781.6		
Net operating assets					3,063.8	3,672.7
Non-operating net liabilities					(2,542.4)	(1,218.7)
Net assets					521.4	2,454.0

B Geographical split

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

	Turnover		Operating profit		Operating assets	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
United Kingdom						
Continuing operations:	7,034.7	7,293.7	511.2	719.9	2,869.2	2,954.2
Before exceptional operating charges			602.6	762.0		
Exceptional operating charges			(91.4)	(42.1)		
Acquired operation	–	–	9.5	–	(2.8)	–
Discontinued operations¹	232.0	330.0	32.3	56.6	–	601.2
	7,266.7	7,623.7	553.0	776.5	2,866.4	3,555.4
International Retail	675.6	677.8	65.0	47.4	197.4	117.3
	7,942.3	8,301.5	618.0	823.9	3,063.8	3,672.7

¹Discontinued operations relate entirely to Financial Services activities. Operating profit for Financial Services includes £1.6m (last year £9.3m) arising on Marks & Spencer Chargecard transactions. This fee is payable by UK Retail and has been deducted in arriving at UK Retail operating profit. Operating profit for the comparative period has been restated to reflect the results of the Bureau de Change being reclassified from UK Retail to be included within the Financial Services results.

²UK Retail turnover including VAT comprises Clothing £3,837.3m (last year £4,032.6m); Home £407.6m (last year £526.6m) and Foods £3,509.7m (last year £3,490.2m). VAT on UK Retail turnover was £719.9m (last year £755.7m).

³Turnover from continuing operations originates in the following geographical segments: United Kingdom £7,208.9m (last year £7,453.4m) and International £501.4m (last year £518.1m).

⁴The value of goods exported from the UK, including shipments to international subsidiaries, amounted to £319.9m (last year £293.0m).

Notes to the financial statements continued

3 OPERATING PROFIT

	2005			2004		
	Continuing operations ¹ £m	Discontinued operations £m	Total £m	Continuing operations ¹ £m	Discontinued operations £m	Total £m
Turnover	7,710.3	232.0	7,942.3	7,971.5	330.0	8,301.5
Cost of sales	(5,029.5)	(94.0)	(5,123.5)	(5,153.9)	(106.0)	(5,259.9)
Gross profit	2,680.8	138.0	2,818.8	2,817.6	224.0	3,041.6
Employee costs (see note 10)	(1,014.3)	(36.5)	(1,050.8)	(1,023.5)	(68.0)	(1,091.5)
Occupancy costs	(320.4)	(2.9)	(323.3)	(280.0)	(5.6)	(285.6)
Repairs, renewals and maintenance of fixed assets	(74.9)	(0.9)	(75.8)	(91.3)	(1.9)	(93.2)
Depreciation	(265.5)	(1.8)	(267.3)	(243.1)	(3.0)	(246.1)
Goodwill amortisation	(3.1)	–	(3.1)	–	–	–
Other costs ²	(416.9)	(63.6)	(480.5)	(412.4)	(88.9)	(501.3)
Total net operating expenses ³	(2,095.1)	(105.7)	(2,200.8)	(2,050.3)	(167.4)	(2,217.7)
Operating profit	585.7	32.3	618.0	767.3	56.6	823.9

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

¹Included within continuing operations is operating profit derived from acquisitions and exceptional charges as analysed below:

	2005		2004	
	Acquired operations £m	Exceptional charges £m	Acquired operations £m	Exceptional charges £m
Turnover	–	–	–	–
Cost of sales	17.3	(3.3)	–	–
Gross profit	17.3	(3.3)	–	–
Employee costs (see note 10)	(4.0)	(7.2)	–	(24.5)
Occupancy costs	(0.2)	(10.6)	–	(5.2)
Repairs, renewals and maintenance of fixed assets	–	(0.3)	–	–
Depreciation	(0.1)	(15.1)	–	(4.2)
Goodwill amortisation	(3.1)	–	–	–
Other costs	(0.4)	(54.9)	–	(8.2)
Total net operating expenses	(7.8)	(88.1)	–	(42.1)
Operating profit	9.5	(91.4)	–	(42.1)

All turnover from acquired operations is to another group company. The reduction in cost of sales of £17.3m is attributable to the lower cost of purchases in the post-acquisition period.

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

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Statutory audit services				
Annual audit	1.2	1.2	0.2	0.2
Non-audit related services				
Further assurance services	1.9	0.1	–	–
Tax advisory services	0.4	0.9	–	–
Other services	0.2	0.4	–	–
	2.5	1.4	–	–

Included in the above are fees paid to the Group's auditors in the UK in relation to the Tender Offer of £0.4m, the sale of Financial Services of £0.5m, the acquisition of per una of £0.1m and Defence of £0.8m. Of these costs, £1.6m is included within further assurance services and £0.2m within tax advisory services.

³Included in 'Total net operating expenses' are rentals under operating leases, comprising £3.9m for hire of plant and machinery (last year £4.1m) and £139.6m of other rental costs (last year £108.9m).

4 EXCEPTIONAL ITEMS

A Exceptional operating charges	2005 £m	2004 £m	
Head office relocation	8.8	19.6	
Head office restructuring programme	6.3	22.5	
Board restructure	8.4	–	
Closure of Lifestore	29.3	–	
Defence costs	38.6	–	
	91.4	42.1	
B (Loss)/profit on sale of property and other fixed assets	2005 £m	2004 £m	
(Loss)/profit on sale of property and other fixed assets	(0.4)	18.7	
C Profit on sale/closure of operations	2005 £m	2004 £m	
Profit/(loss) arising on sale/closure	208.9	(26.8)	
Release/utilisation of prior year provision	9.7	26.8	
	218.6	–	
	Financial Services £m	Continental Europe £m	Total £m
Net sale proceeds less net assets	208.9	–	208.9
Release of prior year provision	–	9.7	9.7
Net profit on sale/closure of operations	208.9	9.7	218.6

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

On 9 November 2004, the Group completed the sale of Marks and Spencer Retail Financial Services Holdings Limited to HSBC Holdings plc. The net sale proceeds were £533.6m (see note 30B) after accounting for a pre-sale dividend of £235.0m together with associated disposal costs. At the same time, the Group and HSBC entered into a relationship under which the Group will continue to share in the success of the business. Under this relationship, the Group will receive income in the form of fees representing an amount equivalent to costs incurred, 50% of the profits of M&S Money (after a notional tax charge and after deducting agreed operating and capital costs) together with an amount relating to sales growth. In the period since 9 November 2004, the fees received were £16.4m.

In addition, the Group has also received £15.1m for costs incurred as part of the transition of M&S Money to HSBC and £1.1m for rent. The Group also conducts settlement transactions with M&S Money in the normal course of business. At 2 April 2005, the amount owed by M&S Money was £16.2m.

5 NET INTEREST EXPENSE

	2005 £m	2004 £m
Bank and other interest income	169.9	248.5
Less: amounts included in turnover of Financial Services	(153.2)	(235.2)
	16.7	13.3
Interest expenditure	(183.6)	(136.1)
Less: interest charged to cost of sales of Financial Services	64.6	77.0
	(119.0)	(59.1)
Net interest expense	(102.3)	(45.8)
Interest expenditure comprises:		
Amounts repayable within five years:		
Bank loans, overdrafts and other borrowings	(43.5)	(22.2)
Syndicated bank facility	(7.8)	–
Medium term notes	(64.6)	(68.1)
Securitised loan notes	(1.4)	(1.2)
	(117.3)	(91.5)
Amounts repayable after five years:		
Medium term notes	(47.2)	(24.8)
Securitised loan notes	(19.1)	(19.8)
	(66.3)	(44.6)
	(183.6)	(136.1)

Notes to the financial statements continued

6 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

A Taxation charge for the period

	2005		2004	
	£m	£m	£m	£m
Current taxation				
UK corporation tax at 30% (last year 30%):				
Current year	115.4		205.7	
Prior years	(17.5)		(3.6)	
		97.9		202.1
Overseas taxation		6.0		3.7
Total current taxation		103.9		205.8
Deferred taxation (see note 23)				
Current year	44.0		26.0	
Prior years	10.4		(2.5)	
Total deferred taxation		54.4		23.5
		158.3		229.3

Included in the tax charge for the year is a credit of £18.2m (last year £12.7m credit) which is attributable to exceptional charges.

