Marks and Spencer plc financial statements 2009

REGISTERED NUMBER
00214436

Group directors' report

Business review and principal activities

Marks and Spencer plc (the 'Company') is the main trading company of the Marks & Spencer group of companies. The Company and its subsidiaries (the 'Group') are one of the UK's leading retailers of clothing, food and home products. We employ over 77,000 people and have around 1,000 stores including Simply Food franchised stores. We also trade in wholly-owned stores in the Republic of Ireland, Hong Kong and China and have partly-owned stores in a number of European countries.

Further information that fulfils the Business review requirements of the Companies Act 1985 and includes analysis using financial key performance indicators can be found in the following sections of the Marks and Spencer Group plc Annual Report:

- Chairman's overview on pages 1 – 11
- Financial review on pages 14 – 16 and 48 - 49
- Operating review on pages 26 - 41
- Environmental, Social and Community matters on pages 42 - 45 and Employees on pages 46 – 47.

	2009 £m	2008 £m
Summary of Group results		
Revenue	**9,062.1**	9,022.0
Operating profit before property disposals and exceptional items	**768.9**	1,089.2
Net finance costs	**(164.5)**	(82.2)
Adjusted profit before tax	**604.4**	1,007.0
Profit on property disposals	**6.4**	27.0
Exceptional costs	**(135.9)**	-
Exceptional pension credit	**231.3**	95.0
Profit before tax	**706.2**	1,129.0

Revenue increased by 0.4% to £9,062.1m. Operating profit (before property disposals and exceptional items) decreased by 29.4% to £768.9m.

Net finance costs, were £164.5m compared with £82.2m last year. The average interest rate of borrowings during the period was 6.1% (last year 5.9%). Profit before tax was £706.2m compared with £1,129.0m last year.

Profit and dividends

The profit for the financial year, after taxation, amounts to £506.8m (last year £820.9m). The directors have declared dividends as follows:

	2009 £m	2008 £m
Ordinary shares:		
Paid interim dividend 4.6p (last year 4.9p)	**131.1**	140.2
Proposed final dividend 5.3p (last year 7.9p)	**151.1**	225.2
Total ordinary dividend 9.9p per share (last year 12.8p)	**282.2**	365.4

Principal risks and uncertainties

The key business risks and uncertainties affecting the Company are considered to relate to competition from other retailers, the economic environment, employee retention, new stores and the modernisation of the existing portfolio. The directors manage these risks at a Marks and Spencer Group plc level and they are discussed on pages 56 to 57 of that Group's annual report which does not form part of this report, but is still considered up to date in this respect. Copies of the Marks and Spencer Group plc consolidated financial statements can be obtained from the Company Secretary at Waterside House, 35 North Wharf Road, London W2 1NW.

Directors

The directors who held office during the year were as follows:

Stuart Rose	
Ian Dyson	
Steven Sharp	
Graham Oakley	resigned 31 July 2009
Amanda Mellor	appointed 17 July 2009

Group directors' report continued

Directors' responsibilities

The directors are responsible for preparing the annual report and financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU. The financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit of the Company and Group for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis, unless it is appropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Acts and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that, to the best of their knowledge:

- the Group and Company financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group and the Company; and
- the Business review contained in the Marks and Spencer Group plc Annual Report includes a fair review of the development and performance of the business and the position of the Group and the Company, together with a description of the principal risks and uncertainties that it faces.

Audit information

Each director confirms that, so far as he is aware, there is no relevant audit information of which the Company's auditors are unaware and that each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to ensure that the Company's auditors are aware of that information.

Directors' indemnities

The Company maintains directors' and officers' liability insurance which gives appropriate cover for any legal action brought against its directors. The Company has also granted indemnities to each of its directors to the extent permitted by law.

Qualifying third party indemnity provisions (as defined by section 234 of the Companies Act 2006) were in force during the year ended 28 March 2009 and remain in force, in relation to certain losses and liabilities which the directors may incur to third parties in the course of acting as directors or employees of the Company or of any associated company.

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, email and Chairman broadcasts at key points in the year to all head office employees and store management. In addition many of our store colleagues can join the briefings by telephone to hear directly from the Board. These types of communication are supplemented by our employee publications including, 'Your M&S' magazine and DVD presentations. More than 3,500 employees were elected onto Business Involvement Groups ('BIGs') across every store and head office location to represent their colleagues in two-way communication and consultation with the Company. They have continued to play a key role in a wide variety of business changes, in what has been a very challenging year.

The fourteenth meeting of the European Works Council ('EWC') (established in 1995) took place in August 2009. This council provides an additional forum for informing, consulting and involving employee representatives from the countries in the European Community. The EWC will include observers attending from our subsidiary companies established in the Czech Republic and Greece.

Directors and senior management regularly visit stores and discuss with employees matters of current interest and concern to them and the business through listening groups, meetings with BIG members and informal discussion.

Share schemes are a long-established part of our total reward package, encouraging and supporting employee share ownership. In particular, over 26,000 employees currently participate in Sharesave, the Company's all employee Save As You Earn scheme. Further information on the Save As You Earn scheme can be found on pages 95 to 97 of the Marks and Spencer Group plc Annual Report.

We maintain contact with retired staff through communications from the Company and the Pension Trust. Member-nominated trustees have been elected to the Pension Trust Board, including employees and pensioners. We continue to produce a regular Pensions Update newsletter for members of our final salary pension scheme and the M&S Retirement Plan.

Group directors' report continued

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 age, gender, gender reassignment, colour, ethnic or national origin, disability, hours of work, nationality, religion or belief, marital or civil partnership status, disfigurement, political opinions or sexual orientation. All decisions relating to employment practices will be objective, free from bias and based solely upon work criteria and individual merit.

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

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 demonstrate our commitment to interviewing those people with disabilities who fulfil the minimum criteria for employment, and endeavoured to retain employees in the workforce if they become disabled during employment. We will actively retrain and adjust their environment where possible to allow them to maximise their potential.

We continue to work with external organisations to provide workplace opportunities through our innovative Marks & Start scheme and by working closely with JobCentrePlus.

Essential contracts or arrangements

The Company is required to disclose any contractual or other arrangements which it considers are essential to its business. We have a wide range of suppliers for the production and distribution of products to our customers. Whilst the loss of or disruption to certain of these arrangements could temporarily affect the operations of the Group, none are considered to be essential, with the exception of certain warehouse operators and the provider of the Company's e-commerce platform.

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, has a policy concerning the payment of trade creditors as follows:

- general merchandise payments are received between 19 and 26 days after the stock was delivered;
- food payments are received between 18 and 25 days after the stock was delivered; 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 28 March 2009 were 20.5 days, or 13.7 working days (last year 15.3 days, or 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.

Market value of properties

The last formal valuation of the Group's properties was carried out in September 2006. Taking into account movements in the Group's property portfolio since that date, the directors are of the opinion that the market value of the Group's fixed assets and leasehold properties, at 28 March 2009, exceeded their net book value (including prepayments in respect of leasehold land) by approximately £0.8bn.

Charitable donations

During the year, the Group made charitable donations to support the community of £12.7m (last year £15m). These principally consisted of cash donations of £5.4m (last year £5.4m) which included Breakthrough Breast Cancer, Groundwork, WWF, Shelter, our Marks & Start programme and local community donations. We also donated £1.3m (last year £1.9m) of employee time principally on Marks & Start and school work experience programmes, and stock donations of £5.7m (last year £7.5m) to a variety of charities including Newlife Foundation for Disabled Children and Shelter.

Group directors' report continued

Political donations

It is our policy not to make donations to any political party. Accordingly neither the Company nor its subsidiaries made any donation to any registered party or other EU political organisation, or incurred any EU political expenditure during the year. As defined in the Political Parties, Elections and Referendums Act 2000 ('PPERA').

The PPERA gives wide definitions of what constitutes political donations and expenditure. Accordingly, as a precautionary measure, to protect the Company, should the Company inadvertently reach the legislation, by making a payment which could be classified as a political donation, approval was granted at the 2006 AGM for the Company and its five principal employing companies to make donations to political organisations and to incur political expenditure up to a maximum of £100,000 per year. This authority will expire at the 2010 AGM.

Significant agreements – change of control

There are a number of agreements to which the Company is party that take effect, alter or terminate upon a change of control of the Company following a takeover bid. Details of the significant agreements of this kind are as follows:

- the £400m Medium Term Notes (MTNs) issued by the Company to various institutions on 28 March 2007 under the Group's £3bn Euro Medium Term Note (EMTN) programme contain an option such that, upon a change of control event, combined with a credit ratings downgrade to below sub-investment level, any holder of an MTN may require the Company to prepay the principal amount of that MTN;
- the £250m puttable and callable reset notes issued by the Company to various institutions on 11 December 2007 under the Group's £3bn EMTN programme contain an option such that, upon a change of control event, combined with a credit ratings downgrade to below sub-investment level, any holder of an MTN may require the Company to prepay the principal amount of that MTN;
- the $500m US Notes issued by the Company to various institutions on 6 December 2007 under section 144a of the US Securities Act contain an option such that, upon a change of control event, combined with a credit ratings downgrade to below sub-investment level, any holder of such a US Note may require the Company to prepay the principal amount of that US Note;
- the $300m US Notes issued by the Company to various institutions on 6 December 2007 under section 144a of the US Securities Act contain an option such that, upon a change of control event, combined with a credit ratings downgrade to below sub-investment level, any holder of such a US Note may require the Company to prepay the principal amount of that US Note;
- the £1.2bn Credit Agreement dated 13 August 2004 and the £400m Credit Facility Agreement dated 3 February 2008 between the Company and various banks both contain a provision such that, upon a change of control event, unless new terms are agreed within 60 days, the facilities under these agreements will be cancelled with all outstanding amounts becoming immediately payable with interest;
- the agreement between HSBC and the Company relating to M&S Money dated 9 November 2004 (as amended and restated on 1 March 2005) contains a clause such that, upon a change of control of the Company, any new owner would be obliged to give undertakings to HSBC in respect of the continuation of the agreement, negotiate revised terms or terminate the agreement; and
- the agreement between Marks and Spencer plc and Marks and Spencer Pension Trust Limited (as trustee of The Marks and Spencer Pension Scheme) (the 'Pension Fund') dated 25 March 2009 relating to Marks and Spencer Scottish Limited Partnership (the 'Partnership') contains a clause such that, upon a change of control of the Company, Marks and Spencer plc shall elect either to cause the Partnership to surrender its discretion over the payment of annual distributions to the Pension Fund or to increase the rate at which compensatory interest accrues on any annual payments that Marks and Spencer plc has elected to defer.

Post balance sheet event

On 31 March 2009, Marks and Spencer Reliance India Pvt Limited, a 51% subsidiary of the Group, completed the acquisition of 100% of the issued share capital of Supreme Tradelinks Private Limited, which up until this date was the Group's franchisee in India, for cash consideration of £6.5m.

Going concern

In adopting the going concern basis for preparing the financial statements, the directors have considered the business activities as out on pages 1 to 49 of the Marks and Spencer Group plc Annual Report as well as the Group's principal risks and uncertainties as set out on pages 56 and 57 of the Marks and Spencer Group plc Annual Report. Based on the Group's cash flow forecasts and projections, the Board is satisfied that the Group will be able to operate within the level of its facilities for the foreseeable future. For this reason the Group continues to adopt the going concern basis in preparing its financial statements.

Auditors

Resolutions to reappoint PricewaterhouseCoopers LLP as auditors of the Company and to authorise the Audit Committee to determine their remuneration will be proposed at the 2009 AGM.

