Marks and Spencer p.l.c. financial statements 2002

For the year ended 30 March 2002

Registered Number : 214436

Directors' report

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

Retailing consists of the Group's retail activities under the Marks & Spencer, Brooks Brothers (until 28 December 2001) and Kings Super Markets brand names.

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

Review of activities and future developments

Summary of results from continuing operations	2002 £m	2001 £m
Turnover (ex VAT)	**7,619.4**	7,342.6
Operating profit (before exceptional charges)	**629.1**	480.9
Exceptional operating charges	–	(26.5)
Operating profit (after exceptional charges)	**629.1**	454.4
Non-operating exceptional charges	**41.2**	(84.7)
Interest	**17.4**	13.9
Profit on ordinary activities before tax	**687.7**	383.6
Dividend per share	**8.4p**	9.0p

The year has seen a major change in the focus and performance of the Group: loss making operations in Continental Europe have been closed; non-core businesses in North America have been sold or negotiations are ongoing for their disposal; and there has been a significant turnaround in the performance of UK Retail.

The results from continuing operations include sales and operating profit from King Super Markets as the intended disposal has not yet been completed. During the year, Kings Super Markets contributed £328.7m to turnover (last year £313.1m) and £12.6m to operating profits (last year £11.9m). The results from Continental Europe and Brooks Brothers have been grouped together and separately disclosed under discontinued operations.

Turnover from continuing operations increased by 3.8% to £7,619.4m. Within this, UK Retail turnover grew by 4.5% but was marginally offset by decreases in turnover for Financial Services and International Retail.

Operating profit from continuing operations (but before exceptional charges) increased by 30.8% to £629.1m. This was driven by the improvement in performance of UK Retail, where operating profits before exceptional items increased by 50.9% to £505.2m, marginally offset by decreases in operating profits from Financial Services and International Retail.

Two transactions during the year gave rise to significant non-operating exceptional items. Firstly, the sale and leaseback of 78 stores delivered a profit of £50.0m which is included in the overall profit on disposal of fixed assets of £41.2m. Secondly, the disposal of Brooks Brothers for £157.1m gave rise to a substantial accounting loss of some £376.7m. This loss reflects a charge of £368.2m for goodwill which was written off to reserves when Brooks Brothers was acquired and which we are now required to charge through the profit and loss account. Excluding goodwill, the loss on disposal was £8.5m subject to finalisation of the sale process.

Net interest income increased by £3.5m despite lower average interest rates, as a result of higher average cash balances, which benefited from the proceeds of disposal of businesses and properties.

Profit before tax was £335.7 compared to £145.5m last year. Excluding the results from discontinued operations, and exceptional items, profit before tax was £646.5m compared to £494.8m in the previous year, an increase of 30.7%.

Further details of the Group's activities and of the future development of the Group is contained within the Annual Report and Financial Statement of Marks and Spencer Group p.l.c.

Profit and dividends
The profit for the financial year, after taxation and minority interests, amounts to £152.9m (last year £5.5m loss) The directors have declared dividends as follows:

Ordinary shares	£m
Interim paid, 3.7p per share (last year 3.7p)	**105.2**
Proposed final, 4.7p per share (last year 5.3p)	**133.9**
Total ordinary dividends, 8.4p per share (last year 9.0p)	**239.1**

The final dividend will be paid on 19 July 2002 to the parent company, Marks and Spencer Group p.l.c.

Share capital

(i) Issue of new shares

During the year ended 30 March 2002, 2,449,658 ordinary shares in the Company were issued as follows:
- 2,414,644 under the terms of the Executive Share Option Schemes at prices between 215p and 358p;
- 35,000 issued into the Qualifying Employee Share Ownership Trust at a price of 268.25p; and
- 14 as part of the capital reorganisation.

(ii) Purchase of own shares
The Company is authorised by the shareholders to purchase, in the market, the Company's own shares, as permitted under the Company's Articles of Association. During the year the Company purchased a total of 21,446,162 ordinary shares for cancellation at a cost of £52.0m, representing 0.8% of its issued share capital.

On 18 March 2002, Marks and Spencer p.l.c. had 2,848,387,227 shares in issue.

Scheme of Arrangement
Effective from 19 March 2002, Marks and Spencer Group p.l.c. acquired 100% of the issued share capital of the Company following implementation of a Scheme of Arrangement under section 425 of the Companies Act 1985. This scheme involved the issue of 17 ordinary shares and 21 redeemable B shares by Marks and Spencer Group p.l.c. for every 21 ordinary shares held by the shareholders of the Company.

Directors and their interests
The executive directors who held office during the period are:-

Luc Vandevelde
Robert Colvill
Roger Holmes
Alan McWalter
David Norgrove
Graham Oakley
Laurel Powers-Freeling
Alison Reed

Alison Reed, Laurel Powers-Freeling and Graham Oakley were appointed executive directors of Marks and Spencer p.l.c. on 11 July 2001, 6 November 2001 and 28 March 2002 respectively. Robert Colvill retired from the Board on 31 December 2001.

Sir Michael Perry, Sir Ralph Robins and Sir David Sieff retired from the Board on 11 July 2001. Jack Keenan was appointed non-executive director of Marks and Spencer p.l.c. on 1 September 2001.

Brian Baldock, Tony Ball, Jack Keenan, Kevin Lomax and Dame Stella Rimington resigned from the Board on 28 March 2002, having been appointed to the Board of the parent company, Marks and Spencer Group p.l.c. on 22 January 2002.

With the exception of Graham Oakley, the executive directors shown above are also executive directors of Marks and Spencer Group p.l.c., the ultimate holding company, and as such are not required to disclose in these financial statements interests in the shares of companies in the Marks and Spencer Group as they are disclosed in the financial statements of Marks and Spencer Group p.l.c.

The interests of Graham Oakley in the shares of the ultimate holding company, Marks and Spencer Group p.l.c. are as follows:-

Ordinary shares at appointment	B shares at appointment	Ordinary shares at 30 March 2002	B shares at 30 March 2002	Options at appointment	Options granted in period	Options exercised/ lapsed during period	Options at 30 March 2002	Options exercisable at appointment	Options exercisable at 30 March 2002
55,590	4,121	55,590	4,121	726,852	-	-	726,852	48,126	48,126

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.

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

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

We have a long-established Employees' Profit Sharing Scheme, membership of which is service-related, details of which are given on page 17.

Directors' report

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

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

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

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

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

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

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

The Company's policy concerning the payment of its trade creditors is as follows:

- General merchandise is automatically paid for 11 working days from the end of the week of delivery;
- Foods are 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 the Company for the year ended 30 March 2002 were 14.3 days (10.2 working days), based on the ratio of Company trade creditors at the end of the year to the amounts invoiced during the year by trade creditors.

Charitable and political contributions
During the year, we spent £4.9m in the UK in support of the community. Within this figure, direct donations to charitable organisations amounted to £2.1m. No contributions were made to any political party.

Directors' responsibilities for preparing the financial statements
The directors are obliged under company law to prepare financial statements for each financial year.

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.

Euro
Approximately £2.6m was charged during the period to complete the necessary work for the introduction of the Euro, giving an overall cost approximately £7.8m.

Auditors
A resolution to re-appoint PricewaterhouseCoopers as auditors will be proposed at the next Annual General Meeting.

By order of the Board

Luc Vandevelde, Chairman and Chief Executive
London
20 May 2002

Auditors' report to the members of Marks and Spencer p.l.c.

We have audited the financial statements on pages 6 to 27.

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 on page 4.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

We report to you our opinion as to whether the financial statements give a true and fair view and are 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.