B Taxation reconciliation

	2005 £m	2004 £m
Profit before taxation	745.3	781.6
Taxation at the standard UK corporation tax rate of 30% (last year 30%)	223.6	234.5
Permanent differences	6.2	6.0
Capital allowances less than/(in excess of) depreciation	3.1	(1.8)
Other timing differences	(47.1)	(24.2)
Net effect of restructuring charges	–	1.9
Net effect of different rates of tax in overseas businesses	(8.1)	(7.0)
Adjustments to tax charge in respect of prior periods	(17.5)	(3.6)
Profit on sale of Financial Services	(61.8)	–
Other exceptional charges	5.5	–
Total current taxation	103.9	205.8

7 PROFIT FOR THE FINANCIAL YEAR

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

A profit before tax of £2,518.3m (last year £262.1m) is dealt with in the financial statements of the Company. Profit before tax includes dividends received from a subsidiary of £2,516.6m (last year £262.1m).

8 DIVIDENDS

	2005 £m	2004 £m
Dividends on equity shares		
Paid interim ordinary dividend of 4.6p per share (last year 4.4p per share)	76.3	99.5
Proposed final ordinary dividend of 7.5p per share (last year 7.1p per share)	124.2	160.7
Total ordinary dividend of 12.1p per share (last year 11.5p per share)	200.5	260.2
Dividends on non-equity shares		
Interim B share dividend paid at 3.36% (last year 2.73%)	1.4	1.6
Final B share dividend paid at 3.78% (last year 2.86%)	1.4	1.4
	2.8	3.0
	203.3	263.2

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 on an after tax basis. It has been calculated to allow shareholders to gain a clearer understanding of the underlying trading performance of the Group. Details of the adjusted earnings per share are set out below:

	2005			2004		
	£m	Basic pence per share	Diluted pence per share	£m	Basic pence per share	Diluted pence per share
Basic earnings	584.2	29.1	28.9	549.3	24.2	24.1
Exceptional operating charges	72.2	3.6	3.6	29.4	1.3	1.3
Loss/(profit) on sale of property and other fixed assets	0.4	–	–	(18.7)	(0.8)	(0.8)
Profit on sale/closure of operations	(217.6)	(10.8)	(10.8)	–	–	–
Adjusted earnings	439.2	21.9	21.7	560.0	24.7	24.6
Earnings from discontinued operations	(30.0)	(1.5)	(1.5)	(52.7)	(2.3)	(2.3)
Adjusted earnings from continuing operations	409.2	20.4	20.2	507.3	22.4	22.3

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

	2005 m	2004 m
Weighted average ordinary shares in issue during the year	2,006.2	2,266.7
Potentially dilutive share options under the Group's share option schemes	17.3	15.4
Weighted average ordinary shares for diluted earnings per share	2,023.5	2,282.1

10 EMPLOYEES

A Aggregate remuneration

The aggregate remuneration and associated costs of Group employees were:

	2005			2004		
	Continuing operations ¹ £m	Discontinued operations £m	Total £m	Continuing operations ¹ £m	Discontinued operations £m	Total £m
Wages and salaries	821.9	27.3	849.2	815.6	52.7	868.3
Social security costs	56.2	2.0	58.2	52.9	2.9	55.8
Pension costs (see note 11)	100.7	2.5	103.2	118.4	5.4	123.8
Employee welfare and other personnel costs	35.5	4.7	40.2	36.6	7.0	43.6
Employee costs	1,014.3	36.5	1,050.8	1,023.5	68.0	1,091.5

¹Included within continuing operations is operating profit derived from acquisitions and exceptional items as analysed below:

	2005		2004	
	Acquired operations £m	Exceptional charges/(income) £m	Acquired operations £m	Exceptional charges/(income) £m
Wages and salaries	3.2	15.0	–	23.0
Social security costs	0.3	0.9	–	0.1
Pension costs (see note 11)	0.1	(11.0)	–	–
Employee welfare and other personnel costs	0.4	2.3	–	1.4
Employee costs	4.0	7.2	–	24.5

Notes to the financial statements continued**10 EMPLOYEES** continued**B Average number of employees**

The average number of employees of the Group during the year was:		2005	2004
UK stores	Management and supervisory categories	4,863	4,901
	Other	56,269	55,526
UK head office	Management and supervisory categories	2,525	2,755
	Other	807	919
Acquired operations		173	–
Overseas		4,399	4,381
Discontinued operations		1,514	1,619
		70,550	70,101

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 46,962 (last year 45,222) and for discontinued operations 1,340 (last year 1,432). Comparatives for UK store staffing have been recategorised to reflect the reclassification of divisional staff.

C United Kingdom Share Incentive Plan

The Company 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 decides each year whether an award is to be made, depending upon the year-end profits. No award will be made in July 2005 in respect of the financial year ended 2 April 2005. The last award under this scheme was made in July 2003.

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

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

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

Options granted	Number of shares		Option price
	2005	2004	
January 1997	Expired	1,499,213	389p
January 1998	1,038,090	1,160,288	467p
January 1999	1,594,114	3,832,848	324p
January 2000	4,398,817	11,292,814	223p
January 2001	13,572,339	15,825,503	156p
January 2002	4,702,766	8,720,985	250p
January 2003	7,988,919	9,729,981	283p
January 2004	10,812,290	12,811,587	228p
January 2005	8,080,928	–	280p

E Executive Share Option Schemes

Under the terms of the current Scheme, approved by shareholders in 2002, the Board may offer options to purchase ordinary shares in the Company to executive directors and senior employees at the market price on a date to be determined prior to the date of the offer. No further options may be granted under the 1984, 1987 and 1997 Schemes (further details are set out in the Remuneration report on page 18). Outstanding options granted under all executive share option schemes are as follows:

Options granted	Number of shares		Option price	Option dates
	2005	2004		
(1984 Scheme)				
May 1994	–	1,071,186	404p	May 1997 – May 2004
October 1994	–	21,541	402p	Oct 1997 – Oct 2004
May 1995	1,025,065	1,060,075	414p	May 1998 – May 2005
May 1996	39,376	45,850	458p	May 1999 – May 2006
November 1996	6,172	6,172	486p	Nov 1999 – Nov 2006
June 1997	11,384	17,076	527p	Jun 2000 – Jun 2007
(1987 Scheme)				
June 1997	–	1,269,006	527p	Jun 2000 – Jun 2004