By order of the Board

Amanda Mellor, Executive Director

London

9 September 2009

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

We have audited the Group and parent company financial statements (the 'financial statements') of Marks and Spencer plc for the year ended 28 March 2009 which comprise the Consolidated income statement, the Consolidated and Company balance sheets, the Consolidated and Company cash flow statements, the Consolidated and Company statements of recognised income and expense and the related Group and parent company notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union 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 International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Group Directors' Report is consistent with the financial statements. The information given in the Group Directors' Report includes that specific information cross-referred from the business review section and principal risks and uncertainties section of the Group Directors' Report.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Group Directors' Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 Group's and 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.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's and the parent company's affairs as at 28 March 2009 and of the Group's and the parent company's profit and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Group Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors

London

9 September 2009

Consolidated income statement

	Notes	52 weeks ended 28 March 2009 £m	52 weeks ended 29 March 2008 £m
Revenue	2, 3	**9,062.1**	9,022.0
Operating profit	2, 3	**870.7**	1,211.2
Finance income	6	**50.0**	64.4
Finance costs	6	**(214.5)**	(146.6)
Profit on ordinary activities before taxation	4	**706.2**	1,129.0
Analysed between:			
Before property disposals and exceptional items		**604.4**	1,007.0
Profit on property disposals	3	**6.4**	27.0
Exceptional costs	5	**(135.9)**	–
Exceptional pension credit	5,10	**231.3**	95.0
Income tax expense	7	**(199.4)**	(308.1)
Profit for the year		**506.8**	820.9
Attributable to:			
Equity shareholders of the Company		**508.0**	821.6
Minority interests		**(1.2)**	(0.7)
		506.8	820.9

Consolidated statement of recognised income and expense

	52 weeks ended 28 March 2009 £m	52 weeks ended 29 March 2008 £m
Profit for the year	**506.8**	820.9
Foreign currency translation differences	**33.1**	21.3
Actuarial (losses)/gains on retirement benefit schemes	**(927.1)**	605.4
Cash flow and net investment hedges		
– fair value movements in equity	**304.8**	(33.5)
– recycled and reported in net profit	**(206.8)**	1.3
– amount recognised in inventories	**(8.6)**	2.4
Tax on items taken directly to equity	**225.8**	(185.7)
Net (losses)/gains not recognised in the income statement	**(578.8)**	411.2
Total recognised income and expense for the year	**(72.0)**	1,232.1
Attributable to:		
Equity shareholders of the Company	**(70.8)**	1,232.8
Minority interests	**(1.2)**	(0.7)
	(72.0)	1,232.1

Consolidated balance sheet

	Notes	As at 28 March 2009 £m	As at 29 March 2008 £m
Assets			
Non-current assets			
Intangible assets	12	**400.3**	305.5
Property, plant and equipment	13	**4,834.0**	4,704.0
Investment property	14	**24.8**	25.0
Investment in joint ventures	15	**13.8**	9.6
Other financial assets	16	**14.1**	63.0
Retirement benefit asset	10	**–**	504.0
Trade and other receivables	17	**336.8**	410.0
Derivative financial instruments	21	**254.0**	18.2
Deferred tax assets	23	**1.6**	–
		5,879.4	6,039.3
Current assets			
Inventories		**536.0**	488.9
Other financial assets	16	**2,672.4**	2,633.4
Trade and other receivables	17	**285.2**	307.4
Derivative financial instruments	21	**92.6**	18.4
Cash and cash equivalents	18	**422.9**	318.0
		4,009.1	3,766.1
Total assets		**9,888.5**	9,805.4
Liabilities			
Current liabilities			
Trade and other payables	19	**1,073.5**	975.6
Borrowings and other financial liabilities	20	**942.8**	878.6
Partnership liability to the Marks & Spencer UK Pension Scheme	20	**71.9**	50.0
Derivative financial instruments	21	**76.2**	35.1
Provisions	22	**63.6**	11.1
Current tax liabilities		**78.9**	37.5
		2,306.9	1,987.9
Non-current liabilities			
Retirement benefit deficit	10	**152.2**	20.5
Trade and other payables	19	**243.8**	191.2
Borrowings and other financial liabilities	20	**2,117.9**	1,936.5
Partnership liability to the Marks & Spencer UK Pension Scheme	20	**68.0**	673.2
Derivative financial instruments	21	**3.0**	–
Provisions	22	**40.2**	14.6
Deferred tax liabilities	23	**225.5**	372.1
		2,850.6	3,208.1
Total liabilities		**5,157.5**	5,196.0
Net assets		**4,731.0**	4,609.4
Equity			
Called-up share capital	24, 25	**712.5**	712.5
Share premium account	25	**386.1**	386.1
Capital redemption reserve	25	**8.0**	8.0
Hedging reserve	25	**62.6**	(36.9)
Retained earnings	25	**3,542.9**	3,532.4
Total shareholders' equity		**4,712.1**	4,602.1
Minority interests in equity		**18.9**	7.3
Total equity		**4,731.0**	4,609.4

The financial statements were approved by the Board and authorised for issue on 9 September 2009. The financial statements also comprise the notes on pages 9 to 38.

Stuart Rose Chairman

Ian Dyson Group Finance and Operations Director

Consolidated cash flow information

	Notes	52 weeks ended 28 March 2009 £m	52 weeks ended 29 March 2008 £m
Consolidated cash flow statement			
Cash flows from operating activities			
Cash generated from operations	27	**1,372.7**	1,235.9
Tax paid		**(81.3)**	(166.2)
Net cash inflow from operating activities		**1,291.4**	1,069.7
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		**-**	(46.4)
Purchase of property, plant and equipment		**(540.8)**	(958.4)
Proceeds from sale of property, plant and equipment		**58.3**	91.6
Purchase of intangible assets		**(121.6)**	(60.6)
Purchase of non-current financial assets		**(4.4)**	-
(Purchase)/sale of current financial assets		**(1.1)**	2.8
Interest received		**12.7**	4.8
Net cash outflow from investing activities		**(596.9)**	(966.2)
Cash flows from financing activities			
Interest paid		**(197.1)**	(88.9)
Cash (outflow)/inflow from borrowings		**(25.8)**	8.7
Drawdown/(repayment) of syndicated bank facility		**108.1**	317.6
Increase in Parent Company loan		**(34.7)**	(523.8)
Issue of medium-term notes		**-**	631.7
Payment of liability to the Marks & Spencer UK Pension Scheme		**(15.1)**	-
Repayments under finance leases		**(1.0)**	(3.5)
Equity dividends paid		**(356.3)**	(344.0)
Purchase of own shares by employee trust		**-**	(31.9)
Net cash outflow from financing activities		**(521.9)**	(34.1)
Net cash inflow from activities		**172.6**	69.4
Effects of exchange rate changes		**7.8**	1.5
Opening net cash		**117.9**	47.0
Closing net cash	28	**298.3**	117.9

	Notes	52 weeks ended 28 March 2009 £m	52 weeks ended 29 March 2008 Restated £m
Reconciliation of net cash flow to movement in net debt			
Opening net (debt)/funds		**(493.1)**	111.3
Net cash inflow from activities		**172.6**	69.4
Increase/(decrease) in current financial assets		**1.1**	(2.8)
Increase in debt financing		**(31.5)**	(430.7)
Debt financing net of liquid resources acquired with subsidiaries		**-**	(29.6)
Partnership liability to the Marks & Spencer UK Pension Scheme (non-cash)		**539.6**	(199.0)
Exchange and other non-cash movements		**(60.2)**	(11.7)
Movement in net funds/(debt)		**621.6**	(604.4)
Closing net funds/(debt)	28	**128.5**	(493.1)

Notes to the financial statements

1 Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, International Financial Reporting Interpretations Committee (IFRIC) interpretations and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

In adopting the going concern basis for preparing the financial statements, the directors have considered the business activities as set out on pages 1 to 49 of the Marks and Spencer Group plc Annual Report as well as the Group's principal risks and uncertainties as set out on pages 56 to 57 of the Marks and Spencer Group plc Annual Report. Based on the Group's cash flow forecasts and projections, the Board is satisfied that the Group will be able to operate within the level of its facilities for the foreseeable future. For this reason the Group continues to adopt the going concern basis in preparing its financial statements.

Following a review of the definition of net debt, a non-GAAP measure, the directors believe that it is appropriate to include the fair value of derivatives which are directly related to debt instruments within debt. The comparative net debt figure has been restated to reflect this change – see note 28.

The following IFRSs, IFRIC interpretations and amendments have been adopted in the financial statements for the first time in this financial period:

IFRIC 13 – 'Customer Loyalty Programmes' was issued in June 2007. It explains how entities that grant loyalty award credits should account for their obligations to provide free or discounted goods or services to customers who redeem such award credits. It was implemented by the Group from 30 March 2008 and has had no impact on the results or net assets of the Group.

Amendment to International Accounting Standard (IAS) 38 – 'Intangible Assets' was issued in May 2008. It clarifies the timing of the recognition of expenditure on advertising and promotion activities. It was implemented by the Group from 30 March 2008 and has had no material impact on the results or net assets of the Group.

Amendment to IFRS 2 – 'Share-Based Payments' was issued in January 2008. It clarifies the terms 'vesting conditions' and 'cancellations'. It was implemented by the Group from 30 March 2008 and has led to a £12.4m charge to the income statement in the current year.

The following IFRSs, IFRIC interpretations and amendments have been issued but are not yet effective and have not been early adopted by the Group:

IFRS 8 – 'Operating Segments' was issued in November 2006. It replaces IAS 14 – 'Segmental Reporting' and requires operating segments to be disclosed on the same basis as that used for internal reporting. It is required to be implemented by the Group from 29 March 2009, and will have no impact on the results or net assets of the Group but management is still considering the impact on disclosures.

IFRIC 16 – 'Hedges of a Net Investment in a Foreign Operation' was issued in July 2008. It provides clarification on the accounting for net investment hedges. It is required to be implemented by the Group from 29 March 2009 and is not expected to have a material impact on the results or net assets of the Group.

The International Accounting Standards Board (IASB)'s annual improvements project was published in May 2008 and is effective from 29 March 2009. The project makes minor amendments to a number of standards on topics including investments in associates, intangible assets, borrowing costs and impairment of assets.

Amendment to IAS 39 – 'Financial Instruments: Recognition and Measurement' was issued in July 2008. It prohibits designating inflation as a hedgeable component of a fixed rate debt and the inclusion of time value in the one-sided hedged risk when designating options as hedges. It is required to be implemented retrospectively by the Group from 4 April 2010.

Amendment to IAS 32 – 'Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation' was issued in February 2008. It addresses the liability versus equity classification of certain puttable financial instruments and instruments, or components thereof, which impose upon an entity an obligation to deliver a pro rata share of net assets on liquidation. It is required to be implemented by the Group from 29 March 2009.

A summary of the Company's and the Group's accounting policies is given below:

Accounting convention

The financial statements are drawn up on the historical cost basis of accounting, except as disclosed in the accounting policies set out below.

Basis of consolidation

The Group financial statements incorporate the financial statements of Marks and Spencer plc and all its subsidiaries made up to the year end date. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the Group.

Subsidiary undertakings are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiary undertakings acquired during the year are recorded using the acquisition method of accounting and their results included from the date of acquisition.

The separable net assets, both tangible and intangible, of the newly acquired subsidiary undertakings are incorporated into the financial statements on the basis of the fair value as at the effective date of control.

Results of subsidiary undertakings disposed of during the financial year are included in the financial statements up to the effective date of disposal. Where a business component representing a separate major line of business is disposed of, or classified as held-for-sale, it is classified as a discontinued operation. The post-tax profit or loss of the discontinued operation is shown as a single amount on the face of the income statement, separate from the other results of the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated.