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. 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 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 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 30 March 2002 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London
20 May 2002

Consolidated profit and loss account

	Notes	52 weeks ended 30 March 2002 Continuing operations £m	Discontinued operations £m	Total £m	52 weeks ended 31 March 2001 Continuing operations As restated £m	Discontinued operations As restated £m	Total As restated £m
Turnover	3	**7,619.4**	**516.0**	**8,135.4**	7,342.6	733.1	8,075.7
Operating profit:							
Continuing operations:							
Before exceptional charges		**629.1**	–	**629.1**	480.9	–	480.9
Exceptional operating charges	5A	–	–	–	(26.5)	–	(26.5)
Continental European operations		–	**(42.5)**	**(42.5)**	–	(34.0)	(34.0)
Less provision made last year		–	**42.5**	**42.5**	–	–	–
Other discontinued operations		–	**14.7**	**14.7**	–	20.1	20.1
Total operating profit	3,4	**629.1**	**14.7**	**643.8**	454.4	(13.9)	440.5
Profit/(loss) on sale of property and other fixed assets	5B	**41.2**	–	**41.2**	(83.0)	(0.2)	(83.2)
Provision for loss on operations to be discontinued	5C	–	–	–	–	(224.0)	(224.0)
Loss on sale/termination of operations:	5D						
Loss arising on sale/closure		–	**(102.8)**	**(102.8)**	(1.7)	–	(1.7)
Less provision made last year		–	**104.3**	**104.3**	–	–	–
		–	**1.5**	**1.5**	(1.7)	–	(1.7)
Goodwill previously written off		–	**(368.2)**	**(368.2)**	–	–	–
Net loss on sale/termination of operations		–	**(366.7)**	**(366.7)**	(1.7)	–	(1.7)
Net interest income	6	**17.4**	–	**17.4**	13.9	–	13.9
Profit/(loss) on ordinary activities before taxation		**687.7**	**(352.0)**	**335.7**	383.6	(238.1)	145.5
Taxation on ordinary activities	7	**(195.0)**	**12.6**	**(182.4)**	(146.3)	(3.2)	(149.5)
Profit/(loss) on ordinary activities after taxation		**492.7**	**(339.4)**	**153.3**	237.3	(241.3)	(4.0)
Minority interests (all equity)		**1.1**	**(1.5)**	**(0.4)**	0.5	(2.0)	(1.5)
Profit/(loss) attributable to shareholders		**493.8**	**(340.9)**	**152.9**	237.8	(243.3)	(5.5)
Dividends	9	**(239.1)**	–	**(239.1)**	(258.3)	–	(258.3)
Retained profit/(loss) for the period		**254.7**	**(340.9)**	**(86.2)**	(20.5)	(243.3)	(263.8)
Dividend per share	9			**8.4p**			9.0p

Note of group historical cost profits and losses

	Notes	52 weeks ended 30 March 2002 £m	52 weeks ended 31 March 2001 As restated £m
Profit on ordinary activities before taxation		335.7	145.5
Realisation of property revaluation surplus/(deficit)	24	67.2	(1.3)
Revaluation element of depreciation charge	24	1.6	1.9
Historical cost profit on ordinary activities before taxation		404.5	146.1
Historical cost retained loss for the period		(17.4)	(263.2)

Consolidated statement of total recognised gains and losses

	Notes	52 weeks ended 30 March 2002 £m	52 weeks ended 31 March 2001 As restated £m
Profit/(loss) attributable to shareholders		**152.9**	(5.5)
Exchange differences on foreign currency translation	24	**0.1**	13.3
Unrealised surplus/(deficit) on revaluation of investment properties	24	**0.5**	(1.7)
Total recognised gains and losses relating to the period		**153.5**	6.1
Prior year adjustment	7, 24	**(79.6)**	
Total recognised gains and losses since last annual report		**73.9**	

Group and Company balance sheets

	Notes	Group 30 March 2002 £m	Group 31 March 2001 As restated £m	Company 30 March 2002 £m	Company 31 March 2001 As restated £m
Fixed assets					
Tangible assets:					
Land and buildings		**2,166.9**	2,735.2	**1,688.3**	2,430.4
Fit out, fixtures, fittings and equipment		**1,187.3**	1,291.9	**1,101.6**	1,056.2
Assets in the course of construction		**27.0**	91.8	**21.8**	51.2
	12	**3,381.2**	4,118.9	**2,811.7**	3,537.8
Investments	13	**50.3**	58.3	**429.3**	445.8
		3,431.5	4,177.2	**3,241.0**	3,983.6
Current assets					
Stocks		**325.3**	472.5	**302.6**	299.7
Debtors:					
Receivable within one year	14	**2,676.2**	917.2	**2,598.3**	642.7
Receivable after more than one year	14	**1,667.2**	1,712.1	**60.9**	72.9
Investments	15	**272.7**	260.0	**0.1**	–
Cash at bank and in hand	16	**543.4**	154.4	**426.1**	82.0
		5,484.8	3,516.2	**3,388.0**	1,097.3
Current liabilities					
Creditors: amounts falling due within one year	18	**(1,751.0)**	(1,981.6)	**(1,151.3)**	(729.1)
Net current assets		**3,733.8**	1,534.6	**2,236.7**	368.2
Total assets less current liabilities		**7,165.3**	5,711.8	**5,477.7**	4,351.8
Creditors: amounts falling due after more than one year	19	**(2,156.3)**	(735.1)	**(1,143.9)**	–
Provisions for liabilities and charges	21	**(203.8)**	(395.3)	**(157.2)**	(185.6)
Net assets		**4,805.2**	4,581.4	**4,176.6**	4,166.2
Capital and reserves					
Called up share capital	23,24	**712.1**	716.9	**712.1**	716.9
Share premium account	24	**380.9**	375.6	**380.9**	375.6
Capital redemption reserve	24	**8.0**	2.6	**8.0**	2.6
Revaluation reserve	24	**387.3**	455.6	**309.9**	454.0
Profit and loss account	24	**3,316.5**	3,015.1	**2,765.7**	2,617.1
Shareholders' funds (all equity)	24	**4,804.8**	4,565.8	**4,176.6**	4,166.2
Minority interests (all equity)		**0.4**	15.6	**–**	–
Total capital employed		**4,805.2**	4,581.4	**4,176.6**	4,166.2

Approved by the Board
20 May 2002
Luc Vandevelde, Chairman and Chief Executive
Alison Reed, Group Finance Director

acReed.

Notes to the financial statements

1. Basis of accounting

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.

The Group financial statements incorporate the financial statements of Marks and Spencer p.l.c. and all its subsidiaries for the 52 weeks ended 30 March 2002, or to date of disposal.

The Company is a wholly owned subsidiary of an EU company that publishes consolidated financial statements that include a cash flow statement. Therefore, it is not required to produce a cash flow statement.

2. Accounting policies

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

A summary of the more important Group accounting policies is given below. These policies have been applied consistently with the exception of the Group's policy on deferred tax which has been amended following the adoption of the new accounting standard on deferred tax. Details of the effect of this change in accounting policy are set out in note 7.

In addition, the Group has adopted the following financial reporting standards in these financial statements for the first time:

i) FRS 17 'Retirement Benefits'. The Group is not required to adopt this standard in full until the period ending March 2004, however the transitional disclosure requirements are set out in note 10.

ii) FRS 18 'Accounting Policies' has been complied with, but has not resulted in any amendments to the Group's accounting policies.

Turnover

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

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.

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.

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 (see also c below).
- Leasehold land and buildings under 50 years: over the remaining period of the lease.
- Fit out: 10-25 years according to the estimated life of the asset.
- Fixtures, fittings and equipment: 3-15 years according to the estimated life of the asset.

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

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

c Land and buildings

The Company'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.

2. Accounting policies continued

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.

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

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

Treasury policy and financial risk management
The Board of the parent company, Marks and Spencer Group p.l.c., approves treasury policies and senior management directly controls day-to-day operations.

