

Marks and Spencer p.l.c.
Annual Report and Financial Statements 2003
For the year ended 29 March 2003
Registered Number: 214436



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Directors' report

Principal activities

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

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

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

Review of activities and future performance

Summary of results from continuing operations	2003 £m	2002 £m
Turnover (ex VAT)	8,077.2	7,619.4
Operating profit (before exceptional charges)	758.6	629.1
Exceptional operating charges	(43.9)	-
Operating profit (after exceptional charges)	714.7	629.1
Non-operating exceptional income	1.6	41.2
Interest (paid) / received	(40.5)	17.4
Profit on ordinary activities before tax	675.8	687.7
Dividend per share	8.7p	8.4p

Turnover from continuing operations increased by 6.0% to £8,077.2m. Within this, UK Retail turnover increased by 7.5% but was marginally offset by decreases in turnover for Financial Services and Kings Super Markets.

Operating profit from continuing operations (before exceptional charges) increased by 20.6% to £758.6m. This was driven by the improvement in performance within UK Retail, where operating profits before exceptional charges increased by 24.4% to £628.7m.

Net interest expense was £40.5m compared to £17.4m of net interest income last year. This arose following the introduction of debt to the retail balance sheet last year as part of the Marks and Spencer Group p.l.c. return of capital to shareholders.

Profit before tax was £674.3m compared to £335.7m last year. Excluding the results from discontinued operations and exceptional items, profit before tax was £675.8m compared to £687.7m in the previous year.

Discontinued operations relate to Brooks Brothers in the US and retail operations in Continental Europe which were sold and closed respectively during the year to 30 March 2002.

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

Profit and dividends

The profit for the financial year, after taxation and minority interests amounts to £477.2m (last year £152.9m). The directors have declared dividends as follows:

Ordinary shares	£m
Interim paid, this year nil (last year 3.7p per share)	-
Proposed final, 8.7p per share (last year 4.7p per share)	247.7
Total ordinary dividends, 8.7p per share (last year 8.4p per share)	247.7

The final dividend will be paid on 18 July 2003 to the parent company, Marks and Spencer Group p.l.c.

Changes in share capital

No shares have been issued or redeemed during the period.

Directors and their interests

The executive directors who held office during the period are:-

Luc Vandeveld

Roger Holmes

Justin King

Alan McWalter

David Norgrove

Graham Oakley

Laurel Powers-Freeling

Vittorio Radice

Alison Reed

Justin King and Vittorio Radice were appointed executive directors of the Company on 1 September 2002 and 3 March 2003, respectively. Alan McWalter retired as a director on 10 July 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 interest of Graham Oakley in the shares of the ultimate holding company, Marks and Spencer Group p.l.c. are as follows:-

Ordinary shares at 31 March 2002	B shares at 31 March 2002	Ordinary shares at 29 March 2003	B shares at 29 March 2003	Options at 31 March 20/02	Options granted in period during period	Options exercised/lapsed during period	Options at 30 March 2002	Options exercisable at 31 March 2002	Options exercisable at 29 March 2003
55,590	4,121	73,874	3,110	726,852	117,856	(2,173)	842,535	37,309	35,136

Employee involvement

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

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

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

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

We continue to support employee share ownership through long-established employee share schemes, membership of which is service-related, and details of which are given on page 14.

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

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

Charitable and political donations

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

At the Annual General Meeting of Marks and Spencer Group p.l.c. in July 2002, shareholders authorised the Company and Marks and Spencer Financial Services p.l.c. to make donations to EU political organisations and to incur EU political expenditure, under the provisions of the Political Parties, Elections and Referendums Act 2000 (the 'Act'), 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.

Directors' report

Auditors

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

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

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



By order of the Board

Alison Reed, Chief Financial Officer

London, 19 May 2003

Auditors' report

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

We have audited the financial statements which comprise the profit and loss account, the balance sheets, the note of group historical cost profits and losses, consolidated statement of total recognised gains and losses and the related notes.

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.

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. This opinion has been prepared for and only for the Company's members in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and 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 Director's Report.