Notes to the financial statements

1 Accounting policies continued

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

Exceptional items
Exceptional income and charges are those items that are one-off in nature and create significant volatility in reported earnings and are therefore reported separately in the income statement. This includes costs relating to strategy changes that are not regular running costs of the underlying business and pension credits arising on changes to the UK defined benefit scheme.

Dividends
Final dividends are recorded in the financial statements in the period in which they are approved by the Company's shareholders. Interim dividends are recorded in the period in which they are approved and paid.

Pensions
Funded pension plans are in place for the Group's UK employees and some employees overseas. The assets of these pension plans include a property partnership interest and various equities and bonds. The equities and bonds are managed by third-party investment managers and are held separately in trust.

Regular valuations are prepared by independent professionally qualified actuaries in respect of the defined benefit schemes using the projected unit credit method. These determine the level of contribution required to fund the benefits set out in the rules of the plans and allow for the periodic increase of pensions in payment. The service cost of providing retirement benefits to employees during the year, together with the cost of any benefits relating to past service, is charged to operating profit in the year.

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

A charge is also made within interest representing the expected increase in the liabilities of the retirement benefit schemes during the year. This arises from the liabilities of the schemes being one year closer to payment.

The difference between the market value of the assets and the present value of accrued pension liabilities is shown as an asset or liability in the balance sheet. Assets are only recognised if they are recoverable.

Actuarial gains and losses are recognised immediately in the statement of recognised income and expense.

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

Intangible assets
A. Goodwill Goodwill arising on consolidation represents the excess of the cost of acquisitions over the Group's interest in the fair value of the identifiable assets and liabilities (including intangible assets) of the acquired entity at the date of the acquisition. Goodwill is recognised as an asset and assessed for impairment at least annually. Any impairment is recognised immediately in the income statement.

Upon disposal of a subsidiary the attributable goodwill is included in the calculation of the profit or loss arising on disposal. Goodwill written off to reserves under UK GAAP prior to 31 March 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

B. Brands Acquired brand values are held on the balance sheet at cost and amortised on a straight-line basis over their estimated useful lives. Any impairment in value is recognised immediately in the income statement.

C. Software intangibles Where computer software is not an integral part of a related item of computer hardware, the software is treated as an intangible asset. Capitalised software costs include external direct costs of material and services and the payroll and payroll-related costs for employees who are directly associated with the project.

Capitalised software development costs are amortised on a straight-line basis over their expected economic lives, normally between three to five years. Computer software under development is held at cost less any recognised impairment loss.

Property, plant and equipment
The Group's policy is to state property, plant and equipment at cost less accumulated depreciation and any recognised impairment loss. Assets in the course of construction are held at cost less any recognised impairment loss.

A. Land and buildings The Group's policy is not to revalue property for accounting purposes.

B. Interest Interest is not capitalised.

C. Depreciation Depreciation is provided to write off the cost of tangible non-current assets (including investment properties), less estimated residual values, by equal annual instalments as follows:

- freehold land – not depreciated;
- freehold and leasehold buildings with a remaining lease term over 50 years – depreciated to their residual value over their estimated remaining economic lives;
- leasehold buildings with a remaining lease term of less than 50 years – over the remaining period of the lease; and
- fixtures, fittings and equipment – 3 to 25 years according to the estimated life of the asset.

Residual values and useful economic lives are reviewed annually. 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 income statement.

D. Assets held under leases Where assets are financed by leasing agreements where the risks and rewards are substantially transferred to the Group (finance leases) the assets are treated as if they had been purchased outright, and the corresponding liability to the leasing company is included as an obligation under finance leases. Depreciation on leased assets is charged to the income statement on the same basis as owned assets. Leasing payments are treated as consisting of capital and interest elements and the interest is charged to the income statement.

Notes to the financial statements

1 Accounting policies continued

All other leases are operating leases and the costs in respect of operating leases are charged on a straight-line basis over the lease term. The value of any lease incentive received to take on an operating lease (for example, rent-free periods) is recognised as deferred income and is released over the life of the lease.

Investment properties
Investment properties are recorded at cost less accumulated depreciation and any recognised impairment loss.

Leasehold prepayments
Payments made to acquire leasehold land are included in prepayments at cost and are amortised over the life of the lease.

Inventories
Inventories are valued at the lower of cost and net realisable value using the retail method, which is computed on the basis of selling price less the appropriate trading margin. All inventories are finished goods.

Share-based payments
The Group issues equity-settled share-based payments to certain employees. A fair value for the equity-settled share awards is measured at the date of grant. The Group measures the fair value of each award using the Black-Scholes model where appropriate.

The fair value of each award is recognised as an expense over the vesting period on a straight-line basis, after allowing for an estimate of the share awards that will eventually vest. The level of vesting is reviewed annually; and the charge is adjusted to reflect actual and estimated levels of vesting.

Foreign currencies
The results of overseas 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 recognised income and expense.

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 balance sheet date are translated at the closing balance sheet rate. The resulting exchange gain or loss is recognised within the income statement.

Taxation
The tax charge comprises current tax payable and deferred tax.

The current tax charge represents an estimate of the amounts payable to tax authorities in respect of the Group's taxable profits and is based on an interpretation of existing tax laws.

Deferred tax is recognised on temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base at tax rates that are expected to apply when the asset is realised or the liability settled, based on tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is not recognised in respect of:

- the initial recognition of goodwill that is not tax deductible; and
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction does not affect accounting or taxable profits.

Deferred tax assets are only recognised when it is probable that taxable profits will be available against which the deferred tax asset can be utilised.

Deferred tax liabilities are not provided in respect of undistributed profits of non-UK resident subsidiaries where (i) the Group is able to control the timing of distribution of such profits; and (ii) it is not probable that a taxable distribution will be made in the foreseeable future.

Financial instruments
Financial assets and liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

A. Trade receivables Trade receivables recorded initially at fair value and subsequently measured at amortised cost. Generally, this results in their recognition at nominal value less any allowance for any doubtful debts.

B. Investments and other financial assets Investments and other financial assets are classified as either 'available for sale', 'fair value through profit or loss' or 'held to maturity'. They are initially measured at fair value, including transaction costs, with the exception of 'fair value through profit and loss'. Financial assets held at fair value through profit and loss are initially recognised at fair value and transaction costs are expensed.

Where securities are designated as 'fair value through profit or loss', gains and losses arising from changes in fair value are included in net profit or loss for the period. For 'available for sale' investments, gains or losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period. Equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured by other means are held at cost. 'Held to maturity' investments are measured at amortised cost using the effective interest method.

Investments in subsidiaries are held at cost less impairment. Dividends received from the pre-acquisition profits of subsidiaries are deducted from the cost of investment.

C. Classification of financial liabilities and equity Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any

Notes to the financial statements

contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

D. Bank borrowings Interest-bearing bank loans and overdrafts are initially recorded at the fair value, which equals the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

E. Loan notes Long-term loans are initially measured at fair value and are subsequently held at amortised cost unless the loan is hedged by a derivative financial instrument in which case hedge accounting treatment will apply.

F. Trade payables Trade payables are recorded initially at fair value and subsequently measured at amortised cost. Generally this results in their recognition at their nominal value.

1 Accounting policies continued

G. Equity instruments Equity instruments issued by the Company are recorded at the consideration received, net of direct issue costs.

Derivative financial instruments and hedging activities
The Group primarily uses interest rate swaps and forward foreign currency contracts to manage its exposures to fluctuating interest and foreign exchange rates. These instruments are initially recognised at fair value on the trade date and are subsequently remeasured at their fair value at the balance sheet date. The method of recognising the resulting gain or loss is dependent on whether the derivative is designated as a hedging instrument and the nature of the item being hedged.

The Group designates certain hedging derivatives as either:

- a hedge of a highly probable forecast transaction or change in the cash flows of a recognised asset or liability (a cash flow hedge);
- a hedge of the exposure to change in the fair value of a recognised asset or liability (a fair value hedge); or
- a hedge of the exposure on the translation of net investments in foreign entities (a net investment hedge).

Underlying the definition of fair value is the presumption that the Group is a going concern without any intention of materially curtailing the scale of its operations.

For those of the Group's derivative instruments stated at fair value, the fair value will be determined by the Group applying discounted cash flow analysis using quoted market rates as an input into the valuation model.

In determining the fair value of a derivative, the appropriate quoted market price for an asset held is the bid price, and for a liability issued is the offer price.

At inception of a hedging relationship, the hedging instrument and the hedged item are documented and prospective effectiveness testing is performed. During the life of the hedging relationship, effectiveness testing is continued to ensure the instrument remains an effective hedge of the transaction.

In order to qualify for hedge accounting, the following conditions must be met:

- formal designation and documentation at inception of the hedging relationship, detailing the risk management objective and strategy for undertaking the hedge;
- the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk;
- for a cash flow hedge, a forecast transaction that is the subject of the hedge must be highly probable;
- the effectiveness of the hedge can be reliably measured; and
- the hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout its life.

A. Cash flow hedges Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and any ineffective portion is recognised immediately in the income statement. If the firm commitment or forecast transaction that is the subject of a cash flow hedge results in the recognition of a non-financial asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged items affect net profit or loss.

B. Fair value hedges For an effective hedge of an exposure to changes in the fair value, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in profit or loss. Gains and losses from remeasuring the derivative, or for non-derivatives the foreign currency component of its carrying amount, are recognised in profit or loss.

C. Net investment hedges Changes in the fair value of derivative or non-derivative financial instruments that are designated and effective as hedges of the net investments are recognised directly in equity and any ineffective portion is recognised immediately in the income statement.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

The Group does not use derivatives to hedge income statement translation exposures.

Critical accounting estimates and judgements
The preparation of consolidated financial statements requires the Group to make estimates and assumptions that affect the application of policies and reported amounts. Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are discussed below:

Notes to the financial statements

1 Accounting policies continued

A. Impairment of goodwill The Group is required to test, at least annually, whether goodwill has suffered any impairment. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the choice of a suitable discount rate in order to calculate the present value of these cash flows. Actual outcomes could vary from those calculated. See note 12 for further details.

B. Impairment of property, plant and equipment Property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is determined based on value in use calculations prepared on the basis of management's assumptions and estimates. See note 13 for further details.

C. Depreciation of property, plant and equipment Depreciation is provided so as to write down the assets to their residual values over their estimated useful lives as set out above. The selection of these residual values and estimated lives requires the exercise of management judgement. See note 13 for further details.

D. Post-retirement benefits The determination of the pension cost and defined benefit obligation of the Group's defined benefit pension schemes depends on the selection of certain assumptions which include the discount rate, inflation rate, salary growth, mortality and expected return on scheme assets. Differences arising from actual experiences or future changes in assumptions will be reflected in subsequent periods. See note 10 for further details.

E. Refunds and loyalty scheme accruals Accruals for sales returns and loyalty scheme redemption are estimated on the basis of historical returns and redemptions and these are recorded so as to allocate them to the same period as the original revenue is recorded. These accruals are reviewed regularly and updated to reflect management's latest best estimates, however, actual returns and redemptions could vary from these estimates.

Non-GAAP performance measures
The directors believe that the adjusted profit measures provide additional useful information for shareholders on the underlying performance of the business. These measures are consistent with how underlying business performance is measured internally. The adjusted profit before tax measure is not a recognised profit measure under IFRS and may not be directly comparable with adjusted profit measures used by other companies. The adjustments made to reported profit before tax are to exclude the following:

- exceptional income and charges – These are one-off in nature and therefore create significant volatility in reported earnings; and
- profits and losses on the disposal of properties – These can vary significantly from year to year, again creating volatility in reported earnings.