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, forward foreign currency contracts and forward rate agreements. The purpose of such transactions is to manage the interest rate and currency risks arising from the Group's operations and financing.

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

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

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

As approximately two thirds of the debt currently finances the operation of Financial Services (see point (e) overleaf), current Group policy is to maintain this portion of debt as floating rate and this is achieved with the help of interest rate swaps and forward rate agreements.

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

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

(c) Liquidity risk
The objective is to ensure a mix of funding methods offering flexibility and cost effectiveness to match the needs of the Group. Operating subsidiaries are financed by a combination of retained profits, bank borrowings, commercial paper and medium term notes. Commercial paper issuance is backed by committed bank facilities totalling £425m.

(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.

Notes to the financial statements

2. Accounting policies continued

Treasury policy and financial risk management continued

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

The details of derivatives and other financial instruments required by FRS 13 'Derivatives and Other Financial Instruments: Disclosures', are shown in notes 17, 20 and 22 to the financial statements.

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

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

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.

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

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

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

3. Segmental information

A Classes of business

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

	Turnover		Operating profit		Operating assets	
	2002 £m	2001 £m	**2002 £m**	2001 £m	**2002 £m**	2001 £m
Continuing operations:						
Retailing activities	**7,268.6**	6,979.5	**538.5**	350.2	**5,155.1**	3,862.4
Before exceptional operating charges			**538.5**	376.7		
Exceptional operating charges			**–**	(26.5)		
Financial Services[1,2]	**350.8**	363.1	**84.2**	96.3	**576.7**	518.0
Total continuing operations	**7,619.4**	7,342.6	**622.7**	446.5	**5,731.8**	4,380.4
Discontinued operations – retailing activities	**516.0**	733.1	**14.7**	(13.9)	**(60.4)**	329.3
Total operating activities	**8,135.4**	8,075.7	**637.4**	432.6	**5,671.4**	4,709.7
Add: excess interest charged to cost of sales of Financial Services[2]			**6.4**	7.9		
Total operating profit			**643.8**	440.5	**5,671.4**	4,709.7
Profit/(loss) on sale of property and other fixed assets			**41.2**	(83.2)		
Provision for loss on operations to be discontinued			**–**	(224.0)		
Net loss on sale/termination of operations			**(366.7)**	(1.7)		
Net interest income			**17.4**	13.9		
Profit on ordinary activities before taxation			**335.7**	145.5	**5,671.4**	4,709.7
Unallocated net liabilities					**(866.3)**	(128.3)
Net assets					**4,805.1**	4,581.4

3. Segmental information continued

B Geographical split

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

	Turnover		Operating profit		Operating assets	
	2002 £m	2001 £m	**2002 £m**	2001 £m	**2002 £m**	2001 £m
United Kingdom						
Retail	**6,575.2**	6,293.0	**505.2**	308.3	**5,035.7**	3,757.1
Before exceptional operating charges			**505.2**	334.8		
Exceptional operating charges			**–**	(26.5)		
Financial Services[1,2]	**350.8**	363.1	**84.2**	96.3	**576.7**	518.0
	6,926.0	6,656.1	**589.4**	404.6	**5,612.4**	4,275.1
International						
Continuing operations	**693.4**	686.5	**33.3**	41.9	**119.4**	105.3
Discontinued operations	**516.0**	733.1	**14.7**	(13.9)	**(60.4)**	527.0
	1,209.4	1,419.6	**48.0**	28.0	**59.0**	632.3
Total operating activities	**8,135.4**	8,075.7	**637.4**	432.6	**5,671.4**	4,907.4
Add: excess interest charged to cost of sales of Financial Services[2]			**6.4**	7.9		
Total operating profit			**643.8**	440.5		

[1]Operating profit for Financial Services includes £15.0m of merchant fee income (last year £16.2m) arising on Marks & Spencer Chargecard transactions. This fee is payable by UK Retail and has been deducted in arriving at UK Retail operating profit.
[2]Financial Services operating profit is stated after charging £103.7m (last year £115.3m) of interest to cost of sales. This interest represents the cost of funding the Financial Services business as a separate segment, including both intra-group interest and third party funding. The amount of third party interest payable by the Group amounted to £116.9m (last year £107.4m) (see note 6). Intra-group interest of £6.4m (last year £7.9m), being the excess over third party interest payable, has been added back in the segmental analysis to arrive at total operating profit. The intra-group interest added back this year arose in the first half of the year when the interest charged to cost of sales of Financial Services was greater than the interest payable for that period.
[3]UK Retail turnover including VAT comprises clothing, footwear and gifts £3,773.4m (last year £3,649.5m); home £373.3m (last year £355.8m) and foods £3,093.5m (last year £2,925.9m). VAT on UK Retail turnover was £665.0m (last year £638.2m).
[4]Turnover from continuing operations originates in the following geographical segments: United Kingdom £7,055.9m (last year £6,798.6m) and International £563.5m (last year £545.0m).
[5]The value of goods exported from the UK, including shipments to international subsidiaries, amounted to £329.8m (last year £436.0m).

Turnover and operating profit for discontinued operations comprise:

	Turnover		Operating profit	
	2002 £m	2001 £m	**2002 £m**	2001 £m
North America				
Brooks Brothers (including Japan)	**345.8**	448.1	**14.9**	20.2
Corporate expenses	**–**	–	**(0.2)**	(0.1)
	345.8	448.1	**14.7**	20.1
Continental Europe[6]	**170.2**	285.0	**–**	(34.0)
Total discontinued operations	**516.0**	733.1	**14.7**	(13.9)

[6]Operating profit for Continental Europe in 2002 is stated after releasing £42.5m of provisions, established last year as a provision for trading losses.

Notes to the financial statements

4. Operating profit

	2002			2001		
	Continuing operations £m	**Discontinued operations £m**	**Total £m**	Continuing operations[1] £m	Discontinued operations £m	Total £m
Turnover	**7,619.4**	**516.0**	**8,135.4**	7,342.6	733.1	8,075.7
Cost of sales	**(4,888.6)**	**(302.8)**	**(5,191.4)**	(4,822.6)	(414.5)	(5,237.1)
Gross profit	**2,730.8**	**213.2**	**2,944.0**	2,520.0	318.6	2,838.6
Employee costs (see note 10)	**1,093.6**	**99.8**	**1,193.4**	987.1	130.7	1,117.8
Occupancy costs	**249.4**	**60.1**	**309.5**	231.2	80.3	311.5
Repairs, renewals and maintenance of fixed assets	**111.8**	**4.6**	**116.4**	84.5	6.7	91.2
Depreciation	**225.9**	**23.7**	**249.6**	243.4	32.5	275.9
Other costs[2]	**421.0**	**52.8**	**473.8**	519.4	82.3	601.7
Total net operating expenses[3]	**(2,101.7)**	**(241.0)**	**(2,342.7)**	(2,065.6)	(332.5)	(2,398.1)
Less release of provision made last year	**–**	**42.5**	**42.5**	–	–	–
Operating profit	**629.1**	**14.7**	**643.8**	454.4	(13.9)	440.5

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.

[1]After exceptional charges of £26.5m comprising employee costs of £17.0m and other costs of £9.5m.
[2]Included in 'Other costs' is the remuneration to the auditors for audit and non-audit services as follows:

	Group		Company	
	2002 £m	2001 £m	**2002 £m**	2001 £m
Audit fees	**0.9**	1.1	**0.4**	0.5
Non-audit services	**1.7**	2.1	**0.7**	1.5

Included in non-audit fees above are amounts paid to PricewaterhouseCoopers for audit related services, principally relating to the corporate restructuring, of £1.1m (last year £0.5m), taxation advice £0.3m (last year £0.4m) and general consulting of £0.3m (last year £1.2m).