10 EMPLOYEES continued

Options granted	Number of shares		Option price	Option dates
	2005	2004		
(1997 Scheme – Tier 1)				
June 1998	141,720	172,429	557p	Jun 2001 – Jun 2008
November 1998	20,544	179,008	404p	Nov 2001 – Nov 2008
June 1999	411,922	449,913	358p	Jun 2002 – Jun 2009
November 1999	–	59,352	278p	Nov 2002 – Nov 2009
March 2000	–	1,992,337	261p	Mar 2003 – Mar 2010
(1997 Scheme – Tier 2)				
June 1998	705,973	884,667	557p	Jun 2003 – Jun 2008
November 1998	20,544	20,544	404p	Nov 2003 – Nov 2008
June 1999	603,984	648,081	358p	Jun 2004 – Jun 2009
November 1999	21,583	59,352	278p	Nov 2004 – Nov 2009
March 2000	–	1,992,337	261p	Mar 2005 – Mar 2010
(2000 Scheme +3%)				
September 2000	194,906	1,792,689	215p	Sep 2003 – Sep 2010
December 2000	–	451,281	195p	Dec 2003 – Dec 2010
March 2001	–	105,504	218p	Mar 2004 – Mar 2011
June 2001	1,129,506	5,403,205	256p	Jun 2004 – Jun 2011
July 2001	–	168,674	249p	Jul 2004 – Jul 2011
December 2001	997,463	1,204,236	350p	Dec 2004 – Dec 2011
(2000 Scheme +4%)				
September 2000	134,436	1,839,642	215p	Sep 2003 – Sep 2010
December 2000	–	435,897	195p	Dec 2003 – Dec 2010
March 2001	–	105,504	218p	Mar 2004 – Mar 2011
June 2001	744,388	2,734,313	256p	Jun 2004 – Jun 2011
July 2001	–	156,626	249p	Jul 2004 – Jul 2011
December 2001	796,167	985,798	350p	Dec 2004 – Dec 2011
(2002 Scheme +3%)				
June 2002	3,078,332	4,170,578	350p	Jun 2005 – Jun 2012
November 2002	439,463	567,519	353p	Nov 2005 – Nov 2012
January 2003	111,111	242,424	297p	Jan 2006 – Jan 2013
March 2003	–	282,678	306p	Mar 2006 – Mar 2013
March 2003	56,306	111,486	296p	Mar 2006 – Mar 2013
June 2003	3,995,346	5,838,559	297p	Jun 2006 – Jun 2013
November 2003	370,651	564,256	270p	Nov 2006 – Nov 2013
January 2004	53,632	–	289p	Jan 2007 – Jan 2014
February 2004	48,148	–	270p	Feb 2007 – Feb 2014
July 2004	5,028,335	–	347p	Jul 2007 – Jul 2014
November 2004	472,188	–	337p	Nov 2007 – Nov 2014
(2002 Scheme +4%)				
June 2002	2,525,361	3,515,049	350p	Jun 2005 – Jun 2012
November 2002	264,685	330,546	353p	Nov 2005 – Nov 2012
January 2003	101,010	222,222	297p	Jan 2006 – Jan 2013
March 2003	–	272,875	306p	Mar 2006 – Mar 2013
March 2003	56,306	101,351	296p	Mar 2006 – Mar 2013
June 2003	3,398,786	5,082,684	297p	Jun 2006 – Jun 2013
November 2003	229,641	349,173	270p	Nov 2006 – Nov 2013
January 2004	43,252	–	289p	Jan 2007 – Jan 2014
February 2004	37,037	–	270p	Feb 2007 – Feb 2014
July 2004	3,957,495	–	347p	Jul 2007 – Jul 2014
November 2004	418,698	–	337p	Nov 2007 – Nov 2014

F Executive Share Matching Plan

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

The pre-tax value of the invested bonus will be matched by an award of shares, with the extent of the match determined by performance conditions over a three-year period. Further details of the plan are given in the Remuneration report on page 17. £0.3m (last year £0.5m charge) has been credited to profits for this year.

Notes to the financial statements continued

10 EMPLOYEES continued

G Fair value of share awards

As part of the Group's preparation for the transition to International Financial Reporting Standards (IFRS), the Group intends to apply IFRS 2 - 'Share Based Payments', to share scheme awards granted before 7 November 2002. IFRS 2 requires the disclosure of the fair values of share based awards granted prior to 7 November 2002 before the formal adoption of IFRS. Details are given below of the fair values of all grants prior to 7 November 2002 that will impact the consolidated profit and loss account, prepared under IFRS, for the period ended 2 April 2005, the comparative period for IFRS implementation.

Date of award	Scheme	Vesting period (years)	Fair Value of individual award at grant date (pence)
25 November 1997	Save As You Earn	7	221.8
25 November 1998	Save As You Earn	7	120.8
24 November 1999	Save As You Earn	7	62.7
24 November 1999	Save As You Earn	5	64.3
22 November 2000	Save As You Earn	7	55.8
22 November 2000	Save As You Earn	5	59.7
29 June 2001	Executive Share Option	3	76.5
12 July 2001	Executive Share Option	3	72.4
21 November 2001	Save As You Earn	5	120.9
21 November 2001	Save As You Earn	3	117.0
06 December 2001	Executive Share Option	3	114.8
25 June 2002	Executive Share Option	3	116.0
12 July 2002	Restricted Share Plan	3	308.0
30 July 2002	Executive Share Matching Plan	3	452.7

11 RETIREMENT BENEFITS

The Group adopted FRS 17 - 'Retirement Benefits' in full in 2004.

The total cost of retirement benefits for the Group was £84.8m (last year £139.0m) of which £103.2m (last year £123.8m) has been charged against operating profit, £7.0m (last year £nil) has been credited within profit on sale of operations and £11.4m (last year a charge of £15.2m) has been credited within other finance charges.

The charge against operating profit this year includes a £14.0m credit (of which £11.0m has been included within exceptional items) in respect of curtailment gains in the UK defined benefit pension scheme. Excluding these curtailment gains, the charge against operating profit would have been £117.2m.

Within the total Group retirement benefit cost of £84.8m, £74.0m relates to the UK defined benefit pension scheme. The Group also operates small defined benefit pension schemes in the Republic of Ireland and at Kings Super Markets in the USA. Retirement benefits also include a UK post-retirement healthcare scheme and unfunded pension plans.

Contributions to non-defined benefit pension schemes in the year were £6.5m (last year £2.3m).

A Financial assumptions

A full actuarial valuation of the UK defined benefit pension scheme was carried out at 31 March 2003 and showed a deficit of £585m. The demographic assumptions were reviewed and updated at that time. The financial assumptions for the UK scheme and the most recent actuarial valuations of the other post-retirement schemes have been updated by independent qualified actuaries to take account of the requirements of FRS 17 in order to assess the liabilities of the schemes at 2 April 2005:

	2005 %	2004 %	2003 %
Rate of increase in salaries	3.7	3.5	3.5
Rate of increase in pensions in payment ¹	2.6	2.7	2.5
Discount rate	5.5	5.6	5.5
Inflation rate	2.9	2.7	2.5
Long-term healthcare cost increases	7.9	7.7	7.5

¹For 2005 it has been assumed that pension increases will not be above the increases guaranteed in the scheme rules.

11 RETIREMENT BENEFITS *continued***B Market value of assets and expected rates of return**

The market value of the assets in the Group defined benefit pension schemes and the expected long-term rates of return as at year end were:

	Expected long-term rate of return p.a.			2005 £m	2004 £m	Value 2003 £m
	2005 %	2004 %	2003 %			
UK equities	8.1	8.1	8.7	1,025.1	974.7	757.0
Overseas equities	8.4	8.6	9.0	1,065.1	1,011.4	777.2
Government bonds	4.8	4.8	4.6	1,249.0	833.4	500.2
Corporate bonds (Triple B or above)	5.5	5.6	5.5	503.3	483.3	561.1
Other	3.8	3.7	4.0	114.3	331.4	43.0
Total market value of assets ¹	6.7	6.8	7.3	3,956.8	3,634.2	2,638.5
Present value of scheme liabilities				(4,611.0)	(4,280.1)	(3,888.1)
Pension scheme deficit				(654.2)	(645.9)	(1,249.6)
Unfunded pension plans				(2.5)	(3.2)	(3.9)
Post-retirement healthcare				(19.3)	(20.4)	(24.7)
Total post-retirement liabilities				(676.0)	(669.5)	(1,278.2)
Less: related deferred tax asset				201.8	200.0	382.4
Net post-retirement liability				(474.2)	(469.5)	(895.8)

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

C Analysis of the amount charged against profits

	2005 £m	2004 £m
Operating cost		
Current service costs	117.2	123.8
Curtailement gain	(14.0)	–
	103.2	123.8
Profit on sale/closure of operations		
Curtailement gain on disposal of Financial Services	(7.0)	–
Finance cost		
Expected return on scheme assets	(248.9)	(196.9)
Interest on scheme liabilities	237.5	212.1
Net finance (income)/charges	(11.4)	15.2
Total cost of retirement benefits	84.8	139.0

D Analysis of the amount recognised in the consolidated statement of total recognised gains and losses

	2005 £m	2004 £m
Actual return less expected return on scheme assets	77.4	401.9
Experience losses arising on scheme liabilities	(24.0)	(30.3)
Changes in assumptions underlying the present value of scheme liabilities	(131.5)	(157.8)
Actuarial (loss)/gain recognised in the consolidated statement of total recognised gains and losses	(78.1)	213.8

Notes to the financial statements continued

11 RETIREMENT BENEFITS continued

E Movements in liability during year

	2005 £m	2004 £m
Post-retirement liability at beginning of year	(669.5)	(1,278.2)
Current service cost ¹	(117.2)	(123.8)
Curtailment gain	21.0	–
Cash contribution ^{2, 3}	156.4	533.7
Net finance income/(charges)	11.4	(15.2)
Actuarial (loss)/gain	(78.1)	213.8
Exchange movement	–	0.2
Post-retirement liability at end of year	(676.0)	(669.5)

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

²The cash contribution for 2005 includes an additional contribution of £64.0m paid into the UK defined benefit pension scheme in March 2005. The cash contribution for 2004 of £533.7m includes £400.0m paid to the UK defined benefit pension scheme in respect of the deficit identified at the time of the full actuarial valuation of the scheme at 31 March 2003.