Notes to the financial statements

2 Segmental information

The Group's primary reporting segments are geographic, with the Group operating in two geographic areas being the UK and International. The International segment consists of the Marks & Spencer owned businesses in the Republic of Ireland, Europe and Asia, together with franchised operations. The geographic segments disclose revenue, operating profit and segment assets and liabilities by destination and reflect management responsibility. Within each geographic segment the Group sells both food and general merchandise and secondary segment disclosure is given for revenue. Given that both food and general merchandise are sold from the same locations it is not practical to provide segmental information on operating assets and capital expenditure at this level.

The geographic segment results are as follows:

	Revenue		Operating profit		Segment assets		Segment liabilities	
	2009 £m	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m
UK Retail								
Before property disposals and exceptional items	**8,164.3**	8,309.1	**652.8**	972.8				
Profit on property disposals	**–**	–	**6.8**	28.0				
Exceptional costs[1]	**–**	–	**(135.9)**	–				
Exceptional pension credit[1]	**–**	–	**231.3**	95.0				
	8,164.3	8,309.1	**755.0**	1,095.8	**6,240.1**	6,574.2	**(1,649.5)**	(1,927.0)
International Retail								
Owned stores[2]	**625.5**	426.7	**45.8**	44.5				
Franchised stores	**272.3**	286.2	**70.3**	71.9				
Before property disposals	**897.8**	712.9	**116.1**	116.4				
Loss on property disposals	**–**	–	**(0.4)**	(1.0)				
	897.8	712.9	**115.7**	115.4	**481.6**	397.1	**(116.2)**	(77.7)
Total	**9,062.1**	9,022.0	**870.7**	1,211.2	**6,721.7**	6,971.3	**(1,765.7)**	(2,004.7)
Total non-operating assets/(liabilities)[3]					**3,166.8**	2,834.1	**(3,391.8)**	(3,191.3)
Total assets/(liabilities)					**9,888.5**	9,805.4	**(5,157.5)**	(5,196.0)

1 See note 5 for further explanation.

2 Owned stores consist of the Marks & Spencer owned businesses in the Republic of Ireland, Hong Kong, China and, since 29 February 2008, Greece, a number of other Balkan states and Switzerland, and since 20 March 2008, the Czech Republic, Slovakia, Latvia and Lithuania, which were included in franchised stores up to that date.

3 Non-operating assets and liabilities include balances in respect of financing and taxation.

Revenue originates in the following geographical segments: United Kingdom £8,436.6m (last year £8,595.3m) and International £625.5m (last year £426.7m). The value of goods exported from the UK, including shipments to international subsidiaries, amounted to £560.7m (last year £499.7m).

Included within UK Retail is an operating profit of £24.8m (last year £28.3m) in respect of fees received from HSBC in relation to M&S Money.

Other segment items:

	2009			2008		
	United Kingdom £m	**International £m**	**Total £m**	United Kingdom £m	International £m	Total £m
Revenue						
General merchandise	**3,918.3**	**625.5**	**4,543.8**	4,059.3	491.7	4,551.0
Food	**4,246.0**	**272.3**	**4,518.3**	4,249.8	221.2	4,471.0
	8,164.3	**897.8**	**9,062.1**	8,309.1	712.9	9,022.0
Expenditure on intangible assets excluding goodwill (see note 12)	**120.2**	**0.5**	**120.7**	83.7	–	83.7
Expenditure on property, plant and equipment (see note 13)	**491.6**	**39.7**	**531.3**	919.9	50.9	970.8
Amortisation (see note 12)	**27.1**	**0.2**	**27.3**	21.3	–	21.3
Depreciation (see note 13)	**357.3**	**24.4**	**381.7**	281.7	14.6	296.3

Notes to the financial statements

3 Expense analysis

	2009 Before property disposals and exceptional items £m	2009 Property disposals and exceptional items £m	2009 Total £m	2008 Before property disposals and exceptional items £m	2008 Property disposals and exceptional items £m	2008 Total £m
Revenue	**9,062.1**	–	**9,062.1**	9,022.0	–	9,022.0
Cost of sales	**(5,690.2)**	–	**(5,690.2)**	(5,535.2)	–	(5,535.2)
Gross profit	**3,371.9**	–	**3,371.9**	3,486.8	–	3,486.8
Selling and marketing expenses	**(2,074.4)**	–	**(2,074.4)**	(1,912.7)	–	(1,912.7)
Administrative expenses	**(570.1)**	–	**(570.1)**	(534.5)	–	(534.5)
Other operating income	**41.5**	–	**41.5**	49.6	–	49.6
Profit on property disposals	–	**6.4**	**6.4**	–	27.0	27.0
Exceptional costs (see note 5)	–	**(135.9)**	**(135.9)**	–	–	–
Exceptional pension credit (see note 5)	–	**231.3**	**231.3**	–	95.0	95.0
Operating profit	**768.9**	**101.8**	**870.7**	1,089.2	122.0	1,211.2

The cost of sales above includes inventories recognised as an expense in the year.

The selling and marketing expenses and administrative expenses in the table above are further analysed in the table below:

	2009 Selling and marketing expenses £m	2009 Adminis-trative expenses £m	2009 Total £m	2008 Selling and marketing expenses £m	2008 Adminis-trative expenses £m	2008 Total £m
Employee costs (see note 9A)	**923.2**	**230.5**	**1,153.7**	920.4	230.1	1,150.5
Occupancy costs	**439.2**	**77.5**	**516.7**	366.9	64.8	431.7
Repairs, renewals and maintenance of property	**76.6**	**19.1**	**95.7**	79.0	19.8	98.8
Depreciation	**343.5**	**38.2**	**381.7**	266.7	29.6	296.3
Amortisation	**24.6**	**2.7**	**27.3**	19.2	2.1	21.3
Other costs	**267.3**	**202.1**	**469.4**	260.5	188.1	448.6
Operating expenses	**2,074.4**	**570.1**	**2,644.5**	1,912.7	534.5	2,447.2

Notes to the financial statements

4 Profit before taxation

The following items have been included in arriving at profit before taxation:

	2009 £m	2008 £m
Net foreign exchange losses/(gains)	**3.6**	(8.0)
Depreciation of property, plant, and equipment		
– owned assets	**371.5**	290.4
– under finance leases	**10.2**	5.9
Amortisation of intangibles	**27.3**	21.3
Profit on property disposals	**(6.4)**	(27.0)
Operating lease rentals payable		
– property	**200.5**	167.5
– fixtures, fittings and equipment	**10.1**	8.4
Exceptional costs (see note 5)	**135.9**	–
Exceptional pension credit (see note 5)	**(231.3)**	(95.0)

Included in administrative expenses is the auditors' remuneration, including expenses for audit and non-audit services, payable to the Company's auditors PricewaterhouseCoopers LLP and its associates as follows:

	2009 £m	2008 £m
Statutory audit services		
Annual audit of the Company and the consolidated accounts	**0.9**	0.8
	0.9	0.8
Non-audit-related services		
Other services pursuant to legislation	**0.1**	0.3
Tax advisory services	**0.3**	0.4
Other services	**0.2**	0.1
	0.6	0.8

5 Exceptional items

	2009 £m	2008 £m
Property	**(92.5)**	–
Logistics, IT and other	**(32.3)**	–
People	**(11.1)**	–
Exceptional costs	**(135.9)**	–
Changes in the UK defined benefit plan	**231.3**	95.0
Exceptional pension credit	**231.3**	95.0

The exceptional costs relate to a strategic restructure and are not regular running costs of the underlying business, these include:

- £92.5m property-related costs including onerous lease provisions, property, plant and equipment disposals, leasehold premium write-offs and decommissioning costs;
- £32.3m costs related to the rationalisation of IT and logistics networks; and
- £11.1m redundancy costs.

The exceptional pension credit has arisen due to changes in the UK defined benefit pension plan relating to how members' benefits build up. In January 2009 the Group announced that it had made changes to the scheme by capping employees' annual increases in pensionable pay to 1% and changing the early retirement benefits for members who joined the scheme before 1996. There is a credit to the income statement to reflect the impact of adjusting employees' projected final pensionable salaries.

Last year the exceptional pension credit arose due to changes in the plan where, to the extent that members chose the option to limit their future pensionable salary increases to inflation, there was also a credit to the income statement.

Notes to the financial statements

6 Finance income/costs

	2009 £m	2008 £m
Bank and other interest receivable	**14.6**	5.5
Pension finance income (net) (see note 10E)	**35.4**	58.9
Finance income	**50.0**	64.4
Interest on bank borrowings	**6.2**	1.9
Interest payable on syndicated bank facility	**41.0**	30.0
Interest payable on medium-term notes	**113.9**	84.0
Interest payable on finance leases	**4.9**	3.4
Fair value movements on financial instruments	**10.5**	–
Unwinding of discount on partnership liability to the Marks & Spencer UK Pension Scheme	**38.0**	27.3
Finance costs	**214.5**	146.6
Net finance costs	**164.5**	82.2

7 Income tax expense

A. Taxation charge

	2009 £m	2008 £m
Current tax		
UK corporation tax at 28% (last year 30%)		
– current year	**127.4**	123.0
– prior years	**(10.7)**	(13.1)
	116.7	109.9
Overseas current taxation	**5.1**	7.5
Total current taxation	**121.8**	117.4
Deferred tax (see note 23)		
– current year	**70.1**	184.0
– prior years	**7.5**	6.7
Total deferred taxation	**77.6**	190.7
Total income tax expense	**199.4**	308.1

B. Taxation reconciliation

	2009 £m	2008 £m
Profit before tax	**706.2**	1,129.1
Taxation at the standard UK corporation tax rate of 28% (last year 30%)	**197.7**	338.7
Depreciation, charges and other amounts on non-qualifying fixed assets	**(4.0)**	0.6
Other income and expenses not taxable or deductible	**2.9**	(1.3)
Exceptional costs	**7.5**	–
Overseas profits taxed at lower rates	**(1.5)**	(6.8)
Impact of change in UK corporation tax rate	**–**	(16.7)
Adjustments to tax charge in respect of prior periods	**(3.2)**	(6.4)
Total income tax expense	**199.4**	308.1

The post-exceptional effective tax rate was 28.2% (last year 27.3%) and the pre-exceptional effective tax rate was 27.0% (last year 27.0%). In the prior year, the change in the standard UK corporation tax rate to 28% from April 2008 resulted in a deferred tax credit of £16.7m, reducing the total effective tax rate by 1.5%.

Notes to the financial statements

8 Dividends

	2009 per share	2008 per share	2009 £m	2008 £m
Dividends on equity ordinary shares				
Paid final dividend	**7.9p**	7.2p	**225.2**	203.8
Paid interim dividend	**4.6p**	4.9p	**131.1**	140.2
	12.5p	12.1p	**356.3**	344.0

In addition, the directors have proposed a final dividend in respect of the year ended 28 March 2009 of 5.3p per share amounting to a dividend of £151.1m. In line with the requirements of IAS 10 – 'Events after the Balance Sheet Date', this dividend has not been recognised within these results.

9 Employees

A. Aggregate remuneration
The aggregate remuneration and associated costs of Group employees were:

	2009 Total £m	2008 Total £m
Wages and salaries	**978.2**	930.8
Social security costs	**69.1**	62.3
Pension costs	**67.2**	103.1
Share-based payments	**14.3**	29.0
Employee welfare and other personnel costs	**37.8**	35.7
Ex-gratia costs	**8.4**	10.5
Capitalised staff costs	**(21.3)**	(20.9)
Aggregate remuneration	**1,153.7**	1,150.5
Exceptional redundancy costs (see note 5)	**11.1**	–
Exceptional pension credit (see note 5)	**(231.3)**	(95.0)
Total	**933.5**	1,055.5

Details of key management compensation are given in note 29E.