[3]Included in 'Total net operating expenses' are rentals under operating leases, comprising £7.1m for hire of plant and machinery (last year £4.5m) and £124.6m of other rental costs (last year £124.1m).

5. Exceptional items

A Exceptional operating charges

	2002 £m	2001 £m
UK restructuring costs	**–**	(26.5)

The £26.5m charge last year was in respect of the closure of the 'Direct' catalogue business (£16.5m) and the reduction of roles at the Group's head office (£10.0m).

B Profit/(loss) on sale of property and other fixed assets

	2002 £m	2001 £m
Provision for loss on 'Direct' assets[1]	**–**	(19.0)
Other asset disposals[2]	**41.2**	(64.2)
Loss on sale of property and other fixed assets	**41.2**	(83.2)

[1]Including the restructuring cost of £16.5m disclosed in note 5A above, this gave rise to total closure costs for the 'Direct' catalogue business of £35.5m.
[2]Other asset disposals mainly relates to the disposal of UK Stores.

C Provision for loss on operations to be discontinued

	2002 £m	2001 £m
Net closure costs	**–**	(225.3)
Goodwill previously credited to reserves	**–**	1.3
Provision for loss on operations to be discontinued	**–**	(224.0)

The provision for loss on operations to be discontinued represented the expected cost of the closure of the Group's Continental European subsidiaries. Net closure costs included provisions for future trading losses, losses on disposal of fixed assets, property exit costs and redundancy costs.

5. Exceptional items continued

D Loss on sale/termination of operations

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

	Continental Europe £m	Brooks Brothers £m	Total £m
Net closure costs	(94.3)	–	(94.3)
Less provision made last year	104.3	–	104.3
Net sale proceeds less net assets	–	(8.5)	(8.5)
Goodwill previously written off to reserves	–	(368.2)	(368.2)
	10.0	(376.7)	(366.7)

The loss on disposal last year of £1.7m relates to the sale of the Group's interest in Splendour.com and is stated after a charge of £1.0m for goodwill.

6. Net interest income		**2002**		2001
	£m	**£m**	£m	£m
Bank and other interest income	**320.9**		302.6	
Less: amounts included in turnover of Financial Services	**(283.9)**		(288.7)	
		37.0		13.9
Interest expenditure	**(116.9)**		(107.4)	
Less: interest charged to cost of sales of Financial Services	**103.7**		115.3	
Intra group interest charged to cost of sales of Financial Services (see note 3)	**(6.4)**		(7.9)	
		(19.6)		–
Net interest income		**17.4**		13.9

	2002	2001
Interest expenditure comprises:		
Amounts repayable within five years:		
Bank loans, overdrafts and other borrowings	**(38.0)**	(33.2)
Medium term notes	**(63.1)**	(73.0)
	(101.1)	(106.2)
Amounts repayable after five years:		
Medium term notes	**(15.8)**	(1.2)
	(116.9)	(107.4)

7. Taxation on ordinary activities

A Taxation charge for the period		**2002**	2001	
	£m	**£m**	As restated £m	As restated £m
Current taxation				
UK corporation tax at 30% (last year 30%):				
Current year	**190.0**		151.0	
Prior years	**4.4**		(6.3)	
		194.4		144.7
Double taxation relief		**(0.1)**		(4.7)
		194.3		140.0
Overseas taxation		**6.3**		7.7
		200.6		147.7
Deferred taxation (see note 21)				
Current year	**(4.4)**		2.5	
Prior years	**(13.8)**		(0.7)	
		(18.2)		1.8
		182.4		149.5

Of the current year deferred tax credit, a credit of £13.2m relates to the closure of French operations offset by a charge of £8.8m arising from short term timing differences.

Included in the tax charge for the year is a credit of £13.2m (last year £8.5m) which is attributable to exceptional charges.

Notes to the financial statements

7. Taxation on ordinary activities continued

B Taxation reconciliation

	2002 £m	2001 £m
Profit before taxation	**335.7**	145.5
Taxation at the standard UK corporation tax rate of 30% (last year 30%)	**100.7**	43.7
Permanent differences	**18.4**	24.5
Capital allowances (in excess of)/less than depreciation	**(3.3)**	0.8
Other timing differences	**(5.6)**	5.0
Utilisation of tax losses	**–**	(0.7)
Net effect of restructuring charges	**(24.2)**	85.9
Write-off of goodwill for which no tax relief available	**110.5**	–
Net effect of different rates of tax in overseas businesses	**(2.0)**	(6.7)
Adjustments to tax charge in respect of prior periods	**4.4**	(6.3)
Other differences	**1.7**	1.5
Total current taxation	**200.6**	147.7

C Implementation of Financial Reporting Standard 19

The adoption of Financial Reporting Standard 19 'Accounting for deferred tax' has resulted in changes in the method of accounting for deferred tax. FRS 19 requires, subject to certain exemptions, that deferred tax be recognised in respect of all timing differences that have originated but not reversed by the balance sheet date. The Group's previous accounting policy was to recognise a liability or asset in respect of deferred tax to the extent that it was likely to be payable or recoverable.

As a result of this change in accounting policy, comparatives have been restated as follows:

Profit and loss account

	Tax charge for the period £m	Profit/(loss) attributable to shareholders £m
Period to 31 March 2001 – as reported	(142.7)	1.3
Implementation of FRS 19	(6.8)	(6.8)
Period to 31 March 2001 – as restated	(149.5)	(5.5)

In the current year, the effect of this change in accounting policy has been to increase the total tax charge for the period by £3.3m.

Balance sheet

	Deferred tax provision £m	Shareholders' funds £m
31 March 2001 – as reported	(43.5)	4,645.4
Implementation of FRS 19	(79.6)	(79.6)
31 March 2001 – as restated	(123.1)	4,565.8

8. Profit for the financial year

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

The consolidated profit for the financial year of £152.9m (last year £5.5m loss) includes a £292.5m profit which is dealt with in the financial statements of the Company.

9. Dividends

	2002 £m	2001 £m
Ordinary shares		
Interim paid of 3.7p per share (last year 3.7p)	**105.2**	106.3
Proposed final of 4.7p per share (last year 5.3p)	**133.9**	152.0
Total ordinary dividend of 8.4p per share (last year 9.0p)	**239.1**	258.3

10. Employees

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

		2002	2001
UK stores	Management and supervisory categories	**3,939**	3,880
	Other	**50,583**	55,511
UK head office	Management and supervisory categories	**2,369**	2,242
	Other	**1,038**	1,299
Financial Services	Management and supervisory categories	**208**	189
	Other	**1,370**	1,355
Overseas	Continuing operations	**4,828**	4,514
	Discontinued operations	**5,404**	7,501
		69,739	76,491

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 46,240 (last year 46,466) and for discontinued operations 4,197 (last year 5,747).

The aggregate remuneration and associated costs of Group employees were:

	2002			2001		
	Continuing operations £m	**Discontinued operations £m**	**Total £m**	Continuing operations[1] £m	Discontinued operations £m	Total £m
Wages and salaries	**799.7**	**87.0**	**886.7**	734.9	115.1	850.0
UK profit sharing (see note 10C)	**12.6**	**–**	**12.6**	8.5	–	8.5
Social security costs	**48.8**	**11.5**	**60.3**	45.3	14.7	60.0
Pension costs (see note 10A)	**142.7**	**5.2**	**147.9**	114.1	6.0	120.1
Employee welfare and other personnel costs	**89.8**	**9.7**	**99.5**	84.3	15.0	99.3
	1,093.6	**113.4**	**1,207.0**	987.1	150.8	1,137.9
Classified as:						
Employee costs (see note 4)	**1,093.6**	**99.8**	**1,193.4**	987.1	130.7	1,117.8
Manufacturing cost of sales	**–**	**13.6**	**13.6**	–	20.1	20.1
	1,093.6	**113.4**	**1,207.0**	987.1	150.8	1,137.9

[1]After exceptional charges of £17.0m.