³Future contributions to the UK scheme will be made at the rate of 15.8% of pensionable salaries up to the next full actuarial valuation.

F History of experience gains and losses

	2005 £m	2004 £m	2003 £m
Actual return less expected return on scheme assets:			
Amount	77.4	401.9	(713.3)
% of scheme assets at end of year	2.0%	11.1%	(27.0%)
Experience (losses)/gains arising on scheme liabilities:			
Amount	(24.0)	(30.3)	16.0
% of scheme liabilities at end of year	(0.5%)	(0.7%)	0.4%
Total amount recognised in statement of total recognised gains and losses:			
Amount	(78.1)	213.8	(893.4)
% of scheme liabilities at end of year	(1.7%)	5.0%	(23.0%)

12 DIRECTORS

A Emoluments

Emoluments of directors of the Company are summarised below. Further details are given in the Remuneration report on pages 16 to 25.

	2005 £000	2004 £000
Aggregate emoluments	6,016	3,769
Termination payments	3,651	754

B Transactions with directors

During the year, transactions entered into by Marks and Spencer Financial Services plc with directors and connected persons resulted in the following outstanding balances on their combined credit and loyalty cards as at 2 April 2005:

	2005		2004	
	No. of persons	Total balances £	No. of persons	Total balances £
	–	–	10	41,236

Following the disposal during the year of Marks and Spencer Financial Services plc, the directors and connected persons had no balances with any subsidiary of the Group at 2 April 2005. Except as noted above, there was no contract of significance to which the Company, or any of its subsidiaries, was a party and in which a director of the Company was materially interested during the year.

13 INTANGIBLE FIXED ASSETS

	Group Goodwill £m
Cost	
Additions	125.5
At 2 April 2005	125.5
Accumulated amortisation	
Charge for the period	3.1
At 2 April 2005	3.1
Net book value at 2 April 2005	122.4

On 4 October 2004, the Group acquired Per Una Group Limited for a consideration of £125.9m (see note 30A). The goodwill arising on the acquisition of Per Una Group Limited is being amortised on a straight-line basis over a period of 20 years.

14 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 4 April 2004	2,269.2	3,156.8	50.4	5,476.4
Additions	26.6	177.8	15.2	219.6
Transfers	14.3	29.9	(44.2)	–
Revaluation surplus	4.0	–	–	4.0
Disposals	(129.7)	(152.5)	–	(282.2)
Disposal of subsidiaries	–	(50.0)	–	(50.0)
Differences on exchange	1.7	0.1	0.2	2.0
At 2 April 2005	2,186.1	3,162.1	21.6	5,369.8
Accumulated depreciation				
At 4 April 2004	117.3	1,861.5	–	1,978.8
Depreciation for the year	14.0	253.3	–	267.3
Disposals	(4.1)	(150.6)	–	(154.7)
Disposal of subsidiaries	–	(37.5)	–	(37.5)
Differences on exchange	–	(0.2)	–	(0.2)
At 2 April 2005	127.2	1,926.5	–	2,053.7
Net book value at 2 April 2005	2,058.9	1,235.6	21.6	3,316.1
At 3 April 2004	2,151.9	1,295.3	50.4	3,497.6
Analysis of land and buildings				
	Freehold £m	Long leasehold £m	Short leasehold £m	Group Total £m
At valuation	607.6	379.1	12.2	998.9
At cost	719.3	392.2	75.7	1,187.2
	1,326.9	771.3	87.9	2,186.1
Accumulated depreciation	(62.5)	(12.9)	(51.8)	(127.2)
Net book value at 2 April 2005	1,264.4	758.4	36.1	2,058.9
At 3 April 2004	1,349.7	779.8	22.4	2,151.9

Notes to the financial statements continued

14 TANGIBLE FIXED ASSETS continued

B Investment properties

Freehold land and buildings include investment properties as follows:

	Group £m
Cost or valuation	
At 4 April 2004	37.8
Additions	0.8
Revaluation surplus	4.0
At 2 April 2005	42.6

The freehold properties were valued as at 2 April 2005 by qualified professional valuers working for DTZ Debenham Tie Leung, Chartered Surveyors, acting in the capacity of External Valuers. All such valuers are Chartered Surveyors, being members of the Royal Institution of Chartered Surveyors (RICS). The properties were valued on the basis of Market Value at an aggregate value of £42.6m. All valuations were carried out in accordance with the RICS Appraisal and Valuation Standards.

DTZ Debenham Tie Leung have been carrying out valuations for the Group for a continuous period since 2002. They provide and have provided valuations of the Group's occupational properties and, in addition, have provided ad hoc property advice in connection with various aspects of the Group's property portfolio. DTZ Debenham Tie Leung is a wholly-owned subsidiary of DTZ Holdings Plc (the 'DTZ Group'). In the DTZ Group's financial year to 30 April 2004, the proportion of total fees payable by Marks & Spencer to the total fee income of the DTZ Group was less than 5%.

C Tangible fixed assets at cost

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

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

	2005 £m	2004 £m
At valuation at 31 March 1975 ¹	225.6	227.1
At cost	1,330.6	1,402.0
	1,556.2	1,629.1
Accumulated depreciation	(153.6)	(146.3)
Closing net book value	1,402.6	1,482.8

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.

15 FIXED ASSET INVESTMENTS

A Investments

	Joint venture ¹ £m	Other investments ² £m	Group Total £m
Cost			
At 4 April 2004	8.5	15.9	24.4
Disposals	–	(0.8)	(0.8)
Share of joint venture's profits	0.2	–	0.2
At 2 April 2005	8.7	15.1	23.8
Accumulated provision and amortisation			
At 4 April 2004	–	14.4	14.4
Provision for impairment	–	0.4	0.4
At 2 April 2005	–	14.8	14.8
Net book value at 2 April 2005	8.7	0.3	9.0
At 3 April 2004	8.5	1.5	10.0

¹The joint venture represents a 50% equity interest in Hedge End Park Limited, a property investment company incorporated in Great Britain. The partner in the joint venture is J Sainsbury plc. The Group's investment in the joint venture includes accumulated reserves of £2.6m (last year £2.4m).