B. Average number of employees

	2009	2008
UK stores		
– management and supervisory categories	**5,528**	5,267
– other	**63,969**	62,820
UK head office		
– management and supervisory categories	**2,577**	2,599
– other	**1,036**	927
Overseas	**4,754**	3,776
Total average number of employees	**77,864**	75,389

If the number of hours worked was converted on the basis of a normal working week, the equivalent average number of full-time employees would have been 54,153 (last year 52,276).

C. Directors' emoluments
Emoluments of directors of the Company are summarised below. Further details are given in the Marks and Spencer Group plc Annual report Remuneration report on pages 62 to 71.

	2009 £000	2008 £000
Highest paid director	**1,765**	1,375
Aggregate emoluments of other directors	**2,409**	1,775

One director (last year one) accrued retirement benefits under a defined benefit scheme.

The highest paid director has not exercised any share options during the year.

The highest paid director was awarded 1,184,486 performance shares in relation to the Group's long-term incentive plan.

Notes to the financial statements

10 Retirement benefits

The Group provides pension arrangements for the benefit of its UK employees through the Marks & Spencer UK Pension Scheme. This has a defined benefit section, which was closed to new entrants with effect from 1 April 2002, and a defined contribution section which has been open to new members with effect from 1 April 2003.

The defined benefit section operates on a final salary basis and at the year end had some 21,000 active members (last year 24,000), 57,000 deferred members (last year 58,000) and 42,000 pensioners (last year 39,000). At the year end, the defined contribution section had some 8,000 active members (last year 8,000) and some 1,000 deferred members (last year 1,000).

The Group also operates a small funded defined benefit pension scheme in the Republic of Ireland. Retirement benefits also include a UK post-retirement healthcare scheme and unfunded retirement benefits.

Within the total Group retirement benefit cost, excluding the exceptional pension credits, of £31.8m (last year £44.2m), £14.0m (last year £28.0m) relates to the UK defined benefit section, £13.0m (last year £11.7m) to the UK defined contribution section and £4.8m (last year £4.5m) to other retirement benefit schemes.

A. Pensions and other post-retirement liabilities

	2009 £m	2008 £m
Total market value of assets	**3,977.0**	5,045.5
Present value of scheme liabilities	**(4,112.4)**	(4,542.3)
Net funded pension plan (deficit)/asset	**(135.4)**	503.2
Unfunded retirement benefits	**(1.0)**	(1.3)
Post-retirement healthcare	**(15.8)**	(18.4)
Net retirement benefit (deficit)/asset	**(152.2)**	483.5
Analysed on the balance sheet as:		
Retirement benefit asset	**–**	504.0
Retirement benefit deficit	**(152.2)**	(20.5)
	(152.2)	483.5

B. Financial assumptions

A full actuarial valuation of the UK defined benefit pension scheme was carried out at 31 March 2006 and showed a deficit of £704.0m. The financial assumptions for the UK scheme and the most recent actuarial valuations of the other post-retirement schemes have been updated by independent qualified actuaries to take account of the requirements of IAS 19 – 'Retirement Benefits' in order to assess the liabilities of the schemes:

	2009 %	2008 %
Rate of increase in salaries	**1.0**	3.1 to 4.5
Rate of increase in pensions in payment for service		
– pre April 1997	**2.6**	2.8
– between April 1997 and July 2005	**2.9**	3.5
– post July 2005	**2.3**	2.4
Discount rate	**6.8**	6.8
Inflation rate	**2.9**	3.5
Long-term healthcare cost increases	**7.9**	8.5

The amount of the deficit varies if the main financial assumptions change, particularly the discount rate. If the discount rate increased/decreased by 0.1% the IAS 19 deficit would decrease/increase by c. £75m.

C. Demographic assumptions

The demographic assumptions are in line with those adopted for the last formal actuarial valuation of the scheme. One of the most significant demographic assumptions underlying the valuation is mortality. The post-retirement mortality assumptions are based on an analysis of the pensioner mortality trends under the scheme for the period to March 2006 updated to allow for anticipated longevity improvements over the subsequent years. The specific mortality rates used are based on the PMA92 and PFA92 tables, adjusted to allow for the experience of scheme pensioners. The life expectancies underlying the valuation are as follows:

Notes to the financial statements

10 Retirement benefits continued

		2009 years	2008 years
Current pensioners (at age 65)	– males	**21.2**	21.0
	– females	**23.6**	23.5
Future pensioners (at age 65)	– males	**22.0**	21.9
	– females	**24.3**	24.3

D. Analysis of assets and expected rates of return

The major categories of assets as a percentage of total plan assets are:

	2009 £m	2008 £m	2009 %	2008 %
Property partnership interest	**529.8**	506.6	**13**	10
UK equities	**480.8**	792.1	**12**	16
Overseas equities	**644.3**	1,116.6	**16**	22
Government bonds	**127.2**	465.4	**3**	9
Corporate bonds	**2,278.0**	2,058.5	**58**	41
Cash and other	**(83.1)**	106.3	**(2)**	2
	3,977.0	5,045.5	**100**	100

The expected long-term rates of return are:

	2009 %	2008 %
Property partnership interest	**7.1**	6.0
UK equities	**8.0**	8.3
Overseas equities	**8.0**	8.3
Government bonds	**4.2**	4.6
Corporate bonds	**6.8**	6.0
Cash and other	**4.2**	5.0
Overall expected return	**7.2**	6.7

The overall expected return on assets assumption is derived as the weighted average of the expected returns from each of the main asset classes. The expected return for each asset class reflects a combination of historical performance analysis, the forward-looking views of financial markets (as suggested by the yields available) and the views of investment organisations. Consideration is also given to the rate of return expected to be available for reinvestment.

At year end, the UK scheme indirectly held 369,793 (last year 479,356) ordinary shares in Marks and Spencer Group plc through its investment in an Aquila Life UK Equity Index Fund.

E. Analysis of amount charged against profits

	2009 £m	2008 £m
Operating cost		
Current service cost	**72.2**	106.1
Curtailment gain	**(5.0)**	(3.0)
Exceptional pension credit (see note 5)	**(231.3)**	(95.0)
	(164.1)	8.1
Finance cost		
Expected return on plan assets	**(334.6)**	(342.7)
Interest on scheme liabilities	**299.2**	283.8
Net finance income	**(35.4)**	(58.9)
Total	**(199.5)**	(50.8)

Notes to the financial statements

10 Retirement benefits continued

F. Scheme assets

Changes in the fair value of the scheme assets are as follows:

	2009 £m	2008 £m
Fair value of scheme assets at start of year	**5,045.5**	5,227.5
Expected return on scheme assets[1]	**334.6**	342.7
Employer contributions[2]	**92.1**	111.1
Contributions from scheme members	**2.0**	1.0
Benefits paid	**(226.5)**	(220.4)
Actuarial loss	**(1,280.3)**	(422.6)
Exchange movement	**9.6**	6.2
Fair value of scheme assets at end of year	**3,977.0**	5,045.5

1 The actual return on scheme assets was a loss of £945.7m (last year £79.9m).

2 Last year the Group agreed to pre-fund £200.0m of its annual contribution to the UK defined benefit pension scheme for the next three years. The prepayment is in respect of annual contributions to the UK scheme at the rate of 23.7% of pensionable salaries up to 30 September 2009 and then 23.2% up to the next financial year. It is estimated that approximately £66m of the prepayment will relate to the year ended 3 April 2010.

G. Retirement benefit obligations

Changes in the present value of retirement benefit obligations are as follows:

	2009 £m	2008 £m
Present value of obligation at start of year	**4,562.0**	5,510.8
Current service cost	**72.2**	106.1
Curtailment gain	**(5.0)**	(3.0)
Exceptional pension credit	**(231.3)**	(95.0)
Interest cost	**299.2**	283.8
Contributions from scheme members	**2.0**	1.0
Benefits paid	**(226.5)**	(220.4)
Actuarial gain	**(353.2)**	(1,028.0)
Acquisition of subsidiary	**–**	0.4
Exchange movement	**9.8**	6.3
Present value of obligation at end of year	**4,129.2**	4,562.0
Analysed as:		
Present value of pension scheme liabilities	**4,112.4**	4,542.3
Unfunded pension plans	**1.0**	1.3
Post-retirement healthcare	**15.8**	18.4
Present value of obligation at end of year	**4,129.2**	4,562.0

H. Cumulative actuarial gains and losses recognised in equity

	2009 £m	2008 £m
Loss at start of year	**(330.2)**	(935.6)
Net actuarial (losses)/gains recognised in the year	**(927.1)**	605.4
Loss at end of year	**(1,257.3)**	(330.2)

I. History of experience gains and losses

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Experience adjustments arising on scheme assets	**(1,280.3)**	(422.6)	(80.4)	454.3	77.4
Experience gains/(losses) arising on scheme liabilities	**81.2**	(61.5)	18.8	20.0	(24.0)
Changes in assumptions underlying the present value of scheme liabilities	**272.0**	1,089.5	53.0	(643.6)	(131.5)
Actuarial (losses)/gains recognised in equity	**(927.1)**	605.4	(8.6)	(169.3)	(78.1)
Fair value of scheme assets	**3,977.0**	5,045.5	5,227.5	4,606.2	3,956.8
Present value of scheme liabilities	**(4,112.4)**	(4,542.3)	(5,487.0)	(5,381.3)	(4,611.0)
Pension scheme (deficit)/asset	**(135.4)**	503.2	(259.5)	(775.1)	(654.2)

Notes to the financial statements

11 Share-based payments

The charge for share-based payments for the year was £14.3m (last year £29.0m). Further details of the option and share schemes that the Group operates are provided in the Remuneration report on pages 62 to 71 of the Marks and Spencer Group plc Annual Report.

A. Save As You Earn Share Option Scheme
Under the terms of the scheme, the Board may offer options to purchase ordinary shares in Marks and Spencer Group plc once in each financial year to those employees who enter into an HM Revenue & Customs (HMRC) approved Save As You Earn (SAYE) savings contract. HMRC rules limit the maximum amount saved to £250 per month. The price at which options may be offered is 80% of the average mid-market price for three consecutive dealing days preceding the offer date. The options may normally be exercised during the period of six months after the completion of the SAYE contract, either three or five years after entering the scheme.

	2009		2008	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at beginning of the period	**28,444,760**	**403.1p**	33,241,616	327.6p
Granted	**42,551,459**	**203.0p**	7,716,437	517.0p
Exercised	**(2,075,204)**	**232.7p**	(10,212,015)	234.8p
Forfeited	**(10,958,637)**	**456.4p**	(2,207,700)	450.7p
Expired	**(99,317)**	**261.8p**	(93,578)	235.2p
Outstanding at end of the period	**57,863,061**	**252.2p**	28,444,760	403.1p
Exercisable at end of period	**6,169,324**	**296.9p**	948,372	262.9p

For SAYE share options exercised during the period, the weighted average share price at the date of exercise was 296.2p (last year 535.2p).

The fair values of the options granted during the year have been calculated using the Black-Scholes model assuming the inputs shown below:

	2009		2008	
	3-year plan	**5-year plan**	3-year plan	5-year plan
Grant date	**Nov 08**	**Nov 08**	Nov 07	Nov 07
Share price at grant date	**253p**	**253p**	646p	646p
Exercise price	**203p**	**203p**	517p	517p
Option life in years	**3 years**	**5 years**	3 years	5 years
Risk-free rate	**2.9%**	**3.2%**	4.6%	4.6%
Expected volatility	**39.2%**	**33.4%**	21.6%	25.2%
Expected dividend yield	**8.9%**	**8.9%**	2.7%	2.7%
Fair value of option	**54.6p**	**43.9p**	167.5p	201.8p

Volatility has been estimated by taking the historic volatility in the Marks and Spencer Group plc share price over a three or five year period.