Basis of audit opinion

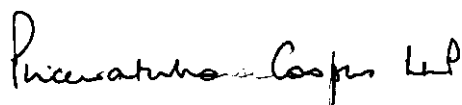
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements 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 29 March 2003 and of the profit of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

London

19 May 2003

Consolidated profit and loss account

	Notes	52 weeks ended 29 March 2003			52 weeks ended 30 March 2002		
		Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
Total turnover	2	8,077.2	–	8,077.2	7,619.4	516.0	8,135.4
Operating profit:							
Continuing operations:							
Before exceptional operating charges		758.6	–	758.6	629.1	–	629.1
Exceptional operating charges	4A	(43.9)	–	(43.9)	–	–	–
Discontinued operations							
Continental European operations		–	–	–	–	(42.5)	(42.5)
Less provision made in 2001		–	–	–	–	42.5	42.5
Other discontinued operations		–	–	–	–	14.7	14.7
Total operating profit	2,3	714.7	–	714.7	629.1	14.7	643.8
Profit on sale of property and other fixed assets	4B	1.6	–	1.6	41.2	–	41.2
Loss on sale/termination of operations:	4C						
Loss arising on sale/closure		–	(12.3)	(12.3)	–	(102.8)	(102.8)
Less provision made in 2001		–	10.8	10.8	–	104.3	104.3
		–	(1.5)	(1.5)	–	1.5	1.5
Goodwill previously written off		–	–	–	–	(368.2)	(368.2)
Net loss on sale/termination of operations		–	(1.5)	(1.5)	–	(366.7)	(366.7)
Net interest (expense)/income	5	(40.5)	–	(40.5)	17.4	–	17.4
Profit/(loss) on ordinary activities before taxation		675.8	(1.5)	674.3	687.7	(352.0)	335.7
Analysed between:							
Profit on ordinary activities before taxation and exceptional items		718.1	–	718.1	646.5	14.7	661.2
Exceptional items		(42.3)	(1.5)	(43.8)	41.2	(366.7)	(325.5)
Taxation on ordinary activities	6	(197.5)	–	(197.5)	(195.0)	12.6	(182.4)
Profit/(loss) on ordinary activities after taxation		478.3	(1.5)	476.8	492.7	(339.4)	153.3
Minority interests (all equity)		0.4	–	0.4	1.1	(1.5)	(0.4)
Profit/(loss) attributable to shareholders		478.7	(1.5)	477.2	493.8	(340.9)	152.9
Dividends	8	(247.7)	–	(247.7)	(239.1)	–	(239.1)
Retained profit/(loss) for the period		231.0	(1.5)	229.5	254.7	(340.9)	(86.2)
Dividend per share	8			8.7p			8.4p

Note of group historical cost profits and losses

	Notes	52 weeks ended 29 March 2003 £m	52 weeks ended 30 March 2002 £m
Profit on ordinary activities before taxation		674.3	335.7
Realisation of property revaluation surplus	24	4.1	67.2
Share of joint venture's revaluation surplus realised on disposal	24	10.4	–
Revaluation element of depreciation charge	24	1.4	1.6
Historical cost profit on ordinary activities before taxation		690.2	404.5
Historical cost retained profit/(loss) for the period		245.4	(17.4)

Consolidated statement of total recognised gains and losses

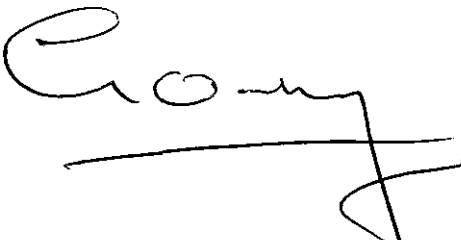
	Notes	52 weeks ended 29 March 2003 £m	52 weeks ended 30 March 2002 £m
Profit attributable to shareholders		477.2	152.9
Exchange differences on foreign currency translation	24	3.4	0.1
Unrealised (deficit)/surplus on revaluation of investment properties	24	(0.8)	0.5
Total recognised gains and losses relating to the period		479.8	153.5