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

15 FIXED ASSET INVESTMENTS continued

	Company Shares in group undertakings £m
At 2 April 2005	7,648.7
At 3 April 2004	7,643.2

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

B Principal subsidiary undertakings

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

	Principal activity	Country of incorporation and operation	Proportion of voting rights and shares held by:	
			Company	A subsidiary
Marks and Spencer plc	Retailing	Great Britain	100%	–
Marks and Spencer International Holdings Limited	Holding Company	Great Britain	–	100%
Marks and Spencer (Nederland) BV	Holding Company	The Netherlands	–	100%
Marks & Spencer Finance Inc	Holding Company	United States	–	100%
Marks and Spencer (Ireland) Limited	Retailing	Republic of Ireland	–	100%
Kings Super Markets Inc	Retailing	United States	–	100%
Marks and Spencer (Asia Pacific) Limited	Retailing	Hong Kong	–	100%
M&S Card Services Limited	Credit Card Handling	Great Britain	–	100%
M.S. Insurance L.P.	Financial Services	Guernsey	–	100%
M.S. II Insurance L.P.	Financial Services	Guernsey	–	100%
Marks and Spencer Investments Limited	Finance	Great Britain	–	100%
St Michael Finance plc	Finance	Great Britain	–	100%
Marks and Spencer Finance plc	Finance	Great Britain	–	100%
Amethyst Leasing (Properties) Limited	Finance	Great Britain	–	100%
Amethyst Finance plc	Finance	Great Britain	–	– ¹
Marks and Spencer Chester Limited	Property Investment	Great Britain	–	100%
Marks and Spencer SCM Limited	Procurement	Great Britain	–	100%
Per Una Group Limited	Procurement	Great Britain	–	100%
The Zip Project Limited	Procurement	Great Britain	–	100%

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

¹Amethyst Finance plc is a wholly-owned subsidiary of a non-group company but has been consolidated in these accounts as a quasi-subsiidiary in accordance with FRS 5. The quasi-subsiidiary has net assets of £0.1m (last year £nil), the material balances being securitised loan notes of £322.9m (last year £325.6m) offset by a receivable from a group company.

16 DEBTORS

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
A Amounts receivable within one year				
Trade debtors	27.8	30.5	–	–
Customer advances	–	740.8	–	–
Amounts owed by Group undertakings	–	–	205.2	262.1
Other debtors ¹	44.8	44.0	0.1	0.6
Deferred tax asset (see note 23)	–	3.5	–	–
Prepayments and accrued income ²	139.4	152.8	–	–
	212.0	971.6	205.3	262.7
B Amounts receivable after more than one year³				
Customer advances	–	1,711.6	–	–
Other debtors ¹	6.1	8.8	–	–
Prepayments and accrued income ²	0.1	58.9	–	–
	6.2	1,779.3	–	–

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

²Prepayments and accrued income include £65.6m (last year £76.0m) in respect of the UK pension scheme. In addition, prepayments include £nil (last year £61.3m) relating to the long-term assurance business.

³Amounts receivable after more than one year include £2.0m (last year £61.1m) of non-financial assets which have been excluded from the analysis in note 19.

Notes to the financial statements continued

17 CURRENT ASSET INVESTMENTS

	Group	
	2005 £m	2004 £m
Listed investments:		
Government securities	–	86.9
Listed in the United Kingdom	51.0	191.8
Listed overseas	11.4	42.6
Unlisted investments	4.6	4.6
	67.0	325.9

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

18 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.

19 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

	2005				2004			
Currency	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	38.8	118.5	74.5	231.8	624.2	1,633.9	110.5	2,368.6
US dollar	–	12.9	7.2	20.1	–	15.0	3.7	18.7
Euro	–	5.2	12.3	17.5	–	19.6	6.3	25.9
Other	–	9.3	5.4	14.7	–	18.5	8.6	27.1
	38.8	145.9	99.4	284.1	624.2	1,687.0	129.1	2,440.3

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

B Analysis of fixed interest rate assets

Currency	2005 Weighted average interest rate %	2004 Weighted average interest rate %	2005 Weighted average period for which rate is fixed Years	2004 Weighted average period for which rate is fixed Years
Sterling	4.8	5.6	0.3	2.5

C Analysis of financial assets

	Group	
	2005 £m	2004 £m
Current asset investments	67.0	325.9
Cash at bank and in hand	212.6	394.7
Customer advances falling due in more than one year	–	1,711.6
Fixed asset investments	0.3	1.5
Other amounts receivable after more than one year	4.2	6.6
Financial assets as defined by FRS 13	284.1	2,440.3
Customer advances falling due in less than one year	–	740.8
Financial assets including short-term customer advances	284.1	3,181.1

20 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Bank loans, overdrafts and commercial paper ¹	212.9	126.0	-	-
Syndicated bank facility	200.0	-	-	-
Medium term notes (see note 22B)	58.3	216.5	-	-
Securitised loan notes (see note 22B)	3.2	2.7	-	-
Trade creditors	195.3	210.2	-	-
Amounts owed to Group undertakings	-	-	2,100.1	2,165.0
Taxation	15.5	79.8	0.5	-
Social security and other taxes	40.4	43.1	-	-
Other creditors ²	178.7	297.7	-	-
Customer deposits	-	439.3	-	-
Accruals and deferred income	260.8	308.7	0.4	0.2
Proposed final dividend (see note 8)	124.2	160.7	124.2	160.7
	1,289.3	1,884.7	2,225.2	2,325.9

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

²Other creditors include £2.3m (last year £32.6m) which is shown in the calculation of the Group's net debt and is treated as financing within the cash flow statement.

21 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Medium term notes (see note 22B)	1,588.6	1,980.0	-	-
Securitised loan notes (see note 22B)	310.4	313.3	-	-
Other creditors ^{1,2}	20.7	226.3	-	-
	1,919.7	2,519.6	-	-

¹Other creditors includes £2.9m (last year £44.2m) which is shown in the calculation of the Group's net debt and is treated as financing within the cash flow statement, and £17.8m (last year £182.1m) of non-financial liabilities which have been excluded from the analysis in note 22B.

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

22 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	2005			Group 2004		
	Fixed rate £m	Floating rate £m	Total £m	Fixed rate £m	Floating rate £m	Total £m
	Sterling ¹	1,086.7	1,349.1	2,435.8	1,731.6	1,056.6
US dollar	-	8.3	8.3	-	8.3	8.3
Euro	-	0.2	0.2	-	3.6	3.6
Other	-	-	-	-	0.1	0.1
	1,086.7	1,357.6	2,444.3	1,731.6	1,068.6	2,800.2

¹Included within floating rate liabilities are £65.7m (last year £84.9m) of unredeemed B Shares.

The floating rate sterling, US dollar and euro borrowings are linked to interest rates related to LIBOR. These rates are for periods ranging from one month to six months. The fixed rate Sterling borrowings are at a weighted average rate of 6.1% (last year 5.5%) and the weighted average time for which the rate is fixed is 11.4 years (last year 8.6 years).

Notes to the financial statements continued

22 ANALYSIS OF FINANCIAL LIABILITIES continued

B Maturity of financial liabilities

	2005 £m	Group 2004 £m
Repayable within one year or on demand:		
Bank loans, overdrafts and commercial paper	212.9	126.0
Syndicated bank facility	200.0	–
Medium term notes	58.3	216.5
Securitised loan notes	3.2	2.7
B shares (see note 25)	65.7	84.9
Other creditors	2.3	32.6
	542.4	462.7
Repayable between one and two years:		
Medium term notes	820.7	309.8
Securitised loan notes	3.5	3.2
Other creditors	2.2	22.3
	826.4	335.3
Repayable between two and five years:		
Medium term notes	–	903.4
Securitised loan notes	12.5	11.4
Other creditors	0.7	21.9
	13.2	936.7
Repayable in five years or more:		
Medium term notes ¹	767.9	766.8
Securitised loan notes ²	294.4	298.7
	1,062.3	1,065.5
	2,444.3	2,800.2

¹Relates to two fixed rate bonds at rates of 6.375% repayable on 7 November 2011 and 5.625% repayable on 24 March 2014.

²Relates to three separate bonds securitised against 45 of the Group's properties. Two are repayable in instalments. The gross amounts before finance costs are £54.6m and £131.0m 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 £140.0m 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 2 April 2005, the Group had a five-year syndicated bank facility of £1.2bn, of which £200m had been drawn, and an undrawn committed facility of £60m (last year £405m) linked to its commercial paper programme, which is subject to annual review. The Group also has a number of undrawn uncommitted facilities available to it. At 2 April 2005, these amounted to £190m (last year £415m), all of which are due to be reviewed within a year.