The resulting fair value is expensed over the service period of three or five years on the assumption that 20% of options will lapse over the service period as employees leave the Group.

Outstanding options granted under the UK Employees' SAYE Scheme are as follows:

	Number of options		Weighted average remaining contractual life (years)		
Options granted	**2009**	2008	**2009**	2008	Option price
January 2001	**–**	338,682	**–**	0.3	156p
January 2003	**–**	371,017	**–**	0.3	283p
January 2004	**2,748,699**	4,078,721	**0.3**	1.3	228p
January 2005	**2,705,890**	3,703,910	**1.3**	2.1	280p
January 2006	**5,089,994**	7,164,101	**0.9**	2.1	349p
January 2007	**2,381,588**	5,434,588	**2.0**	3.0	559p
January 2008	**3,114,069**	7,353,741	**3.0**	4.0	517p
January 2009	**41,822,821**	–	**4.0**	–	203p
	57,863,061	28,444,760	**3.3**	2.6	252p

Notes to the financial statements

11 Share-based payments continued

B. Executive Share Option Scheme

Under the terms of the Executive Share Option Scheme, last approved by shareholders in 2005, the Board may offer options to purchase ordinary shares in Marks and Spencer Group plc to executive directors and senior managers at the market price on a date to be determined prior to the date of the offer. No further options may be granted under any schemes other than the 2005 scheme. No awards have been made under the 2005 scheme. Further details are set out in the Remuneration report on page 66 of the Marks and Spencer Group plc Annual Report.

Performance targets are assessed over a three year period from the date of grant with no ability to retest any grants. Once options have vested they can be exercised during the period up to ten years from grant date.

	2009		2008	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at beginning of the period	**9,623,518**	**341.0p**	12,017,117	341.2p
Exercised	**(142,559)**	**343.9p**	(2,235,209)	341.0p
Forfeited	**(678,888)**	**340.7p**	(152,698)	348.6p
Expired	**(169,288)**	**550.3p**	(5,692)	527.0p
Outstanding at end of the period	**8,632,783**	**336.8p**	9,623,518	341.0p
Exercisable at end of period	**8,632,783**	**336.8p**	8,444,937	339.4p

For executive share options exercised during the period, the weighted average share price at the date of exercise was 395.3p (last year 645.5p).

The resulting fair value is expensed over the expected service period of five years on the assumption that 30% of options will lapse over the service period as employees leave the Company.

Outstanding options granted under all Executive Share Option Schemes are as follows:

	Number of options		Weighted average remaining contractual life (years)		
Options granted	**2009**	2008	**2009**	2008	Option price
1997 Scheme					
June 1998	**–**	161,863	**–**	0.2	557p
November 1998	**–**	7,425	**–**	0.6	404p
June 1999	**98,880**	98,880	**0.3**	1.2	358p
2000 Scheme					
September 2000	**232**	232	**1.5**	2.5	215p
June 2001	**135,989**	135,989	**2.3**	3.3	256p
December 2001	**18,087**	71,658	**2.8**	3.7	350p
2002 Scheme					
June 2002	**579,237**	659,465	**3.3**	4.2	350p
November 2002	**47,150**	47,150	**3.7**	4.7	353p
June 2003	**1,398,584**	1,502,053	**4.3**	5.2	297p
November 2003	**36,109**	36,109	**4.7**	5.7	270p
February 2004	**33,111**	33,111	**4.9**	5.8	270p
July 2004	**4,417,613**	4,831,318	**5.3**	6.3	347p
November 2004	**806,193**	859,684	**5.7**	6.7	337p
June 2005	**1,061,598**	1,178,581	**6.3**	7.2	352p
	8,632,783	9,623,518	**5.0**	5.9	335p

Notes to the financial statements

11 Share-based payments continued

C. Performance Share Plan

The Performance Share Plan is the primary long-term incentive plan for approximately 100 of the most senior managers and was first approved by shareholders in 2005. Under the plan, annual awards, based on a percentage of salary, may be offered. The extent to which the awards vest is based on adjusted earnings per share growth over three years. The value of any dividends earned on the vested shares during the three years will also be paid on vesting. Further details are set out in the Remuneration report on page 66 of the Marks and Spencer Group plc Annual Report. Awards under this scheme have been made in each year since 2005.

During the year, 6,835,938 shares (last year 3,414,413) were awarded under the plan. The weighted average fair value of the shares awarded was 368.9p (last year 704.0p).

D. Deferred Share Bonus Plan

The Deferred Share Bonus Plan was introduced in 2005/06 as part of the Annual Bonus Scheme for approximately 450 of the most senior managers. As part of the scheme, the managers are required to defer a proportion of any bonus paid into shares which will be held for three years. There are no further performance conditions on these shares, other than continued employment, and the value of any dividends earned during the deferred period will be paid on vesting.

During the year, 288,656 shares (last year 2,182,379) were awarded under the plan in relation to the annual bonus. The fair value of the shares awarded was 381.6p (last year 706.6p).

E. Restricted Share Plan

The Restricted Share Plan was established in 2000 as part of the reward strategy for retention and recruitment of senior managers who are vital to the success of the business. The plan operates for senior managers below executive director level. Awards under the plan are made as part of ongoing reviews of reward packages, and for recruitment. The shares are held in trust for a period of between one and three years, at which point they are released to the employee, subject to them still being in employment. The value of any dividends earned during the restricted period will also be paid at the time of vesting.

During the year, 1,755,667 shares (last year 328,165) have been awarded under the plan. The weighted average fair value of the shares awarded was 337.8p (last year 604.6p).

F. United Kingdom Share Incentive Plan

The Share Incentive Plan is a discretionary, all-employee plan, approved by HMRC, under which Freeshares may be allocated by the Company. The last award was made in June 2003, which vested in June 2008.

G. Share Matching Deal Plan

The Share Matching Deal Plan was introduced in 2006 for those employees who were eligible to receive a cash-only bonus. The scheme was not open to those employees who participated in the Deferred Share Bonus Plan. The plan allows employees to invest a proportion of their bonus in shares of Marks and Spencer Group plc. These investment shares must be held by the participant for three years, during which time they will receive dividends. At the end of the three year holding period, if the participant is still in employment with the Company, and still holds the investment shares, they will receive one matching share for every four that they bought.

No shares were awarded under the Share Matching Deal Plan during the year.

H. Marks and Spencer Employee Benefit Trust

The Marks and Spencer Employee Benefit Trust (the Trust) holds 4,203,250 (last year 8,795,896) shares with a book value of £27.8m (last year £60.0m) and a market value of £11.1m (last year £34.9m). These shares were acquired by the Trust in the market. In addition, the Trust has entered into a call option to purchase up to 6.3 million of Marks and Spencer Group plc shares. The Trust used funds provided by the Company to meet the Group's obligations. Awards are granted to employees at the discretion of the Company and shares awarded to employees by the Trust in accordance with the wishes of the Company under senior executive share schemes, including the Restricted Share Plan. Dividends are waived on all of these plans except for the Deferred Bonus Share Plan and Restricted Share Plan where dividends are paid via a Dividend Reinvestment Plan for awards made in the form of forfeitable shares.

Notes to the financial statements

12 Intangible assets

	Goodwill £m	Brands £m	Computer software £m	Computer software under development £m	Total £m
At 31 March 2007					
Cost or valuation	69.5	80.0	51.2	25.4	226.1
Accumulated amortisation	–	(13.3)	(18.7)	–	(32.0)
Net book value	69.5	66.7	32.5	25.4	194.1
Year ended 29 March 2008					
Opening net book value	69.5	66.7	32.5	25.4	194.1
Additions	48.4	–	18.6	65.1	132.1
Acquisition of subsidiaries	–	–	0.6	–	0.6
Transfers	–	–	12.5	(12.5)	–
Amortisation charge	–	(5.4)	(15.9)	–	(21.3)
Closing net book value	117.9	61.3	48.3	78.0	305.5
At 29 March 2008					
Cost or valuation	117.9	80.0	82.9	78.0	358.8
Accumulated amortisation	–	(18.7)	(34.6)	–	(53.3)
Net book value	117.9	61.3	48.3	78.0	305.5
Year ended 28 March 2009					
Opening net book value	**117.9**	**61.3**	**48.3**	**78.0**	**305.5**
Additions	**1.3**	**–**	**1.9**	**118.8**	**122.0**
Transfers	**–**	**–**	**18.0**	**(18.0)**	**–**
Exchange difference	**–**	**–**	**0.1**	**–**	**0.1**
Amortisation charge	**–**	**(5.3)**	**(22.0)**	**–**	**(27.3)**
Closing net book value	**119.2**	**56.0**	**46.3**	**178.8**	**400.3**
At 28 March 2009					
Cost or valuation	**119.2**	**80.0**	**102.9**	**178.8**	**480.9**
Accumulated amortisation	**–**	**(24.0)**	**(56.6)**	**–**	**(80.6)**
Net book value	**119.2**	**56.0**	**46.3**	**178.8**	**400.3**

Goodwill relates to the following business units:

	Per una £m	Marks and Spencer Marinopoulos B.V. £m	Marks and Spencer Czech Republic a.s. £m	Total £m
Cost and net book value at 29 March 2008	69.5	34.3	14.1	117.9
Additions	–	0.1	1.2	1.3
Cost and net book value at 28 March 2009	**69.5**	**34.4**	**15.3**	**119.2**

Goodwill is not amortised, but tested annually for impairment with the recoverable amount being determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rate, growth rates and changes in income and costs.

The Group prepares discounted cash flow forecasts based on financial forecasts approved by management covering a three year period, which takes account of both past performance and expectations for future market developments. Cash flows beyond this three year period are extrapolated using a growth rate of 2%, which does not exceed the long-term average growth rate for the Group's retail businesses. The Group's pre-tax weighted average cost of capital is used to discount the future cash flows. A risk adjustment is then made for the countries in which the business unit operates: per una discount rate 10.2% (last year 9.5%); Marks and Spencer Marinopoulos B.V. 12.2% and Marks and Spencer Czech Republic a.s. 13.2%. Based on the discounted cash flows the valuations indicate sufficient headroom that any reasonably possible change in the assumptions is unlikely to result in an impairment.

Brands consist of the per una brand which is being amortised on a straight-line basis over a period of 15 years.

Notes to the financial statements

13 Property, plant and equipment

	Land and buildings £m	Fixtures, fittings and equipment £m	Assets in the course of construction £m	Total £m
At 31 March 2007				
Cost	2,468.2	3,653.3	107.5	6,229.0
Accumulated depreciation	(95.3)	(2,089.2)	–	(2,184.5)
Net book value	2,372.9	1,564.1	107.5	4,044.5
Year ended 29 March 2008				
Opening net book value	2,372.9	1,564.1	107.5	4,044.5
Exchange difference	18.4	10.1	5.9	34.4
Additions	82.6	692.8	195.4	970.8
Acquisition of subsidiaries	18.0	11.5	0.2	29.7
Transfers	11.8	110.8	(122.6)	–
Disposals	(73.8)	(5.2)	(0.1)	(79.1)
Depreciation charge	(8.5)	(287.8)	–	(296.3)
Closing net book value	2,421.4	2,096.3	186.3	4,704.0
At 29 March 2008				
Cost	2,525.2	4,473.3	186.3	7,184.8
Accumulated depreciation	(103.8)	(2,377.0)	–	(2,480.8)
Net book value	2,421.4	2,096.3	186.3	4,704.0
Year ended 28 March 2009				
Opening net book value	**2,421.4**	**2,096.3**	**186.3**	**4,704.0**
Exchange difference	**26.3**	**21.4**	**8.4**	**56.1**
Additions	**45.7**	**395.2**	**90.4**	**531.3**
Transfers	**32.2**	**142.4**	**(174.6)**	**–**
Disposals	**(58.4)**	**(17.3)**	**–**	**(75.7)**
Depreciation charge	**(9.2)**	**(372.5)**	**–**	**(381.7)**
Closing net book value	**2,458.0**	**2,265.5**	**110.5**	**4,834.0**
At 28 March 2009				
Cost	**2,566.6**	**4,811.9**	**110.5**	**7,489.0**
Accumulated depreciation	**(108.6)**	**(2,546.4)**	**–**	**(2,655.0)**
Net book value	**2,458.0**	**2,265.5**	**110.5**	**4,834.0**

The net book value above includes land and buildings of £45.4m (last year £42.2m) and equipment of £58.7m (last year £35.6m) where the Group is a lessee under a finance lease.