Balance sheets

		Group		Company	
	Notes	29 March 2003 £m	30 March 2002 £m	29 March 2003 £m	30 March 2002 £m
Fixed assets					
Tangible assets:					
Land and buildings		2,148.4	2,166.9	1,459.0	1,688.3
Fit out, fixtures, fittings and equipment		1,248.2	1,187.3	1,138.9	1,101.6
Assets in the course of construction		38.5	27.0	38.4	21.8
	12	3,435.1	3,381.2	2,636.3	2,811.7
Investments	13	31.5	50.3	427.5	429.3
		3,466.6	3,431.5	3,063.8	3,241.0
Current assets					
Stocks		361.8	325.3	304.7	302.6
Debtors:					
Receivable within one year	14	3,006.9	2,676.2	3,142.5	2,598.3
Receivable after more than one year	14	1,547.5	1,667.2	65.2	60.9
Investments	15	304.0	272.7	—	0.1
Cash at bank and in hand	16	167.9	543.4	92.9	426.1
		5,388.1	5,484.8	3,605.3	3,388.0
Current liabilities					
Creditors: amounts falling due within one year	18	(1,778.9)	(1,751.0)	(1,060.9)	(1,151.3)
Net current assets		3,609.2	3,733.8	2,544.4	2,236.7
Total assets less current liabilities		7,075.8	7,165.3	5,608.2	5,477.7
Creditors: amounts falling due after more than one year	19	(1,810.0)	(2,156.3)	(1,130.4)	(1,143.9)
Provisions for liabilities and charges	21	(228.4)	(203.8)	(179.9)	(157.2)
Net assets		5,037.4	4,805.2	4,297.9	4,176.6
Capital and reserves					
Called up share capital	23,24	712.1	712.1	712.1	712.1
Share premium account	24	380.9	380.9	380.9	380.9
Capital redemption reserve	24	8.0	8.0	8.0	8.0
Revaluation reserve	24	370.6	387.3	279.2	309.9
Profit and loss account	24	3,565.8	3,316.5	2,917.7	2,765.7
Shareholders' funds	24	5,037.4	4,804.8	4,297.9	4,176.6
Minority interests		—	0.4	—	—
Total capital employed (all equity)		5,037.4	4,805.2	4,297.9	4,176.6

Approved by the Board
19 May 2003


Alison Reed, Chief Financial Officer



Graham Oakley, Company Secretary and Chief Legal Advisor

Notes to the financial statements

1. Accounting policies

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

Accounting convention and basis of consolidation

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

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

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

Turnover

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

Operating leases

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

Pensions

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

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

Goodwill

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

Fixed assets

- a Capitalised interest
Interest is not capitalised.
- b Depreciation
Depreciation is provided to write off the cost or valuation of tangible fixed assets, less residual value, by equal annual instalments as follows:
 - Land: not depreciated.
 - Freehold and leasehold buildings over 50 years: depreciated to their estimated residual value over their estimated remaining economic lives.
 - Leasehold land and buildings under 50 years: over the remaining period of the lease.
 - Fit out: 10–25 years according to the estimated life of the asset.
 - Fixtures, fittings and equipment: 3–15 years according to the estimated life of the asset.
 - Depreciation is charged on all additions to or disposals of depreciating assets in the year of purchase or disposal.

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

- 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.

Notes to the financial statements

1. Accounting policies continued

Stocks

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

Loans and advances to customers

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

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

Long-term assurance business

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

Derivative financial instruments

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

Foreign currencies

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

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

Deferred taxation

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

Notes to the financial statements

2. Segmental information**A Classes of business**

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

	Turnover		Operating profit		Operating assets	
	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m
Continuing operations:						
Retailing activities	7,747.3	7,268.6	628.3	538.5	5,654.5	5,155.1
Before exceptional operating charges	–	–	672.2	538.5	–	–
Exceptional operating charges	–	–	(43.9)	–	–	–
Financial Services ^{1,2}	329.9	350.8	86.4	84.2	648.7	576.7
Total continuing operations	8,077.2	7,619.4	714.7	622.7	6,303.2	5,731.8
Discontinued operations – retailing activities	–	516.0	–	14.7	(36.6)	(60.4)
Total operating activities	8,077.2	8,135.4	714.7	637.4	6,266.6	5,671.4
Add: excess interest charged to cost of sales of Financial Services ²			–	6.4		
Total operating profit			714.7	643.8	6,266.6	5,671.4
Profit/(loss) on sale of property and other fixed assets			1.6	41.2		
Net loss on sale/termination of operations			(1.5)	(366.7)		
Net interest income			(40.5)	17.4		
Profit on ordinary activities before taxation			674.3	335.7	6,266.6	5,671.4
Unallocated net liabilities					(1,229.2)	(866.2)
Net assets					5,037.4	4,805.2