23 PROVISIONS FOR LIABILITIES AND CHARGES

	Group			
	UK restructuring ¹ £m	Overseas restructuring ² £m	Deferred tax ³ £m	Total £m
At 4 April 2004	32.2	17.1	–	49.3
Transfer from deferred tax asset (see note 16A)	–	–	(3.5)	(3.5)
Provided in the period	30.4	–	54.4	84.8
Net closure profit in Continental Europe	–	1.2	–	1.2
Utilised during the period	(26.0)	–	–	(26.0)
Movement in net post-retirement liability	–	–	(21.2)	(21.2)
Disposal of subsidiaries	–	–	5.8	5.8
Released	(1.4)	(9.7)	–	(11.1)
Exchange differences	–	1.1	–	1.1
At 2 April 2005	35.2	9.7	35.5	80.4

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

²The provision for Overseas restructuring costs primarily relates to further closure costs in respect of the Group's discontinued operations in Continental Europe.

³The deferred tax balance comprises the following:

	2005 £m	2004 £m
Accelerated capital allowances	76.4	72.3
Pension prepayment	(40.2)	(67.2)
Other short-term timing differences	(0.7)	(8.6)
Deferred tax liability/(asset)	35.5	(3.5)

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 was heard by the European Court of Justice (ECJ) on 1 February 2005 and the judgement of the ECJ should be received later this year. No asset has been recognised in respect of this claim.

24 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

A Fair values of financial instruments

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

Assets/(liabilities)	Group			
	Book value £m	2005 Fair value £m	Book value £m	2004 Fair value £m
Customer advances falling due in more than one year	–	–	1,711.6	1,712.3
Current asset investments ¹	67.0	67.0	325.9	325.9
Fixed asset investments	0.3	0.3	1.5	1.5
Cash at bank and in hand ¹	212.6	212.6	394.7	394.7
Other financial assets due after more than one year	4.2	4.2	6.6	6.6
Borrowings due within one year ²	(476.7)	(476.4)	(377.8)	(372.0)
B shares	(65.7)	(65.7)	(84.9)	(84.9)
Financial liabilities due after more than one year ²	(1,901.9)	(1,935.8)	(2,337.5)	(2,392.6)
Cross currency swaps ²	–	56.3	–	24.5
Interest rate swaps ²	–	3.7	–	11.9
Forward foreign currency contracts ²	–	(0.4)	–	3.8

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

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

Notes to the financial statements continued

24 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

B Hedges of future transactions

Unrecognised gains and losses on instruments used for hedging and those recognised in the period ended 2 April 2005 are as follows:

	2005			2004		
	Gains £m	Losses £m	Net total £m	Gains £m	Losses £m	Net total £m
Unrecognised gains/(losses) on hedges at beginning of the period	74.3	(34.1)	40.2	114.8	(57.6)	57.2
(Gains)/losses arising in previous years recognised in the period	(12.7)	25.8	13.1	(26.1)	12.5	(13.6)
Gains/(losses) in previous years not recognised in the period	61.6	(8.3)	53.3	88.7	(45.1)	43.6
Gains/(losses) arising in the period	12.8	(6.5)	6.3	(14.4)	11.0	(3.4)
Unrecognised gains/(losses) on hedges at end of the period	74.4	(14.8)	59.6	74.3	(34.1)	40.2
Of which:						
Gains/(losses) expected to be recognised within one year	2.9	(3.6)	(0.7)	10.4	(12.1)	(1.7)
Gains/(losses) expected to be recognised after one year	71.5	(11.2)	60.3	63.9	(22.0)	41.9

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.

25 CALLED UP SHARE CAPITAL

	2005 £m	2004 £m
Authorised:		
3,200,000,000 ordinary shares of 25p each (last year 3,200,000,000)	800.0	800.0
3,200,000,000 non-equity B shares of 70p each (last year 3,200,000,000)	2,240.0	2,240.0
Allotted, called up and fully paid:		
1,658,095,142 ordinary shares of 25p each (last year 2,265,144,934)	414.5	566.3
93,822,916 non-equity B shares of 70p each (last year 121,244,763)	65.7	84.9
	480.2	651.2

Issue of new shares:

28,309,324 ordinary shares having a nominal value of £7.0m 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 £68.4m.

Purchase of own shares:

On 28 October 2004, 635,359,116 ordinary shares with a nominal value of £158.8m were purchased by the Group by way of a Tender Offer for an aggregate consideration of £2.3bn. These shares were then cancelled and the nominal value transferred to the capital redemption reserve (see note 26).

Redemption of B shares:

During the period, 27,421,847 B shares were redeemed at par at a total cost of £19.2m. The nominal value of £19.2m has been transferred to the capital redemption reserve (see note 26).

25 CALLED UP SHARE CAPITAL *continued*

The holders of B shares are not entitled to receive notification of any general meeting of Marks and Spencer Group plc, or to attend, speak or vote at any such meeting. B shares carry the right to a sub-LIBOR dividend paid on a semi-annual basis in priority to any dividend paid to the holders of ordinary shares. In the event of the winding up of Marks and Spencer Group plc, the holders of B shares will be entitled to 70p in respect of each B share held, together with the relevant proportion of the dividend payable. The B shares may be redeemed at six monthly intervals. The next redemption date will be 26 September 2005. Marks and Spencer Group plc has the option, on giving notice in writing to the holders of the B shares, to 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.

26 SHAREHOLDERS' FUNDS

	Share capital						Group	
	Ordinary shares £m	Non-equity B shares £m	Share premium account £m	Capital redemption reserve £m	Revaluation reserve £m	Other reserve £m	Profit ^{1,2} and loss account £m	Total £m
At 4 April 2004	566.3	84.9	45.2	1,924.8	356.4	(6,542.2)	6,018.6	2,454.0
Purchase of own shares	(158.8)	–	–	158.8	–	–	(2,300.0)	(2,300.0)
Tender Offer expenses	–	–	–	–	–	–	(14.9)	(14.9)
Redemption of B shares	–	(19.2)	–	19.2	–	–	(19.2)	(19.2)
Sale of own shares held by employee trusts ³	–	–	–	–	–	–	0.3	0.3
Shares issued on exercise of share options	7.0	–	61.4	–	–	–	–	68.4
Revaluation of investment properties	–	–	–	–	4.0	–	–	4.0
Revaluation surplus realised on disposals	–	–	–	–	(28.6)	–	28.6	–
Revaluation element of depreciation charge	–	–	–	–	(1.0)	–	1.0	–
Actuarial loss on post-retirement liability	–	–	–	–	–	–	(55.1)	(55.1)
Exchange differences on foreign currency translation	–	–	–	–	–	–	0.2	0.2
Profit for the period	–	–	–	–	–	–	383.7	383.7
At 2 April 2005	414.5	65.7	106.6	2,102.8	330.8	(6,542.2)	4,043.2	521.4

¹Included in the profit and loss account reserve is a pension reserve of £474.2m (last year £469.5m) which equates to the net post-retirement liability under FRS 17 (see note 11).

²Cumulative 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.

³The Marks and Spencer ESOP Trust ('the Trust') holds 1,526,270 (last year 1,796,970) shares with a net book value of £3.7m (last year £4.0m) and a market value of £5.3m (last year £5.1m). These shares were acquired by the Trust in the market. The Trust used funds provided by Marks and Spencer plc to meet the Group's obligations. Awards are granted to employees at the discretion of Marks and Spencer plc and shares are awarded to employees by the Trust in accordance with the wishes of Marks and Spencer plc under senior executive share schemes, the Share Matching Plan and Restricted Share Plan.