Additions to property, plant and equipment during the year amounting to £32.8m (last year £23.5m) were financed by new finance leases.

14 Investment property

	2009 £m	2008 £m
Cost		
At start and end of year	**25.3**	25.3
Depreciation		
At start of year	**(0.3)**	(0.2)
Depreciation charge	**(0.2)**	(0.1)
At end of year	**(0.5)**	(0.3)
Net book value	**24.8**	25.0

The investment properties were valued at £23.1m (last year £31.7m) as at 28 March 2009 by qualified professional valuers working for CB Richard Ellis, Chartered Surveyors, acting in the capacity of external valuers. All such valuers are chartered surveyors, being members of the Royal Institution of Chartered Surveyors (RICS). The properties were valued on the basis of market value (calculated based on subleases in place at the year end). All valuations were carried out in accordance with the RICS Appraisal and Valuation Standards. As the investment properties are held at depreciated historical cost, this valuation has not been reflected in the carrying value of the assets. No impairment has been recognised on the one property which is carried at a higher value than its market value at 28 March 2009. However, the Group intends to re-occupy the property during 2009/10 at which point its value in use will exceed the net book value. The Group received rental income of £1.2m (last year £1.5m) in respect of these investment properties.

Notes to the financial statements

15 Investment in joint ventures

	2009 £m	2008 £m
At start of year	**9.6**	9.3
Investment in new joint venture	**4.4**	–
Share of (loss)/profit	**(0.2)**	0.3
At end of year	**13.8**	9.6

The joint ventures represent a 50% equity interest in Hedge End Park Limited, a property investment company incorporated in Great Britain, and a 50% equity interest in Lima (Bradford) S.a.r.l, a property investment company incorporated in Luxembourg, acquired during the year. The partner in the Hedge End Park Limited joint venture is J Sainsbury plc and the partner in the Lima (Bradford) S.a.r.l joint venture is ProLogis UK Holdings S.A.

In relation to the Group's interest in joint ventures, the assets and liabilities are shown below:

	2009 £m	2008 £m
Non-current assets	**4.9**	2.7
Current assets	**9.1**	7.2
Current liabilities	**(0.2)**	(0.3)
Net assets	**13.8**	9.6

16 Other financial assets

	2009 £m	2008 £m
Non-current		
Unlisted investments	**3.0**	3.0
Other investments[1]	**11.1**	60.0
	14.1	63.0
Current		
Amounts owed by parent company	**2,619.3**	2,584.6
Listed UK securities	**47.1**	43.5
Unlisted investments	**6.0**	5.3
	2,672.4	2,633.4

1 Other investments are the shares in Marks and Spencer Group plc held for employee share schemes.

Other financial assets are measured at fair value with changes in their value taken to the income statement.

17 Trade and other receivables

	2009 £m	2008 £m
Non-current		
Other receivables	**27.1**	13.5
Prepaid pension contributions	**60.7**	124.0
Prepaid leasehold premiums	**247.6**	270.1
Other prepayments and accrued income	**1.4**	2.4
	336.8	410.0
Current		
Trade receivables	**87.7**	87.9
Less: Provision for impairment of receivables	**(4.2)**	(3.3)
Trade receivables – net	**83.5**	84.6
Other receivables	**37.0**	32.7
Prepaid pension contributions	**65.7**	76.0
Prepaid leasehold premiums	**10.6**	10.9
Other prepayments and accrued income	**88.4**	103.2
	285.2	307.4

Trade receivables that were past due but not impaired amounted to £9.9m (last year £12.6m) and are mainly sterling denominated.

Notes to the financial statements

18 Cash and cash equivalents

Cash and cash equivalents includes short-term deposits with banks and other financial institutions, with an initial maturity of three months or less and credit card payment received within 48 hours. The carrying amount of these assets approximates their fair value.

The effective interest rate on short-term bank deposits is 0.33% (last year 5.4%); these deposits have an average maturity of three days (last year 26 days).

19 Trade and other payables

	2009 £m	2008 £m
Current		
Trade payables	**357.0**	226.9
Other payables	**426.6**	425.5
Social security and other taxes	**40.4**	56.1
Accruals and deferred income	**249.5**	267.1
	1,073.5	975.6
Non-current		
Other payables[1]	**243.8**	191.2

1 Includes the fair value of the put option £56.3m (last year £52.2m) exercisable on 4 April 2013 and last year contingent consideration for the acquisition of Marks and Spencer Czech Republic a.s. £4.0m payable by April 2010.

20 Borrowings and other financial liabilities

	2009 £m	2008 £m
Current		
Bank loans and overdrafts[1]	**147.9**	257.4
Syndicated bank facility[2]	**781.2**	615.0
Finance lease liabilities	**13.7**	6.2
	942.8	878.6
Partnership liability to the Marks & Spencer UK Pension Scheme	**71.9**	50.0
	1,014.7	928.6
Non-current		
Bank loans	**11.2**	–
6.375% £375m medium-term notes 2011[3]	**382.6**	382.0
5.875% £400m medium-term notes 2012[3]	**417.9**	421.4
5.625% £400m medium-term notes 2014[3]	**399.0**	398.8
6.250% US$500m medium-term notes 2017[4]	**354.4**	253.0
7.125% US$300m medium-term notes 2037[4]	**212.0**	151.1
6.875% £250m puttable callable reset medium-term notes 2037[3,5]	**252.6**	252.9
Finance lease liabilities	**88.2**	77.3
	2,117.9	1,936.5
Partnership liability to the Marks & Spencer UK Pension Scheme	**68.0**	673.2
	2,185.9	2,609.7
Total	**3,200.6**	3,538.3

1 Bank loans and overdrafts includes a £5.0m (last year £5.0m) loan from the Hedge End Park Limited joint venture (see notes 15 and 29).

2 Relates to a £1.2bn committed bank revolving credit facility set to mature on 26 March 2013.

3 These notes are issued under Marks and Spencer plc's £3bn European Medium-Term Note Programme and all pay interest annually.

4 Interest on these bonds is payable semi-annually.

5 These notes include an investor put and issuer call option exercisable in December 2012.

Finance leases

The minimum lease payments under finance leases fall due as shown in the table on the following page. It is the Group's policy to lease certain of its properties and equipment under finance leases. The average lease term for equipment is six years and 125 years for property. Interest rates are fixed at the contract rate. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent payments. The Group's obligations under finance leases are secured by the lessors' charges over the leased assets.

Notes to the financial statements

20 Borrowings and other financial liabilities continued

Partnership liability to the Marks & Spencer UK Pension Scheme

Last year the partnership liability of £723.2m related to an amortising liability in respect of obligations of the Marks and Spencer Scottish Limited Partnership to the Marks & Spencer UK Pension Scheme. During the year an interest charge of £38.0m was taken to the income statement representing the unwinding of the discount included in this obligation at an implied average interest rate of 5.7% (last year 5.7%).

On 25 March 2009 the terms of the Scottish Limited Partnership agreement were amended to make the payment by the Scottish Limited Partnership of annual distributions to the Pension Scheme discretionary at the instance of Marks and Spencer plc in relation to financial years 2010/11 onwards. This discretion is exercisable if the Group does not pay a dividend or make any other form of return to its shareholders. As a result, the distributions to the Pension Scheme in 2009 and 2010 remain as financial liabilities, while the remaining financial instrument is now an equity instrument (see note 25).

The agreement includes a clause such that, following a default event (including the appointment of an administrator, liquidator, receiver or similar officer in respect of Marks and Spencer plc or Marks and Spencer Group plc and the winding up or dissolution of Marks and Spencer plc or Marks and Spencer Group plc) or on a relevant change of law, the net present value of the outstanding distributions becomes payable to the Pension Scheme by the Scottish Limited Partnership at the option of the Pension Scheme. On the basis of the expected cash flows associated with such an event, the related financial liability has been fair valued at nil.

21 Financial instruments

Treasury policy and financial risk management

The Group operates a centralised treasury function to manage the Group's funding requirements and financial risks in line with the Board approved treasury policies and procedures, and their delegated authorities.

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 finance the Group's operations.

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

It remains the Group's policy not to hold or issue financial instruments for trading purposes, except where financial constraints necessitate the need to liquidate any outstanding investments. The treasury function is managed as a cost centre and does not engage in speculative trading.

The principal financial risks faced by the Group are liquidity/funding, interest rate, foreign currency and counterparty risks. The policies and strategies for managing these risks are summarised as follows:

(a) Liquidity/funding risk

The risk that the Group could be unable to settle or meet its obligations as they fall due at a reasonable price.

- The Group's funding strategy ensures a mix of funding sources offering flexibility and cost effectiveness to match the requirements of the Group.
- Operating subsidiaries are financed by a combination of retained profits, bank borrowings, medium-term notes and committed syndicated bank facilities.

At year end, the Group had a committed syndicated bank revolving credit facility of £1.2bn set to mature on 26 March 2013. This facility contains only one financial covenant being the ratio of earnings before interest, tax, depreciation, amortisation and rents payable; to interest plus rents payable. The covenant is measured semi-annually. In addition, the term out option under the £400m credit agreement which expired on 13 February 2009 was converted into a committed facility for the same period, expiring on 11 February 2010. This facility has the same financial covenant as the main £1.2bn facility. The Group also has a number of undrawn uncommitted facilities available to it. At year end, these amounted to £105m (last year £155m), all of which are due to be reviewed within a year. At the balance sheet date a sterling equivalent of £764m (last year £614m) was drawn under the committed facilities and £nil (last year a further £29m) was drawn under the uncommitted facilities.

In addition to the existing borrowings, the Group has a euro medium-term note programme of £3bn, of which £1.4bn (last year £1.4bn) was in issuance as at the balance sheet date.