B Geographical split

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

	Turnover		Operating profit		Operating assets	
	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m
United Kingdom						
Retail	7,066.0	6,575.2	584.8	505.2	5,537.4	5,035.7
Before exceptional operating charges			628.7	505.2		
Exceptional operating charges			(43.9)	–		
Financial Services ^{1,2}	329.9	350.8	86.4	84.2	648.7	576.7
	7,395.9	6,926.0	671.2	589.4	6,186.1	5,612.4
International Retail	681.3	693.4	43.5	33.3	117.1	119.4
Total continuing operations	8,077.2	7,619.4	714.7	622.7	6,303.2	5,731.8
Discontinued operations – International	–	516.0	–	14.7	(36.6)	(60.4)
Total operating activities	8,077.2	8,135.4	714.7	637.4	6,266.6	5,671.4
Add: excess interest charged to cost of sales of Financial Services ²			–	6.4		
Total operating profit			714.7	643.8		

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

²Financial Services operating profit is stated after charging £65.7m (last year £103.7m) of interest to cost of sales. This interest represents the cost of funding the Financial Services business as a separate segment, including both intra-group interest and third party funding. The amount of third party interest payable by the Group amounted to £137.0m (last year £116.9m) (see note 5). Intra-group interest of £nil (last year £6.4m), being the excess over third party interest payable, has been added back in the segmental analysis to arrive at total operating profit.

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

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

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

3. Operating profit

	2003			2002		
	Continuing ¹ operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
Turnover	8,077.2	–	8,077.2	7,619.4	516.0	8,135.4
Cost of sales	(5,137.9)	–	(5,137.9)	(4,888.6)	(302.8)	(5,191.4)
Gross profit	2,939.3	–	2,939.3	2,730.8	213.2	2,944.0
Employee costs (see note 9)	(1,119.6)	–	(1,119.6)	(1,093.6)	(99.8)	(1,193.4)
Occupancy costs	(264.7)	–	(264.7)	(249.4)	(60.1)	(309.5)
Repairs, renewals and maintenance of fixed assets	(114.8)	–	(114.8)	(111.8)	(4.6)	(116.4)
Depreciation	(234.9)	–	(234.9)	(225.9)	(23.7)	(249.6)
Other costs ²	(490.6)	–	(490.6)	(421.0)	(52.8)	(473.8)
Total net operating expenses ³	(2,224.6)	–	(2,224.6)	(2,101.7)	(241.0)	(2,342.7)
Less provision made in 2001	–	–	–	–	42.5	42.5
Operating profit	714.7	–	714.7	629.1	14.7	643.8

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

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

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

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Audit fees	0.8	0.9	0.4	0.4
Non-audit services	1.4	1.7	0.5	0.7

Included in non-audit fees above are amounts paid to PricewaterhouseCoopers for non-audit related services, relating to taxation services £0.4m (last year £0.3m), general advisory services £0.6m (last year £0.3m) and corporate finance and assurance related services £0.4m (last year £1.1m).

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

4. Exceptional items**A Exceptional operating charges**

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

Exceptional items relate to:-

- The proposed relocation of the Group's head office to Paddington Basin; and
- The cost of restructuring the Group's general merchandise logistics operations. The costs principally comprise supplier termination costs and warehouse closure costs.

B Profit on sale of property and other fixed assets

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

C Loss on sale/termination of operations

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

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

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

Notes to the financial statements

5. Net interest (expense) / income

	2003		2002	
	£m	£m	£m	£m
Bank and other interest income	272.8		320.9	
Less: amounts included in turnover of Financial Services	(262.0)		(283.9)	
		10.8		37.0
Interest expenditure	(137.0)		(116.9)	
Less: interest charged to cost of sales of Financial Services	85.7		103.7	
Intra-group interest charged to cost of sales of Financial Services (see note 2)	—		(6.4)	
		(51.3)		(19.6)
Net interest (expense)/income		(40.5)		17.4
Interest expenditure comprises:				
Amounts repayable within five years:				
Bank loans, overdrafts and other borrowings	(22.4)		(38.0)	
Medium term notes	(70.8)		(63.1)	
		(93.2)		(101.1)
Amounts repayable after five years:				
Medium term notes		(43.8)		(15.8)
		(137.0)		(116.9)

6. Taxation on ordinary activities**A Taxation charge for the period**

	2003		2002	
	£m	£m	£m	£m
Current taxation				
UK corporation tax at 30% (last year 30%):				
Current year	211.3		190.0	
Prior years	(16.4)		4.4	
		194.9		194.4
Double taxation relief		—		(0.1)
		194.9		194.3
Overseas taxation		3.7		6.3
Total current taxation		198.6		200.6
Deferred taxation (see note 21)				
Current year	(4.0)		(4.4)	
Prior years	2.9		(13.8)	
Total deferred taxation		(1.1)		(18.2)
		197.5		182.4