A Pension costs

The total pension cost for the Group was £147.9m (last year £120.1m) of which £138.5m relates to the UK Scheme (last year £110.6m), and £9.4m relates to overseas schemes (last year £9.5m).

The Group operates a number of funded defined benefit pension schemes of which the UK scheme is by far the most significant.

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

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

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

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

The total UK pension cost is analysed as follows:	**2002 £m**	2001 £m
Normal pension cost[1]	**116.1**	92.6
Amortisation of deficit	**14.8**	14.1
Net interest elements	**7.6**	3.9
Total	**138.5**	110.6

[1]At standard contribution rate of 19.7% (last year 15.9%).

Notes to the financial statements

10 Employees (continued)

A Pension costs

As shown in note 14, the Group has prepaid pension costs of £169.4m in relation to the UK scheme. This includes the partial funding of the deficit, offset by the amortisation and interest elements shown above, with the balance being prepaid contributions to the UK Scheme.

Financial Reporting Standard 17 (FRS 17) 'Retirement benefits' was issued in November 2000 to replace SSAP 24 'Accounting for pension costs' and is fully effective for the accounting periods ending on or after 22 June 2003. This year the Group has continued to account for pension costs under SSAP 24 as shown above, although in accordance with FRS 17 transitional arrangements, certain additional disclosures are required as follows:

The major assumptions used by the independent qualified actuaries in updating the most recent valuations of the UK and Republic of Ireland defined benefit pension schemes to 30 March 2002 for FRS 17 purposes were:

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

The assets in the UK and Republic of Ireland defined benefit pension schemes and the expected rates of return as at 30 March 2002 were:

	Long-term rate of return pa %	Value £m
UK equities	7.9	1,156
Overseas equities	8.3	992
Bonds	5.7	1,080
Total market value of assets	7.3	3,228
Present value of Scheme liabilities		(3,498)
Pension scheme deficit before adjustment for prepayment		(270)
Prepaid pension costs included in assets noted above		(119)
Pension scheme deficit		(389)
Unfunded pension plans		(5)
Post-retirement healthcare		(25)
Total post-retirement liabilities		(419)
Less: Related deferred tax asset		126
Net post-retirement liability		(293)

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

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

The Group's net assets at 30 March 2002 would be as follows:

	£m
Net assets, excluding post-retirement liability	4,805
Effect on shareholders' funds (above)	(307)
Net assets, including post-retirement liability	4,498

B Post-retirement health benefits

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

At 30 March 2002, the Company reassessed this liability in accordance with the advice of an independent qualified actuary. The discounted present value of £25.3m (see note 21) has been fully provided. The valuation assumed a premium inflation of 7.5% and an after-tax discount rate of 5.9%. There is a matching deferred taxation asset of £7.6m.

10 Employees (continued)

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

C United Kingdom and Republic of Ireland profit sharing schemes

The amount of profit which will be allocated this year, in the form of ordinary shares in Marks and Spencer Group p.l.c., the ultimate parent company, has been fixed at £12.6m (last year £8.5m), representing 2.5% (last year 1.75%) of the earnings of 44,197 (last year 43,741) eligible employees.

These shares are purchased in the market: 3,066,891 ordinary shares were purchased by the Profit Sharing Trustees in respect of the 2000/2001 allocation.

11. Directors

A Emoluments

Emoluments of directors of the Company are summarised below. Further details are given in the Remuneration Report within the Annual Report and Financial Statements of Marks and Spencer Group p.l.c.

	2002 £'000	2001 £'000
Highest paid director	**2,234**	834
Aggregate emoluments of other directors	**3,753**	3,164
Gains made on exercise of options	**4**	–
Termination payments	**398**	2,742

Retirement benefits are accruing to 6 directors (last year 4) under a defined benefit pension scheme.

B Transactions with directors

An interest-free loan of £28,279 (last year £41,443) was made under the employees' loan scheme by the Company to Graham Oakley prior to his appointment as a director.

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

Notes to the financial statements

12. 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 1 April 2001	2,896.0	2,975.0	91.8	5,962.8
Additions	9.6	243.5	37.4	290.5
Transfers	30.2	28.5	(58.7)	–
Revaluation surplus	0.4	–	–	0.4
Disposals	(650.4)	(330.5)	(42.6)	(1,023.5)
Disposal of subsidiaries	(3.1)	(168.1)	(0.6)	(171.8)
Differences on exchange	(2.1)	(2.3)	(0.3)	(4.7)
At 30 March 2002	**2,280.6**	**2,746.1**	**27.0**	**5,053.7**
Accumulated depreciation				
At 1 April 2001	160.8	1,683.1	–	1,843.9
Depreciation for the year	13.6	236.0	–	249.6
Disposals	(59.3)	(264.7)	–	(324.0)
Disposal of subsidiaries	(1.3)	(94.1)	–	(95.4)
Differences on exchange	(0.1)	(1.5)	–	(1.6)
At 30 March 2002	**113.7**	**1,558.8**	**–**	**1,672.5**
Net book value				
At 30 March 2002	**2,166.9**	**1,187.3**	**27.0**	**3,381.2**
At 1 April 2001	2,735.2	1,291.9	91.8	4,118.9

Company

	Land & buildings £m	Fixtures, fittings & equipment £m	Assets in the course of construction £m	Total £m
Cost or valuation				
At 1 April 2001	2,553.6	2,390.5	51.2	4,995.3
Additions	9.5	230.5	21.8	261.8
Transfers	30.1	21.1	(51.2)	–
Revaluation surplus	0.4	–	–	0.4
Disposals	(799.6)	(124.6)	–	(924.2)
At 30 March 2002	**1,794.0**	**2,517.5**	**21.8**	**4,333.3**
Accumulated depreciation				
At 1 April 2001	123.2	1,334.3	–	1,457.5
Depreciation for the year	10.4	194.4	–	204.8
Disposals	(27.9)	(112.8)	–	(140.7)
At 30 March 2002	**105.7**	**1,415.9**	**–**	**1,521.6**
Net book value				
At 30 March 2002	**1,688.3**	**1,101.6**	**21.8**	**2,811.7**
At 1 April 2001	2,430.4	1,056.2	51.2	3,537.8

Analysis of land & buildings

Group

	Freehold £m	Long leasehold £m	Short leasehold £m	Total £m
At valuation	599.3	406.1	12.2	1,017.6
At cost	714.2	470.7	78.1	1,263.0
	1,313.5	876.8	90.3	2,280.6
Accumulated depreciation	(21.6)	(28.1)	(64.0)	(113.7)
Net book value				
At 30 March 2002	**1,291.9**	**848.7**	**26.3**	**2,166.9**
At 1 April 2001	1,832.5	834.6	68.1	2,735.2

12 Tangible fixed assets continued

	Freehold £m	Long leasehold £m	Short leasehold £m	Company Total £m
At valuation	281.4	366.3	12.2	659.9
At cost	606.7	453.9	73.5	1,134.1
	888.1	820.2	85.7	1,794.0
Accumulated depreciation	(17.5)	(27.0)	(61.2)	(105.7)
Net book value At 30 March 2002	**870.6**	**793.2**	**24.5**	**1,688.3**
At 1 April 2001	1,559.8	840.3	30.3	2,430.4

B Investment properties

Freehold land and buildings include investment properties as follows:

	Group and Company £m
Cost or valuation	
At 1 April 2001	51.5
Disposals	(20.6)
Revaluation surplus	0.4
At 30 March 2002	**31.3**

The properties were valued as at 31 March 2002, by qualified professional valuers working for the company of DTZ Debenham Tie Leung, Chartered Surveyors, acting in the capacity of External Valuers. All such valuers are Chartered Surveyors, being members of the Royal Institution of Chartered Surveyors.