	Share capital				Company	
	Ordinary shares £m	Non-equity B shares £m	Share premium account £m	Capital redemption reserve £m	Profit and loss account £m	Total £m
At 4 April 2004	566.3	84.9	45.2	1,924.8	2,958.8	5,580.0
Purchase of own shares	(158.8)	–	–	158.8	(2,300.0)	(2,300.0)
Tender Offer expenses	–	–	–	–	(14.9)	(14.9)
Redemption of B shares	–	(19.2)	–	19.2	(19.2)	(19.2)
Shares issued on exercise of share options	7.0	–	61.4	–	–	68.4
Profit for the period	–	–	–	–	2,314.5	2,314.5
At 2 April 2005	414.5	65.7	106.6	2,102.8	2,939.2	5,628.8

Notes to the financial statements continued

27 RECONCILIATION OF MOVEMENTS IN GROUP SHAREHOLDERS' FUNDS

	2005 £m	Group 2004 £m
Profit attributable to shareholders	587.0	552.3
Dividends	(203.3)	(263.2)
	383.7	289.1
Other recognised gains/(losses) relating to the year	4.2	(28.6)
Actuarial (losses)/gains net of taxation	(55.1)	150.4
Sale/(purchase) of shares held by employee trusts	0.3	(2.2)
New share capital subscribed	68.4	24.8
Redemption of B shares	(19.2)	(33.4)
Purchase of own shares	(2,300.0)	(54.4)
Tender Offer expenses	(14.9)	–
Net (decrease)/increase in shareholders' funds	(1,932.6)	345.7
Opening shareholders' funds	2,454.0	2,108.3
Closing shareholders' funds	521.4	2,454.0

28 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2005 £m	Group 2004 £m
Continuing operations		
Operating profit	585.7	767.3
Exceptional operating charges (see note 4A)	91.4	42.1
Operating profit before exceptional operating charges	677.1	809.4
Depreciation	250.4	238.9
Amortisation of goodwill	3.1	–
Decrease/(increase) in stocks	55.7	(38.9)
(Increase)/decrease in debtors	(3.5)	38.8
(Decrease)/increase in creditors	(38.0)	2.3
Net cash inflow before exceptional operating cash outflow	944.8	1,050.5
Exceptional operating cash outflow (see note 29A)	(87.3)	(48.2)
Cash inflow from continuing operating activities before contribution to the pension fund	857.5	1,002.3
Contribution to the pension fund following 2003 actuarial valuation	–	(400.0)
Cash inflow from continuing operating activities¹	857.5	602.3
Discontinued operations		
Operating profit	32.3	56.6
Depreciation	1.8	3.0
Increase in customer advances	(19.6)	(436.5)
Increase in customer deposits	697.3	360.7
Decrease/(increase) in debtors	6.7	(17.6)
(Decrease)/increase in creditors	(0.6)	98.0
Cash inflow from discontinued operating activities²	717.9	64.2
Cash inflow from operating activities	1,575.4	666.5

¹Included within cash inflow from continuing operating activities is a cash inflow attributable to acquired operations of £15.7m.

²In relation to discontinued operating activities, cash outflows of £nil (last year £24.4m) and £0.5m (last year £5.8m) were incurred in respect of corporation tax and fixed assets purchases respectively.

29 ANALYSIS OF CASH FLOWS GIVEN IN THE CASH FLOW STATEMENT

	2005 £m	Group 2004 £m
A Exceptional operating cash flows		
UK restructuring costs	(27.0)	(8.0)
Closure of Lifestore	(3.1)	–
Defence costs	(36.2)	–
Board restructure	(7.7)	–
Head office relocation	(12.6)	(10.5)
Restructuring of general merchandise logistics operations	(0.7)	(29.7)
Exceptional operating cash outflow	(87.3)	(48.2)
B Management of liquid resources		
Decrease/(increase) in cash deposits treated as liquid resources	55.7	(65.5)
Net sale of government securities	7.8	44.6
Net sale/(purchase) of listed investments	3.3	(67.9)
Net purchase of unlisted investments	(0.1)	(0.2)
Cash inflow/(outflow) from decrease/(increase) in liquid resources	66.7	(89.0)
C Financing		
Increase/(decrease) in bank loans, overdrafts and commercial paper treated as financing	649.0	(22.3)
Drawdown of syndicated bank facility	200.0	–
(Redemption)/issue of medium term notes	(95.2)	441.7
Redemption of securitised loan notes	(2.8)	(2.5)
Increase/(decrease) in other creditors treated as financing	6.6	(3.3)
Debt financing as shown in analysis of net debt (see note 31)	757.6	413.6
Purchase of own shares	(2,300.0)	(54.4)
Tender Offer expenses	(14.9)	–
Net sale/(purchase) of own shares held by employee trusts	0.6	(3.6)
Redemption of B shares	(19.2)	(33.4)
Shares issued under employees' share schemes	68.4	24.8
Net cash (outflow)/inflow from (decrease)/increase in financing	(1,507.5)	347.0

30 ACQUISITION AND DISPOSALS

A Acquisition of per una

As described in note 13, on 4 October 2004 the Group acquired the per una group of companies for a total consideration of £125.9m.

	£m
Net assets acquired¹	0.4
Goodwill	125.5
Consideration	125.9
Consideration satisfied by:	
Cash	125.9

¹Net assets acquired include £1.4m of assets offset by £1.0m of liabilities. There were no fair value adjustments. The Group has adopted acquisition accounting for the acquisition of the per una group of companies.

Per Una Group Limited was a newly formed entity into which the net assets and liabilities acquired were transferred immediately prior to the acquisition date. As separate accounts were not maintained for this entity in the period prior to the acquisition date, separate figures for profit after tax are not available. Based on the available information, the profit before tax attributable to the acquired business in the year to 31 March 2004 and in the six months prior to acquisition was approximately £17m and £15m respectively. These pre-acquisition figures for the acquired business have been adjusted to reflect the post acquisition structure for the per una group. In the six months prior to acquisition, the value of goods purchased from the acquired business was £85.2m.

Notes to the financial statements continued

30 ACQUISITION AND DISPOSALS continued

B Disposal of Marks and Spencer Retail Financial Services Holdings Limited

As described in note 4C, on 9 November 2004 the Group disposed of its interest in Marks and Spencer Retail Financial Services Holdings Limited to HSBC Holdings plc.

	£m
Tangible fixed assets	12.5
Debtors	2,517.3
Prepayments	71.6
Cash and current asset investments	225.4
Bank loans and overdrafts	(5.6)
Creditors: amounts falling due within one year	(1,995.1)
Creditors: amounts falling due after more than one year	(501.4)
Net assets disposed¹	324.7
Profit on disposal (see note 4C)	208.9
Disposal proceeds (net of costs)¹	533.6
Less net cash disposed in net assets sold	(56.6)
Net cash flow from disposal	477.0

¹Profit on disposal is analysed as follows:

	£m	£m
Agreed sale proceeds (net of costs)	768.6	
Less: pre-sale dividend	(235.0)	
Net proceeds		533.6
Net assets (before pre-sale dividend)	559.7	
Less: pre-sale dividend	(235.0)	
Net assets disposed		324.7
Profit on disposal		208.9

31 ANALYSIS OF NET DEBT

	At 4 April 2004 £m	Cash flow £m	Disposal £m	Exchange and other movements £m	At 2 April 2005 £m
Net cash:					
Cash at bank and in hand (see note 19C)	394.7	(121.0)	(62.2)	1.1	212.6
Less: deposits treated as liquid resources (see below)	(120.6)	55.7	–	0.1	(64.8)
	274.1	(65.3)	(62.2)	1.2	147.8
Bank loans, overdrafts and commercial paper (see note 22B)	(126.0)	(92.5)	5.6	–	(212.9)
Less: amounts treated as financing (see below)	55.6	94.0	–	–	149.6
	(70.4)	1.5	5.6	–	(63.3)
Net cash per cash flow statement	203.7	(63.8)	(56.6)	1.2	84.5
Liquid resources:					
Deposits included in cash (see above)	120.6	(55.7)	–	(0.1)	64.8
Current asset investments (see note 17)	325.9	(11.0)	(247.9)	–	67.0
Liquid resources per cash flow statement	446.5	(66.7)	(247.9)	(0.1)	131.8
Debt financing:					
Bank loans, overdrafts and commercial paper treated as financing (see above)	(55.6)	(649.0)	555.0	–	(149.6)
Syndicated bank facility (see note 22B)	–	(200.0)	–	–	(200.0)
Medium term notes (see note 22B)	(2,196.5)	95.2	454.4	–	(1,646.9)
Securitised loan notes (see note 22B)	(316.0)	2.8	–	(0.4)	(313.6)
Other creditors (see note 22B)	(76.8)	(6.6)	78.2	–	(5.2)
Debt financing (see note 29C)	(2,644.9)	(757.6)	1,087.6	(0.4)	(2,315.3)
Net debt	(1,994.7)	(888.1)	783.1	0.7	(2,099.0)