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

B Taxation reconciliation

	2003 £m	2002 £m
Profit before taxation	674.3	335.7
Taxation at the standard UK corporation tax rate of 30% (last year 30%)	202.3	100.7
Permanent differences	11.5	18.4
Capital allowances less than / (in excess of) depreciation	2.4	(3.3)
Other timing differences	1.7	(5.6)
Net effect of restructuring charges	0.6	(24.2)
Write-off of goodwill for which no tax relief available	—	110.5
Net effect of different rates of tax in overseas businesses	(3.6)	(2.0)
Adjustments to tax charge in respect of prior periods	(16.4)	4.4
Other differences	0.1	1.7
Total current taxation	198.6	200.6

7. Profit for the financial year

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

The consolidated profit for the financial year of £477.2 (last year £152.9m) includes a £369.3 profit (last year £292.5m) which is dealt with in the financial statements of the Company.

8. Dividends

	2003 £m	2002 £m
Dividends on equity shares		
Paid interim dividend, nil this year (last year 3.7p per share)	–	105.2
Proposed final dividend of 8.7p per share (last year 4.7p per share)	247.7	133.9
Total dividend of 8.7p per share (last year 8.4p per share)	247.7	239.1

9. Employees

A Aggregate remuneration

The aggregate remuneration and associated costs of Group employees were:

	2003			2002		
	Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
Wages and salaries	838.5	–	838.5	799.7	87.0	886.7
Share Incentive Plan (see note 9D)	8.8	–	8.8	12.6	–	12.6
Social security costs	47.7	–	47.7	48.8	11.5	60.3
Pension costs (see note 10A)	144.8	–	144.8	142.7	5.2	147.9
Employee welfare and other personnel costs	79.8	–	79.8	89.8	9.7	99.5
Employee costs	1,119.6	–	1,119.6	1,093.6	113.4	1,207.0
Classified as:						
Employee costs (see note 3)	1,119.6	–	1,119.6	1,093.6	99.8	1,193.4
Manufacturing cost of sales	–	–	–	–	13.6	13.6
	1,119.6	–	1,119.6	1,093.6	113.4	1,207.0

B Average number of employees

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

		2003	2002
UK stores	Management and supervisory categories	4,335	3,939
	Other	53,191	50,583
UK head office	Management and supervisory categories	2,616	2,369
	Other	997	1,038
Financial Services	Management and supervisory categories	200	208
	Other	1,267	1,370
Overseas	Continuing operations	4,527	4,828
	Discontinued operations	–	5,404
		67,133	69,739

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

C Post-retirement health benefits

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

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

The current provision, which is included in the accounts on a SSAP 24 basis, is £25.0m (see note 21). There is a matching deferred taxation asset of £7.5m. The provision has been estimated to be £24m on an FRS 17 basis (last year £25m). See note 10.

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

Notes to the financial statements

9. Employees continued**D United Kingdom Share Incentive Plan and Republic of Ireland Profit Share Scheme**

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

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

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

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

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

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

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

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

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

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

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

As shown in note 14, the Group has prepaid pension costs of £161.0m in relation to the UK scheme. This includes the partial funding of the deficit, offset by the amortisation and interest elements shown above, with the balance being prepaid contributions to the UK scheme.

B FRS 17 disclosure

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

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

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

10. Pension costs continued

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

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

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

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

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

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

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

	2003 £m	2002 £m
Net assets, excluding post-retirement liability	5,037	4,805
Effect on shareholders' funds (above)	(902)	(307)
Net assets, including post-retirement liability	4,135	4,498

Notes to the financial statements

10. Pension costs *continued*

(e) Movements in liability during year:

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

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

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

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.

	2003 £000	2002 £000
Highest paid director	1,725	2,234
Aggregate emoluments of other directors	5,489	3,753
Gains made on exercise of options	15	4
Termination payments	451	398

6 directors (last year 6) are accruing retirement benefits under a defined benefit scheme. 1 director (last year 1) realised a gain on the exercise of share options.

B Transactions with directors

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

2003		2002	
Number of persons	Total balances £	Number of persons	Total balances £
5	11,888	—	—

Further, an interest free loan of £16,944 (last year £28,279) was made under the employees' loan scheme by the Company to Graham Oakley prior to his appointment as a director.