The properties were valued on the basis of Open Market Value at an aggregate value of £31.3m. All valuations were carried out in accordance with the RICS Appraisal and Valuation Manual.

C Tangible fixed assets at cost

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

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

	2002 £m	2001 £m
At valuation at 31 March 1975[1]	**228.7**	333.6
At cost	**1,333.4**	1,840.2
At 30 March	**1,562.1**	2,173.8
Accumulated depreciation	**(133.7)**	(196.8)
Net book value at 30 March	**1,428.4**	1,977.0

[1]The 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.

Notes to the financial statements

13. Fixed asset investments

A Investments

Group

	Joint venture[1,2] £m	Investments[3] £m	Own shares[4] £m	Total £m
At 1 April 2001	19.8	31.2	7.3	58.3
Additions	0.8	2.8	0.1	3.7
Disposals	–	(2.8)	(6.0)	(8.8)
Write down of investments	–	(3.0)	–	(3.0)
Share of joint venture's property revaluation	0.1	–	–	0.1
At 30 March 2002	**20.7**	**28.2**	**1.4**	**50.3**

Company

	Shares in Group undertakings £m	Loans to Group undertakings £m	Joint venture[1,2] £m	Own shares[4] £m	Total £m
At 1 April 2001	372.7	57.5	8.3	7.3	445.8
Additions	4.4	–	–	0.1	4.5
Disposals	–	(15.0)	–	(6.0)	(21.0)
At 30 March 2002	**377.1**	**42.5**	**8.3**	**1.4**	**429.3**

[1]The joint venture represents a 50% interest in Hedge End Park Ltd, a property investment company. The partner in the joint venture is J Sainsbury plc.
[2]The Group's investment in the joint venture includes £2.2m (last year £2.2m) of loans and accumulated reserves of £12.4m (last year £11.5m).
[3]Investments include listed securities held by a subsidiary. The difference between their book value and market value is negligible.
[4]Own shares include 810,835 ordinary shares (last year 3,525,198) in the Company held by the Marks and Spencer p.l.c. Qualifying Employee Share Ownership Trust (see note 23).

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

[1]Amethyst Finance p.l.c. is a wholly owned subsidiary of a non-group company but has been consolidated in these accounts as a quasi-subsidiary in accordance with FRS 5. The quasi-subsidiary has net assets of £nil comprising securitised loan notes of £331.6m offset by an inter-company receivable.

14. Debtors

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
A Amounts receivable within one year				
Trade debtors	**21.9**	34.9	**21.0**	14.6
Customer advances	**579.9**	629.1	**–**	–
Amounts owed by Group undertakings	**1,724.3**	–	**2,315.4**	476.9
Other debtors[1]	**117.8**	29.4	**97.1**	16.8
Prepayments and accrued income[2]	**232.3**	223.8	**164.8**	134.4
	2,676.2	917.2	**2,598.3**	642.7
B Amounts receivable after more than one year[3]				
Customer advances	**1,603.1**	1,630.1	**–**	–
Other debtors[1]	**23.2**	16.3	**20.8**	11.3
Prepayments and accrued income[2]	**40.9**	65.7	**40.1**	61.6
	1,667.2	1,712.1	**60.9**	72.9

[1]Other debtors include an interest-free loan to a director of the Company of £28,279 (last year £41,443), see note 11.
[2]Prepayments and accrued income includes £169.4m (last year £162.7m) in respect of the UK Pension Scheme. Of this, £40.1m (last year £58.6m) is included in amounts receivable after more than one year.
[3]Amounts receivable after more than one year include £52.8m (last year £70.4m) of non-financial assets which have been excluded from the analysis in note 17.

15. Current asset investments

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Listed investments:				
Government securities	**121.9**	141.5	**–**	–
Listed in the United Kingdom	**87.7**	57.6	**–**	–
Listed overseas	**57.0**	50.4	**–**	–
Unlisted investments	**6.1**	10.5	**0.1**	–
	272.7	260.0	**0.1**	–

16. 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.

17. 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

Group

Currency	2002 Fixed rate £m	2002 Floating rate £m	2002 Non-interest bearing £m	2002 Total £m	2001 Fixed rate £m	2001 Floating rate £m	2001 Non-interest bearing £m	2001 Total £m
Sterling	**115.4**	**2,016.2**	**130.6**	**2,262.2**	141.2	1,740.5	87.8	1,969.5
US dollar	**7.5**	**29.7**	**2.0**	**39.2**	11.5	30.1	2.0	43.6
Euro	**27.1**	**12.1**	**12.3**	**51.5**	14.1	21.7	11.1	46.9
Other	**14.4**	**92.1**	**0.7**	**107.2**	10.7	22.4	1.5	34.6
	164.4	**2,150.1**	**145.6**	**2,460.1**	177.5	1,814.7	102.4	2,094.6

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

B Analysis of fixed interest rate

Fixed rate financial assets

Currency	2002 Weighted average interest rate %	2001 Weighted average interest rate %	2002 Weighted average period for which rate is fixed Years	2001 Weighted average period for which rate is fixed Years
Sterling	**6.0**	6.7	**9.0**	9.0
US dollar	**6.0**	6.5	**11.1**	11.1
Euro	**5.1**	5.1	**13.6**	6.0
Other	**3.8**	2.3	**11.3**	8.2

Notes to the financial statements

17 Analysis of financial assets continued

C Analysis of financial assets

	Group 2002 £m	Group 2001 £m
Cash at bank and in hand	**543.4**	154.4
Current asset investments	**272.7**	260.0
Customer advances falling due in more than one year	**1,603.1**	1,630.1
Fixed asset investments	**29.6**	38.5
Other amounts receivable after more than one year	**11.3**	11.6
Financial assets as defined by FRS 13	**2,460.1**	2,094.6
Customer advances falling due in less than one year	**579.9**	629.1
Financial assets including short-term customer advances	**3,040.0**	2,723.7

18. Creditors: amounts falling due within one year

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Bank loans and overdrafts	**265.4**	534.8	**77.6**	35.8
Medium term notes (see note 20B)	**382.7**	486.8	**34.2**	–
Securitised loan notes	**2.3**	–	–	–
Trade creditors	**199.6**	207.5	**177.1**	173.6
Amounts owed to Group undertakings	–	–	**232.4**	20.9
Taxation	**115.8**	95.6	**87.8**	68.1
Social security and other taxes	**31.7**	33.7	**28.4**	24.0
Other creditors	**340.9**	247.4	**154.7**	131.0
Accruals and deferred income	**278.7**	223.8	**225.2**	123.7
Proposed final dividend	**133.9**	152.0	**133.9**	152.0
	1,751.0	1,981.6	**1,151.3**	729.1

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

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Medium term notes (see note 20B)	**1,679.9**	598.3	**1,142.6**	–
Securitised loan notes	**317.1**	–	–	–
Other creditors[1]	**159.3**	136.8	**1.3**	–
	2,156.3	735.1	**1,143.9**	–

[1]Other creditors include £109.6m (last year £84.8m) of non-financial liabilities which have been excluded from the analysis in note 21.

20. 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.