32 COMMITMENTS AND CONTINGENT LIABILITIES

	2005 £m	Group 2004 £m
A Commitments in respect of properties in the course of development	34.5	74.9

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 2 April 2005, the Group had annual commitments under operating leases as follows:

	2005		2004	
	Land & buildings £m	Other £m	Land & buildings £m	Other £m
Expiring within one year	1.7	0.5	1.2	0.4
Expiring in the second to fifth years inclusive	8.6	3.0	14.6	3.1
Expiring in more than five years	114.3	–	99.7	–
	124.6	3.5	115.5	3.5

33 FOREIGN EXCHANGE RATES

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

	Weighted average sales rate		Weighted average profit rate		Balance sheet rate	
	2005	2004	2005	2004	2005	2004
Euro	1.46	1.44	1.46	1.43	1.46	1.50
US dollar	1.85	1.69	1.86	1.71	1.89	1.85
Hong Kong dollar	14.41	13.23	14.47	13.44	14.73	14.39

34 RELATED PARTY TRANSACTIONS

There were no material transactions with related parties as defined by FRS 8 – 'Related Party Transactions', with the exception of transactions with M&S Money (see note 4), the Hedge End joint venture (see notes 15A and 20) and per una (see note 30A).

Group financial record

	2005 52 weeks £m	2004 53 weeks £m	2003 52 weeks £m	2002 52 weeks £m	2001 52 weeks £m
Profit and loss account					
Turnover					
Continuing operations	7,710.3	7,971.5	7,689.2	7,268.6	6,979.5
Discontinued operations	232.0	330.0	329.9	866.8	1,096.2
Total turnover (excluding sales taxes)	7,942.3	8,301.5	8,019.1	8,135.4	8,075.7
Operating profit					
Continuing operations					
United Kingdom	520.7	719.9	599.9	505.2	308.3
Overseas	65.0	47.4	42.8	33.3	41.9
Excess interest charged to cost of sales of Financial Services	-	-	-	6.4	7.9
	585.7	767.3	642.7	544.9	358.1
Discontinued operations	32.3	56.6	86.4	98.9	82.4
Total operating profit	618.0	823.9	729.1	643.8	440.5
Analysed as:					
Before exceptional operating charges	709.4	866.0	773.0	643.8	467.0
Exceptional operating charges	(91.4)	(42.1)	(43.9)	-	(26.5)
Provision for loss on operations to be discontinued	-	-	-	-	(224.0)
Profit/(loss) on sale/closure of businesses	218.6	-	(1.5)	(366.7)	(1.7)
(Loss)/profit on disposal of property and other fixed assets	(0.4)	18.7	1.6	41.2	(83.2)
Net interest (expense)/income	(102.3)	(45.8)	(40.5)	17.6	13.9
Other finance income/(charge)	11.4	(15.2)	27.0	-	-
Profit before taxation	745.3	781.6	715.7	335.9	145.5
Taxation on ordinary activities	(158.3)	(229.3)	(208.8)	(182.5)	(149.5)
Minority interests	-	-	0.4	(0.4)	(1.5)
Profit/(loss) attributable to shareholders	587.0	552.3	507.3	153.0	(5.5)
Dividends	(203.3)	(263.2)	(246.0)	(238.9)	(258.3)
Profit/(loss) for the period	383.7	289.1	261.3	(85.9)	(263.8)

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

	2005 52 weeks £m	2004 53 weeks £m	2003 52 weeks £m	2002 52 weeks £m	2001 52 weeks £m
Balance sheet					
Intangible fixed assets	122.4	–	–	–	–
Tangible fixed assets	3,316.1	3,497.6	3,435.1	3,381.2	4,118.9
Fixed asset investments	9.0	10.0	29.7	50.3	58.3
Current assets	837.5	3,869.5	3,246.3	3,760.7	3,516.2
Total assets	4,285.0	7,377.1	6,711.1	7,192.2	7,693.4
Creditors: amounts falling due within one year	(1,289.3)	(1,884.7)	(1,710.9)	(1,750.8)	(1,981.6)
Total assets less current liabilities	2,995.7	5,492.4	5,000.2	5,441.4	5,711.8
Creditors: amounts falling due after more than one year	(1,919.7)	(2,519.6)	(1,810.0)	(2,156.3)	(735.1)
Provisions for liabilities and charges	(80.4)	(49.3)	(186.1)	(203.8)	(395.3)
Net post-retirement liability	(474.2)	(469.5)	(895.8)	–	–
Net assets	521.4	2,454.0	2,108.3	3,081.3	4,581.4

	2005 52 weeks £m	2004 53 weeks £m	2003 52 weeks £m	2002 52 weeks £m	2001 52 weeks £m
Cash flow					
Net cash inflow from operating activities	1,575.4	666.5	1,168.7	1,093.7	676.4
Dividends received from joint venture	–	–	8.0	–	–
Returns on investments and servicing of finance	(101.6)	(49.8)	(46.2)	36.8	12.6
Taxation	(166.7)	(220.4)	(216.9)	(179.4)	(164.6)
Capital expenditure and financial investment	(113.6)	(293.9)	(294.4)	176.0	(258.2)
Acquisitions and disposals	363.8	51.3	(38.8)	261.6	5.9
Equity dividends paid	(236.9)	(247.1)	(225.4)	(256.7)	(258.6)
Cash inflow/(outflow) before management of liquid resources and financing	1,320.4	(93.4)	355.0	1,132.0	13.5
Management of liquid resources	66.7	(89.0)	(46.9)	(29.1)	263.7
Financing	(1,507.5)	347.0	(712.3)	(730.2)	(265.4)
(Decrease)/increase in cash	(120.4)	164.6	(404.2)	372.7	11.8
Increase/(decrease) in net debt defined by FRS 1	104.3	163.3	(75.6)	629.2	26.4

Group financial record continued

Key performance measures

		2005 52 weeks	2004 53 weeks	2003 52 weeks	2002 52 weeks	2001 52 weeks
Gross margin ¹	Gross profit	34.8%	35.3%	34.8%	34.4%	32.6%
	Turnover					
Net margin ¹	Operating profit	7.6%	9.6%	8.4%	7.5%	5.1%
	Turnover					
Net margin excluding exceptional items ¹		8.8%	10.2%	8.9%	7.5%	5.5%
Profitability ¹	Profit before tax	6.4%	9.1%	8.2%	8.3%	4.1%
	Turnover					
Profitability excluding exceptional items ¹		7.6%	9.4%	8.8%	7.7%	5.7%
Earnings per share (Defined by FRS 14)	Standard earnings	29.1p	24.2p	21.8p	5.4p	(0.2)p
	Weighted average ordinary shares in issue					
Earnings per share adjusted for exceptional items		21.9p	24.7p	23.3p	16.3p	11.2p
Dividend per share		12.1p	11.5p	10.5p	9.5p	9.0p
Dividend cover ²	Profit attributable to shareholders	2.9x	2.1x	2.1x	2.2x	n/a
	Dividends					
Return on equity ²	Profit attributable to equity shareholders	41.4%	25.2%	22.4%	11.5%	(0.1)%
	Average equity shareholders' funds					
Retail gearing	Retail debt + net post-retirement liability	84.5%	44.7%	53.0%	27.0%	n/a
	Retail debt + net post-retirement liability + retail shareholders' funds					
Retail fixed charge cover	Operating profit before depreciation and operating lease charges	4.1x	7.3x	6.9x	12.6x	10.2x
	Fixed charges ³					
Net debt		£2,099.0m	£1,994.7m	£1,831.4m	£1,907.0m	£1,277.8m
Capital expenditure		£219.6m	£433.5m	£311.0m	£290.5m	£255.7m

¹Based on results from continuing operations only.

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

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

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At least 30% of the fibre used in making Revive Special Silk comes from well-managed forests independently certified according to the rules of the Forest Stewardship Council, and 30% is from post-consumer recycled waste paper.

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