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

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 31 March 2002	2,280.6	2,746.1	27.0	5,053.7
Additions	13.2	259.4	38.4	311.0
Transfers	4.0	22.7	(26.7)	—
Revaluation surplus	(0.8)	—	—	(0.8)
Disposals	(36.9)	(57.3)	—	(94.2)
Differences on exchange	5.8	(4.7)	(0.2)	0.9
At 29 March 2003	2,265.9	2,966.2	38.5	5,270.6
Accumulated depreciation				
At 31 March 2002	113.7	1,558.8	—	1,672.5
Depreciation for the year	12.1	222.8	—	234.9
Disposals	(8.6)	(56.2)	—	(64.8)
Release of provision for loss on disposal	—	(4.5)	—	(4.5)
Differences on exchange	0.3	(2.9)	—	(2.6)
At 29 March 2003	117.5	1,718.0	—	1,835.5
Net book value				
At 29 March 2003	2,148.4	1,248.2	38.5	3,435.1
At 30 March 2002	2,166.9	1,187.3	27.0	3,381.2

	Company			
	Land & buildings £m	Fixtures, fittings & equipment £m	Assets in the course of construction £m	Total £m
Cost or valuation				
At 31 March 2002	1,794.0	2,517.5	21.8	4,333.3
Additions	13.3	251.5	38.4	303.2
Transfers	3.8	18.0	(21.8)	—
Revaluation surplus	(0.8)	—	—	(0.8)
Disposals	(252.3)	(102.8)	—	(355.1)
At 29 March 2003	1,558.0	2,684.2	38.4	4,280.6
Accumulated depreciation				
At 31 March 2002	105.7	1,415.9	—	1,521.6
Depreciation for the year	8.1	205.3	—	213.4
Disposals	(14.8)	(71.4)	—	(86.2)
Release of provision for loss on disposal	—	(4.5)	—	(4.5)
At 29 March 2003	99.0	1,545.3	—	1,644.3
Net book value				
At 29 March 2003	1,459.0	1,138.9	38.4	2,636.3
At 30 March 2002	1,688.3	1,101.6	21.8	2,811.7

Analysis of land & buildings

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

Notes to the financial statements

12. Tangible fixed assets *continued***Analysis of land & buildings**

	Company			
	Freehold £m	Long leasehold £m	Short leasehold £m	Total £m
At valuation	280.4	339.5	12.2	632.1
At cost	579.8	268.4	77.7	925.9
	860.2	607.9	89.9	1,558.0
Accumulated depreciation	21.0	15.0	63.0	99.0
Net book value				
At 29 March 2003	839.2	592.9	26.9	1,459.0
At 30 March 2002	870.6	793.2	24.5	1,688.3

B Investment properties

Freehold land and buildings include investment properties as follows:

	Group £m
Cost or valuation	
At 31 March 2002	31.3
Revaluation deficit	(0.8)
At 29 March 2003	30.5

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

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

C Tangible fixed assets at cost

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

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

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

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

13. Fixed asset investments**A Investments**

	Group			
	Joint venture ^{1,2} £m	Other investments ³ £m	Own shares ⁴ £m	Total £m
Cost				
At 31 March 2002	20.7	34.8	1.4	56.9
Additions	—	0.7	2.2	2.9
Disposals	(10.2)	(5.8)	(1.4)	(17.4)
Share of joint venture's losses	(1.7)	—	—	(1.7)
Differences on exchange	—	(0.6)	—	(0.6)
At 29 March 2003	8.8	29.1	2.2	40.1
Accumulated provision and amortisation				
At 31 March 2002	—	6.6	—	6.6
Amortisation	—	—	0.4	0.4
Provision for impairment	—	1.0	—	1.0
Differences on exchange	—	0.6	—	0.6
At 29 March 2003	—	8.2	0.4	8.6
Net book value				
At 29 March 2003	8.8	20.9	1.8	31.5
At 31 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
Cost					
At 31 March 2002	669.1	42.5	8.3	1.4	721.3
Additions	—	—	—	2.2	2.2
Disposals	—	—	(2.2)	(1.4)	(3.6)
At 29 March 2003	669.1	42.5	6.1	2.2	719.9
Accumulated provision and amortisation					
At 31 March 2002	292.0	—	—	—	292.0
Amortisation	—	—	—	0.4	0.4
At 29 March 2003	292.0	—	—	0.4	292.4
Net book value					
At 29 March 2003	377.1	42.5	6.1	1.8	427.5
At 31 March 2002	377.1	42.5	8.3	1.4	429.3

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

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

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

⁴Own shares include 705,237 of shares held in employee trusts for the Restricted Share Plan and Long-term Incentive Scheme. The shares held in the QUEST have now been issued to employees; there were no shares held in the QUEST at 29 March 2003.