	Group					
	2002			2001		
Currency	Fixed rate £m	Floating rate £m	Total £m	Fixed rate £m	Floating rate £m	Total £m
Sterling	**729.6**	**1,795.3**	**2,524.9**	100.0	1,236.2	1,336.2
US dollar	–	**199.2**	**199.2**	–	193.9	193.9
Euro	**0.3**	–	**0.3**	–	145.0	145.0
Other	**0.7**	–	**0.7**	–	19.3	19.3
	730.6	**1,994.5**	**2,725.1**	100.0	1,594.4	1,694.4

The floating rate sterling and US dollar borrowings are linked to interest rates related to LIBOR. These rates are for periods ranging from one month to six months. The fixed rate sterling borrowings are at a weighted average rate of 6.4% (last year 6.8%) and the weighted average time for which the rate is fixed is 15.2 years (last year 2.3 years).

20 Analysis of financial liabilities continued

B Maturity of financial liabilities

	Group 2002 £m	Group 2001 £m
Repayable within one year:		
Bank loans, overdrafts and commercial paper	**265.4**	534.8
Medium term notes	**382.7**	486.8
Securitised loan notes	**2.3**	–
Other creditors	**27.3**	22.5
	677.7	1,044.1
Repayable between one and two years:		
Medium term notes	**393.7**	175.1
Securitised loan notes	**2.5**	–
Other creditors	**18.6**	20.5
	414.8	195.6
Repayable between two and five years:		
Medium term notes	**917.8**	403.3
Securitised loan notes	**9.4**	–
Other creditors	**28.0**	27.0
	955.2	430.3
Repayable in five years or more:		
Medium term notes[1]	**368.4**	19.9
Securitised loan notes[2]	**305.2**	–
Other creditors	**3.0**	4.5
	676.6	24.4
	2,724.3	1,694.4

[1]Relates to a fixed rate bond at a rate of 6.375% and is repayable in full on 7 November 2011.
[2]Relates to three separate bonds. Two are repayable in instalments. The gross amounts before finance costs are £60m and £131m respectively. The first is a floating rate bond which has been swapped into a fixed rate of 6.34%, amortised on a quarterly basis from 12 March 2002, with final payment due on 12 September 2015. The second is a floating rate bond which has been swapped into a fixed rate of 6.344%, amortised on a quarterly basis from 12 September 2015, with final payment due on 12 December 2026.
The gross amount of the remaining bond is £140m before finance costs. It relates to a fixed rate bond at a rate of 6.282% and is repayable in full on 12 December 2026.

C Borrowing facilities

At 30 March 2002, the Group had an undrawn committed facility of £425.0m (last year £425.0m) linked to its commercial paper programme and subject to annual review. The Group also has a number of undrawn uncommitted facilities available to it. At 30 March 2002 these amounted to £376.8m (last year £547.5m).

21. Provisions for liabilities and charges

Group	Post-retirement[1] health benefits £m	UK[2] restructuring £m	Overseas[3] restructuring £m	Deferred[4] tax £m	Total £m
At 1 April 2001	27.7	43.2	201.3	43.5	315.7
Prior year adjustment (see note 7)	–	–	–	79.6	79.6
At 1 April 2001 as restated	27.7	43.2	201.3	123.1	395.3
Provided in the period	–	7.0	–	–	7.0
Utilised during the period	(1.7)	(30.1)	(137.6)	–	(169.4)
Credited to the profit and loss account	–	–	–	(18.2)	(18.2)
Disposal of subsidiaries	–	–	–	1.5	1.5
Increase due to unwinding of discount	1.7	–	–	–	1.7
Released in the period	(2.4)	–	(10.0)	–	(12.4)
Exchange differences	–	–	(1.7)	–	(1.7)
At 30 March 2002	**25.3**	**20.1**	**52.0**	**106.4**	**203.8**

Notes to the financial statements

21. Provisions for liabilities and charges continued

					Company
	Post-retirement health benefits £m	UK restructuring £m	Overseas restructuring £m	Deferred tax £m	Total £m
At 1 April 2001	27.7	43.2	8.6	39.7	119.2
Prior year adjustment (see note 7)	–	–	–	66.4	66.4
At 1 April 2001 as restated	27.7	43.2	8.6	106.1	185.6
Provided in the period	–	7.0	–	–	7.0
Utilised during the period	(1.7)	(30.1)	(2.0)	(0.9)	(34.7)
Increase due to unwinding of discount	1.7	–	–	–	1.7
Released in the period	(2.4)	–	–	–	(2.4)
At 30 March 2002	**25.3**	**20.1**	**6.6**	**105.2**	**157.2**

[1]The £25.3m provision for post-retirement health benefits represents the estimated value of the Group's subsidy of the Marks & Spencer Health Insurance Scheme, in so far as it relates to private medical benefits for retired employees and their dependants, for whom the Group meets the whole, or part, of the cost (see note 10B for further details).
[2]The provision for UK restructuring costs relates to the costs of restructuring the Group's UK operations. The majority of these costs are expected to be incurred during the next financial year with the exception of costs associated with the Early Retirement Plan which are anticipated to be incurred over the next eight years.
[3]The provision for Overseas restructuring costs primarily relates to further closure costs in respect of the discontinuation of the Group's operations in Continental Europe. The majority of which are expected to be incurred during the next financial year.
[4]The provision for deferred tax has been restated as at 1 April 2001 following the adoption of Financial Reporting Standard 19 'Accounting for deferred tax'. The deferred tax balance comprises the following:

		Group		Company
	2002 £m	2001 £m	2002 £m	2001 £m
Accelerated capital allowances	**69.0**	79.6	**69.0**	66.4
Pension prepayment	**50.8**	48.8	**50.8**	48.8
Other short-term timing differences	**(13.4)**	(5.3)	**(14.6)**	(9.1)
	106.4	123.1	**105.2**	106.1

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

22. Financial instruments and risk management

A Fair values of financial instruments

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

				Group
		2002		2001
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Assets/(liabilities)				
Customer advances falling due in more than one year	**1,603.1**	**1,610.9**	1,630.1	1,646.2
Current asset investments[1]	**272.7**	**272.7**	260.0	255.5
Fixed asset investments[2]	**29.6**	**29.6**	38.5	38.5
Cash at bank and in hand[1]	**543.4**	**543.4**	154.4	154.4
Borrowings due within one year[1]	**(677.7)**	**(675.6)**	(1,044.1)	(1,039.6)
Financial liabilities due after more than one year[1]	**(2,045.4)**	**(2,081.1)**	(650.3)	(694.7)
Interest rate swaps[3]	**–**	**16.9**	–	22.6
Forward foreign currency contracts[3]	**–**	**2.1**	–	(1.4)
FTSE 100 put options[4]	**0.4**	**1.3**	1.3	2.8

[1]Current asset investments and cash at bank are predominantly short-term deposits placed with banks, financial institutions and on money markets, and investments in short-term securities. Borrowings are at floating rates. Therefore, fair values closely approximate book values.
[2]Fixed asset investments comprise listed securities held by a subsidiary which are stated at market value.
[3]Interest rate swaps and forward foreign currency contracts have been marked to market to produce a fair value figure.
[4]FTSE 100 put options provide no loss guarantees on certain Unit Trust offers. The options are on a fully matched basis and are not traded. They have been marked to market to produce a fair value figure.

22. 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 30 March 2002 are as follows:

	2002			2001		
	Gains £m	**Losses £m**	**Net total £m**	Gains £m	Losses £m	Net total £m
Unrecognised gains/(losses) on hedges at beginning of the period	**55.9**	**(33.2)**	**22.7**	57.7	(39.2)	18.5
(Gains)/losses arising in previous years recognised in the period	**(6.2)**	**13.3**	**7.1**	(46.7)	20.2	(26.5)
Gains/(losses) in previous years not recognised in the period	**49.7**	**(19.9)**	**29.8**	11.0	(19.0)	(8.0)
Gains/(losses) arising in the period	**16.8**	**(26.7)**	**(9.9)**	44.9	(14.2)	30.7
Unrecognised gains/(losses) on hedges at end of the period	**66.5**	**(46.6)**	**19.9**	55.9	(33.2)	22.7
Of which:						
Gains/(losses) expected to be recognised within one year	**13.7**	**(15.6)**	**(1.9)**	6.2	(13.2)	(7.0)
Gains/(losses) expected to be recognised after one year	**52.8**	**(31.0)**	**21.8**	49.7	(20.0)	29.7

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.