Notes to the financial statements

13. Fixed asset investments continued**B Principal subsidiary undertakings**

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

	Principal activity	Country of incorporation and operation	Proportion of voting rights and shares held by:	
			Company	A subsidiary
Marks and Spencer 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%	—

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

14. Debtors

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
A Amounts receivable within one year				
Trade debtors	32.1	21.9	29.2	21.0
Customer advances	534.3	579.9	—	—
Amounts owed by Group undertakings	2,099.0	1,724.3	2,855.7	2,315.4
Other debtors ¹	110.7	117.8	94.6	97.1
Prepayments and accrued income ²	230.8	232.3	163.0	164.8
	3,006.9	2,676.2	3,142.5	2,598.3
B Amounts receivable after more than one year³				
Customer advances	1,481.6	1,603.1	—	—
Other debtors ¹	15.7	23.2	2.4	20.8
Prepayments and accrued income ²	50.2	40.9	62.8	40.1
	1,547.5	1,667.2	65.2	60.9

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

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

³Amounts receivable after more than one year include £52.4m (last year £52.8m) of non-financial assets which have been excluded from the analysis in note 17.

15. Current asset investments

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Listed investments:				
Government securities	131.4	121.9	—	—
Listed in the United Kingdom	108.5	87.7	—	—
Listed overseas	59.5	57.0	—	—
Unlisted investments	4.6	6.1	—	0.1
	304.0	272.7	—	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

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

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

B Analysis of fixed interest rate

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

C Analysis of financial assets

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

18. Creditors: amounts falling due within one year

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Bank loans, overdrafts and commercial paper	150.2	265.4	72.9	77.6
Medium term notes (see note 20B)	443.9	382.7	15.4	34.2
Securitised loan notes	2.5	2.3	—	—
Trade creditors	201.6	199.6	165.9	177.1
Amounts owed to Group undertakings	—	—	117.6	232.4
Taxation	96.9	115.8	62.0	87.8
Social security and other taxes	30.5	31.7	25.6	28.4
Other creditors ¹	367.0	340.9	159.5	154.7
Accruals and deferred income	238.6	278.7	194.3	225.2
Proposed final dividend	247.7	133.9	247.7	133.9
	1,778.9	1,751.0	1,060.9	1,151.3

¹Other creditors include £31.7m (last year £27.3m) of financial liabilities which have been included in the analysis in note 20

Notes to the financial statements

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

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Medium term notes (see note 20B)	1,310.9	1,679.9	1,128.0	1,142.6
Securitised loan notes	315.7	317.1	–	–
Other creditors ¹	183.4	159.3	2.4	1.3
	1,810.0	2,156.3	1,130.4	1,143.9

¹Other creditors include £132.6m (last year £109.6m) of non-financial liabilities which have been excluded from the analysis in note 20.

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.

Currency	2003			2002		
	Fixed rate £m	Floating rate £m	Total £m	Fixed rate £m	Floating rate £m	Total £m
Sterling	780.9	1,515.1	2,296.0	729.6	1,794.5	2,524.1
US dollar	–	9.5	9.5	–	199.2	199.2
Euro	–	0.2	0.2	0.3	–	0.3
Other	–	–	–	0.7	–	0.7
	780.9	1,524.8	2,305.7	730.6	1,993.7	2,724.3

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

B Maturity of financial liabilities

	Group	
	2003 £m	2002 £m
Repayable within one year:		
Bank loans, overdrafts and commercial paper	150.2	265.4
Medium term notes	443.9	382.7
Securitised loan notes	2.5	2.3
Other creditors	31.7	27.3
	628.3	677.7
Repayable between one and two years:		
Medium term notes	26.6	393.7
Securitised loan notes	5.9	2.5
Other creditors	22.3	18.6
	54.8	414.8
Repayable between two and five years:		
Medium term notes	915.2	917.8
Securitised loan notes	11.4	9.4
Other creditors	24.3	28.0
	950.9	955.2
Repayable in five years or more:		
Medium term notes ¹	369.1	368.4
Securitised loan notes ²	298.4	305.2
Other creditors	4.2	3.0
	671.7	676.6
	2,305.7	2,724.3

¹Relates to a fixed rate bond at a rate of 6.375% and is repayable in full on 7 November 2011.