23. Called up share capital

The share capital of the Company and predecessor company is shown below:

	2002 £m	2001 £m
Authorised:		
3,200,000,000 ordinary shares of 25p each	**800.0**	800.0
Allotted, called up and fully paid:		
2,848,387,227 ordinary shares of 25p each (last year 2,867,383,731)	**712.1**	716.9

In the period from 1 April 2001 to 19 March 2002 2,449,658 ordinary shares having an aggregate nominal value of £0.6m were issued under the terms of the Group's share schemes which are described in note 10. The aggregate consideration received was £5.9m.

Of the 2,449,658 ordinary shares referred to above, 35,000 ordinary shares were subscribed for by the Marks and Spencer p.l.c. Qualifying Employee Share Ownership Trust (the 'QUEST') at a market value of £0.1m. Of the shares held by the QUEST, 2,558,578 were allocated to employees, including executive directors, in satisfaction of options exercised under the Marks and Spencer United Kingdom Employees' Save As You Earn Share Option Scheme. The Group received £2.5m (last year £nil) from the QUEST for this purpose. The income from this contribution was transferred by the Group directly to the profit and loss account reserve (see note 24). At 30 March 2002, 810,835 shares were held by the QUEST.

During the period, 21,446,162 ordinary shares having a nominal value of £5.4m were purchased by the Company for an aggregate consideration of £52.0m. These shares were then cancelled and the nominal value of the shares transferred to the capital redemption reserve (see note 24).

On 19 March 2002, Marks and Spencer p.l.c. had 2,848,387,227 shares in issue, with an aggregate nominal value of £712.1m. On this date the entire ordinary share capital was cancelled, and new ordinary shares were issued for the equivalent value to Marks and Spencer Group p.l.c. as part of the Scheme of Arrangement.

Notes to the financial statements

24. Shareholders' funds

Group

	Share capital Ordinary shares £m	Share premium account £m	Capital redemption reserve £m	Revaluation reserve £m	Profit and loss account £m	Total £m
At 1 April 2001 as previously reported	716.9	375.6	2.6	455.6	3,094.7	4,645.4
Prior year adjustment	–	–	–	–	(79.6)	(79.6)
At 1 April 2001 as restated	716.9	375.6	2.6	455.6	3,015.1	4,565.8
Shares issued under the Company's share scheme	0.6	5.3	–	–	–	5.9
Purchase of own shares	(5.4)	–	5.4	–	(52.0)	(52.0)
Revaluation of investment properties	–	–	–	0.4	–	0.4
Share of joint venture's movement in revaluation reserve	–	–	–	0.1	–	0.1
Revaluation surplus realised on disposals	–	–	–	(67.2)	67.2	–
Revaluation element of depreciation charge	–	–	–	(1.6)	1.6	–
Goodwill reinstated in respect of sale of businesses	–	–	–	–	368.2	368.2
Amounts deducted in respect of shares issued to the QUEST	–	–	–	–	2.5	2.5
Exchange differences on foreign currency translation	–	–	–	–	0.1	0.1
Retained loss for the period	–	–	–	–	(86.2)	(86.2)
Cancellation of ordinary shares	(712.1)	–	–	–	712.1	–
Issue of new ordinary shares	712.1	–	–	–	(712.1)	–
At 30 March 2002	**712.1**	**380.9**	**8.0**	**387.3**	**3,316.5**	**4,804.8**

Cumulative goodwill of £62.0m (last year £430.2m) 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.

Company

	Ordinary shares £m	Share premium account £m	Capital redemption reserve £m	Revaluation reserve £m	Profit and loss account £m	Total £m
At 1 April 2001	716.9	375.6	2.6	454.0	2,617.1	4,166.2
Shares issued on exercise of share options	0.6	5.3	–	–	–	5.9
Purchase of own shares	(5.4)	–	5.4	–	(52.0)	(52.0)
Revaluation of investment properties	–	–	–	0.4	–	0.4
Share of joint ventures's movement in revaluation reserve	–	–	–	0.1	–	0.1
Revaluation surplus realised on disposals	–	–	–	(143.0)	143.0	–
Revaluation element of depreciation charge	–	–	–	(1.6)	1.6	–
Amounts deducted in respect of shares issued to the QUEST	–	–	–	–	2.5	2.5
Retained profit for the period	–	–	–	–	53.5	53.5
Cancellation of ordinary shares	(712.1)	–	–	–	712.1	–
Issue of new ordinary shares	712.1	–	–	–	(712.1)	–
At 30 March 2002	**712.1**	**380.9**	**8.0**	**309.9**	**2,765.7**	**4,176.6**

25. Reconciliation of movements in Group shareholders' funds

	Group 2002 £m	Group 2001 As restated £m
Profit attributable to shareholders	**152.9**	(5.5)
Dividends	**(239.1)**	(258.3)
	(86.2)	(263.8)
Other recognised gains and losses relating to the year	**0.6**	11.6
New share capital subscribed	**5.9**	7.1
Amounts added from profit and loss account reserve in respect of shares issued to the QUEST	**2.5**	–
Purchase of own shares	**(52.0)**	(20.3)
Goodwill transferred to profit and loss account on sale/closure of businesses	**368.2**	(1.3)
Net reduction in shareholders' funds	**239.0**	(266.7)
Opening shareholders' funds as previously stated	**4,645.4**	4,905.3
Prior year adjustment (see note 7)	**(79.6)**	(72.8)
Opening shareholders' funds as restated	**4,565.8**	4,832.5
Closing shareholders' funds	**4,804.8**	4,565.8

26. Commitments and contingent liabilities

	The Group 2002 £m	The Group 2001 £m	The Company 2002 £m	The Company 2001 £m
A Commitments in respect of properties in the course of development	**19.3**	54.6	**16.7**	44.8
B Guarantees by the Company in respect of debt instruments issued by subsidiaries	–	–	**1,260.9**	1,716.6

C 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.

D 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.

E Commitments under operating leases:
At 31 March 2002 annual commitments under operating leases were as follows:

	The Group Land & buildings £m	The Group Other £m	The Company Land & Buildings £m	The Company Other £m
Expiring within one year	5.2	0.6	0.6	0.5
Expiring in the second to fifth years inclusive	11.0	2.4	1.7	2.3
Expiring in more than five years	75.9	–	68.4	–
	92.1	**3.0**	**70.7**	**2.8**

27. Foreign exchange rates

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

	Sales average rate 2002	Sales average rate 2001	Profit average rate 2002	Profit average rate 2001	Balance sheet rate 2002	Balance sheet rate 2001
Euro	**1.62**	1.63	**1.63**	1.62	**1.63**	1.62
US dollar	**1.43**	1.48	**1.43**	1.47	**1.42**	1.43
Hong Kong dollar	**11.17**	11.54	**11.11**	11.59	**11.10**	11.11
Japanese yen	**175.88**	163.67	**175.71**	163.54	**188.41**	178.50

28. Related party transactions

The Company is a wholly owned subsidiary of Marks and Spencer Group p.l.c. and therefore has taken advantage of the exemption not to disclose intra-group transactions. There were no material transactions with related parties as defined by FRS 8, 'Related Party Transactions'.

29. Ultimate parent company

The ultimate parent company and controlling party is Marks and Spencer Group p.l.c., a company incorporated in Great Britain. Copies of the group financial statements can be obtained from:-

Michael House, 47-67 Baker Street, London, W1U 8EP.