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 £57.3m 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.

20. Analysis of financial liabilities continued**C Borrowing facilities**

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

21. Provisions for liabilities and charges

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

	Company				
	Post-retirement health benefits ¹ £m	UK restructuring ² £m	Overseas restructuring ³ £m	Deferred tax ⁴ £m	Total £m
At 31 March 2002	25.3	20.1	6.6	105.2	157.2
Provided in the period	—	45.4	—	—	45.4
Utilised during the period	(1.9)	(11.5)	(6.6)	—	(20.0)
Credited to the profit and loss account	—	—	—	(4.3)	(4.3)
Increase due to unwinding of discount	1.6	—	—	—	1.6
At 29 March 2003	25.0	54.0	—	100.9	179.9

¹The £25.0m provision for post-retirement health benefits represents the estimated value of the Group's subsidy of the Marks & Spencer Health Insurance Scheme, in so far as it relates to private medical benefits for retired employees and their dependants, for whom the Group meets the whole, or part, of the cost (see note 9C for further details).

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

³The deferred tax balance comprises the following:

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Accelerated capital allowances	67.1	69.0	67.1	69.0
Pension prepayment	48.4	50.8	48.4	50.8
Other short-term timing differences	(10.2)	(13.4)	(14.6)	(14.6)
	105.3	106.4	100.9	105.2

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

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

Notes to the financial statements

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.

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

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

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

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

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

B Hedges of future transactions

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

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

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

	2003 £m	2002 £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 2,848,387,227)	712.1	712.1

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 31 March 2002	712.1	380.9	8.0	387.3	3,316.5	4,804.8
Revaluation of investment properties	—	—	—	(0.8)	—	(0.8)
Revaluation surplus realised on disposals	—	—	—	(4.1)	4.1	—
Revaluation element of depreciation charge	—	—	—	(1.4)	1.4	—
Share of joint ventures' revaluation surplus realised on disposals	—	—	—	(10.4)	10.4	—
Gain on shares held by QUEST	—	—	—	—	0.5	0.5
Exchange differences on foreign currency translation	—	—	—	—	3.4	3.4
Profit for the period	—	—	—	—	229.5	229.5
At 29 March 2003	712.1	380.9	8.0	370.6	3,565.8	5,037.4

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

						Company
	Ordinary shares £m	Share premium account £m	Capital redemption reserve £m	Revaluation reserve £m	Profit and loss account £m	Total £m
At 31 March 2002	712.1	380.9	8.0	309.9	2,765.7	4,176.6
Revaluation of investment Properties	—	—	—	(0.8)	—	(0.8)
Revaluation surplus realised on disposals	—	—	—	(28.5)	28.5	—
Revaluation element of depreciation charge	—	—	—	(1.4)	1.4	—
Gain on shares held by QUEST	—	—	—	—	0.5	0.5
Profit for the period	—	—	—	—	121.6	121.6
At 29 March 2003	712.1	380.9	8.0	279.2	2,917.7	4,297.9

25. Reconciliation of movements in Group shareholders' funds

	Group	
	2003 £m	2002 £m
Profit attributable to shareholders	477.2	152.9
Dividends	(247.7)	(239.1)
	229.5	(86.2)
Other recognised gains and losses relating to the year	2.6	0.6
New share capital subscribed	—	5.9
Amounts (deducted from)/added to profit and loss account reserve in respect of shares issued to the QUEST	0.5	2.5
Purchase of own shares	—	(52.0)
Goodwill transferred to profit and loss account on sale/closure of businesses	—	368.2
Net reduction in shareholders' funds	232.6	239.0
Opening shareholders' funds	4,804.8	4,565.8
Closing shareholders' funds	5,037.4	4,804.8

Notes to the financial statements

26. Commitments and contingent liabilities

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
A Commitments in respect of properties in the course of development	75.8	19.3	75.6	16.7
B Guarantees by the Company in respect of debt instruments issued by subsidiaries	—	—	929.8	1,260.9

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

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

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

28. Related party 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 6EP.