Notes to the financial statements

21 Financial instruments continued

The contractual maturity of the Group's non-derivative financial liabilities and derivatives is as follows:

	Bank loans and overdrafts £m	Syndicated bank facility £m	Medium-term notes £m	Finance lease liabilities £m	Partnership liability to the M&S UK Pension Scheme £m	Total £m	Derivative assets £m	Derivative liabilities £m	Total £m
Timing of cash flows									
Within one year	(257.4)	(615.0)	(112.6)	(11.6)	(50.0)	(1,046.6)	643.4	(663.7)	(20.3)
Between one and two years	–	–	(112.6)	(19.2)	(71.9)	(203.7)	90.7	(90.9)	(0.2)
Between two and five years	–	–	(1,088.9)	(26.2)	(215.7)	(1,330.8)	84.8	(83.0)	1.8
More than five years	–	–	(1,866.5)	(214.9)	(719.0)	(2,800.4)	747.3	(736.4)	10.9
	(257.4)	(615.0)	(3,180.6)	(271.9)	(1,056.6)	(5,381.5)	1,566.2	(1,574.0)	(7.8)
Effect of discounting and foreign exchange	–	–	1,321.4	188.4	333.4	1,843.2			
At 29 March 2008	(257.4)	(615.0)	(1,859.2)	(83.5)	(723.2)	(3,538.3)			
Timing of cash flows									
Within one year	**(147.9)**	**(781.2)**	**(123.8)**	**(18.3)**	**(71.9)**	**(1,143.1)**	**949.4**	**(919.8)**	**29.6**
Between one and two years	**(11.2)**	**–**	**(123.8)**	**(16.9)**	**(71.9)**	**(223.8)**	**70.4**	**(63.6)**	**6.8**
Between two and five years	**–**	**–**	**(1,476.8)**	**(34.4)**	**–**	**(1,511.2)**	**114.0**	**(83.2)**	**30.8**
More than five years	**–**	**–**	**(1,706.2)**	**(209.4)**	**–**	**(1,915.6)**	**1,003.8**	**(708.9)**	**294.9**
	(159.1)	**(781.2)**	**(3,430.6)**	**(279.0)**	**(143.8)**	**(4,793.7)**	**2,137.6**	**(1,775.5)**	**362.1**
Effect of discounting and foreign exchange	**–**	**–**	**1,412.1**	**177.1**	**3.9**	**1,593.1**			
At 28 March 2009	**(159.1)**	**(781.2)**	**(2,018.5)**	**(101.9)**	**(139.9)**	**(3,200.6)**			

This table does not include trade and other payables (see note 19) due to the low associated liquidity risk.

(b) Counterparty risk
Counterparty risk exists where the Group can suffer financial loss through default or non-performance by financial institutions.

Exposures are managed through Group treasury policy which limits the value that can be placed with each approved counterparty to minimise the risk of loss. The counterparties are limited to the approved institutions with secure long-term credit ratings A+/A1 or better assigned by Moody's and Standard & Poor's respectively, unless approved on an exception basis by a Board director. Limits are reviewed regularly by senior management. The credit risk of these financial instruments is estimated as the fair value of the assets resulting from the contracts.

The table below analyses the Group's cash and cash equivalents and derivative assets by credit exposure excluding bank balances, store cash and cash in transit.

	Credit rating of counterparty						
	AAA/Aaa £m	AA/Aaa £m	AA/Aa1 £m	AA-/Aa1 £m	AA-/Aa2 £m	AA-/Aa3 £m	Total
Money market deposits[1]	–	3.4	63.6	–	–	–	67.0
Derivative assets[2]	5.2	11.6	6.2	–	0.6	0.6	24.2
At 29 March 2008	5.2	15.0	69.8	–	0.6	0.6	91.2
	AAA/Aaa £m	AA/Aa1 £m	AA/Aa2 £m	A+/Aa3 £m	A+/A1 £m	A/A2[3] £m	Total
Money market deposits[1]	**–**	**–**	**116.1**	**4.1**	**13.0**	**–**	**133.2**
Derivative assets[2]	**105.4**	**25.9**	**27.7**	**142.0**	**8.8**	**9.8**	**319.6**
At 28 March 2009	**105.4**	**25.9**	**143.8**	**146.1**	**21.8**	**9.8**	**452.8**

1 Includes cash on deposit in M&S Scottish Limited Partnership.

2 Excludes derivative asset option which is embedded within the £250m puttable callable reset medium-term notes due 2037.

3 Exposure to A/A2 counterparty approved as an exception to treasury policy.

The Group has very low retail credit risk due to transactions being principally of a high volume, low value and short maturity.

The maximum exposure to credit risk at the balance sheet date was as follows: trade receivables £84m (last year £85m), other receivables £64m (last year £46m), cash and cash equivalents £423m (last year £318m) and derivatives £347m (last year £37m).

Notes to the financial statements

21 Financial instruments continued

(c) Foreign currency risk
Transactional foreign currency exposures arise from both the export of goods from the UK to overseas subsidiaries, and from the import of materials and goods directly sourced from overseas suppliers.

Group treasury hedge these exposures principally using forward foreign exchange contracts progressively covering up to 100% out to 18 months. Where appropriate hedge cover can be taken out longer than 18 months with Board approval. The Group is primarily exposed to foreign exchange risk in relation to sterling against movements in US dollar and euro.

Forward foreign exchange contracts in relation to the Group's forecast currency requirements are designated as cash flow hedges with fair value movements recognised directly in equity. To the extent that these hedges cover actual currency payables or receivables then associated fair value movements previously recognised in equity are recorded in the income statement in conjunction with the corresponding asset or liability. As at the balance sheet date the gross notional value in sterling terms of forward foreign exchange sell or buy contracts amounted to £768m (last year £619m) with a weighted average maturity date of six months (last year seven months).

The translation exposures arising on the overseas net assets are hedged with foreign currency debt. As at the balance sheet date, €276m (last year €243m) and HK$178m (last year HK$107m) currency debt was hedging overseas net assets.

The Group also hedges foreign currency intercompany loans where these exist. Forward foreign exchange contracts in relation to the hedging of the Group's foreign currency intercompany loans are designated as held for trading with fair value movements being recognised in the income statement. The corresponding fair value movement of the intercompany loan balance results in an overall nil impact on the income statement. As at the balance sheet date, the gross notional value of intercompany loan hedges was £108m (last year £80m).

Gains and losses in equity on forward foreign exchange contracts as at 28 March 2009 will be released to the income statement at various dates over the following 14 months (last year 19 months) from the balance sheet date.

After taking into account the hedging derivatives entered into by the Group, the currency and interest rate exposure of the Group's financial liabilities is as set out below excluding short-term payables and the Marks and Spencer Czech Republic a.s. put option:

	2009			2008		
	Fixed rate £m	**Floating rate £m**	**Total £m**	Fixed rate £m	Floating rate £m	Total £m
Currency						
Sterling	**2,252.4**	**629.9**	**2,882.3**	2,665.9	673.0	3,338.9
Euro	**7.6**	**286.1**	**293.7**	–	192.5	192.5
Hong Kong dollar	**–**	**16.4**	**16.4**	–	6.9	6.9
Other	**0.3**	**7.9**	**8.2**	–	–	–
	2,260.3	**940.3**	**3,200.6**	2,665.9	872.4	3,538.3

The floating rate sterling and euro borrowings are linked to interest rates related to LIBOR. These rates are for periods between one and three months.

As at the balance sheet date and excluding finance leases but including the partnership liability, the fixed rate sterling borrowings are at an average rate of 6.0% (last year 6.0%) and the weighted average time for which the rate is fixed is nine years (last year ten years).

(d) Interest rate risk
The Group is exposed to interest rate risk in relation to the sterling, US dollar, euro and Hong Kong dollar variable rate financial assets and liabilities.

- The Group's policy is to use derivative contracts where necessary to maintain a mix of fixed and floating rate borrowings to manage this risk. The structure and maturity of these derivatives correspond to the underlying borrowings and are accounted for as fair value or cash flow hedges as appropriate.
- At the balance sheet date fixed rate borrowings amounted to £2,260.3m (last year £2,665.9m) representing the public bond issues and finance leases, and amounting to 71% (last year 75%) of the Group's gross borrowings.

The effective interest rates at the balance sheet date were as follows:

	2009 %	2008 %
Committed and uncommitted borrowings	**4.0**	5.5
Medium-term notes	**6.2**	6.2
Finance leases	**4.8**	5.0
Partnership liability to the Marks & Spencer UK Pension Scheme	**5.7**	5.7

Notes to the financial statements

21 Financial instruments continued

Sensitivity analysis

The table below illustrates the estimated impact on the income statement and equity as a result of market movements in foreign exchange and interest rates in relation to all of the Group's financial instruments. The Group considers that a 2% (last year 1%) +/- movement in interest rates and a 20% (last year 10%) weakening or strengthening in sterling represents reasonable possible changes. However, this analysis is for illustrative purposes only.

The impact in the income statement due to changes in interest rates reflects the effect on the Group's floating rate debt as at the balance sheet date. The impact in equity reflects the fair value movement in relation to the Group's cross currency swaps. The impact from foreign exchange movements reflects the change in the fair value of the Group's transactional foreign exchange cash flow hedges and the net investment hedges at the balance sheet date.

The equity impact shown for foreign exchange sensitivity relates to derivative and non-derivative financial instruments hedging net investments. This value is expected to be fully offset by the retranslation of the hedged foreign currency net assets leaving a net equity impact of zero. The table excludes financial instruments that expose the Group to interest rate and foreign exchange risk where such risk is fully hedged with another financial instrument. Also excluded are trade receivables and payables as these are either sterling denominated or the foreign exchange risk is hedged.

	1% decrease in interest rates £m	1% increase in interest rates £m	10% weakening in sterling £m	10% strengthening in sterling £m
At 29 March 2008[1]				
Impact on income statement: gain/(loss)	6.5	(6.5)	(6.3)	5.2
Impact on equity: gain/(loss)	4.1	(3.3)	(15.5)	12.7

	2% decrease in interest rates £m	**2% increase in interest rates £m**	**20% weakening in sterling £m**	**20% strengthening in sterling £m**
At 28 March 2009				
Impact on income statement: gain/(loss)	**13.6**	**(15.1)**	**(15.2)**	**10.2**
Impact on equity: gain/(loss)	**208.7**	**(134.3)**	**(11.1)**	**7.4**

1 The prior year numbers have been amended to include the Marks and Spencer Czech Republic a.s. put option.

Derivative financial instruments

		2009		2008	
		Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Current					
Options	– held for trading	**27.0**	**(27.0)**	12.4	(12.4)
Commodity swap	– cash flow hedge	**–**	**(16.7)**	–	–
Forward foreign exchange contracts	– cash flow hedges	**59.9**	**(27.4)**	5.0	(21.8)
	– held for trading	**5.7**	**(0.4)**	1.0	(0.9)
Interest rate swaps	– held for trading	**–**	**(4.7)**	–	–
		92.6	**(76.2)**	18.4	(35.1)
Non-current					
Commodity swap	– cash flow hedge	**–**	**(1.5)**	–	–
Cross currency swaps	– cash flow hedges	**253.9**	**–**	16.9	–
Forward foreign exchange contracts	– cash flow hedges	**0.1**	**(1.5)**	1.3	–
		254.0	**(3.0)**	18.2	–

The Group holds a number of cross currency swaps to redesignate its fixed rate US dollar debt to fixed rate sterling debt. The attributes of these derivatives match the characteristics of the underlying debt hedged with rates of 7.034% (2017 bond) and 7.238% (2037 bond). The amounts reported as options held for trading in derivative assets and liabilities represent the fair value of the call option with the puttable callable reset notes mirrored by the fair value of the sold option to have this call assigned. During the year the Group entered into energy swap contracts to fix a portion of the forecast energy usage for the 2009/10 financial year. These swaps are accounted for as cash flow hedges.

Fair value of financial instruments

With the exception of the Group's fixed rate bond debt, there were no material differences between the carrying value of non-derivative financial assets and financial liabilities and their fair values as at the balance sheet date.

The carrying value of the Group's fixed rate bond debt was £2,018.5m (last year £1,859.2m), the fair value of this debt was £1,616.6m (last year £1,740.7m).

Notes to the financial statements

21 Financial instruments continued

Capital policy

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain a capital structure that optimises the cost of capital. In order to maintain or adjust the capital structure the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

22 Provisions

	UK restructuring £m	Overseas restructuring £m	Total £m
At 1 April 2007	14.1	8.4	22.5
Provided in the year	11.5	0.1	11.6
Released in the year	(3.2)	(2.0)	(5.2)
Utilised during the year	(4.2)	(0.3)	(4.5)
Exchange differences	–	1.3	1.3
At 29 March 2008	18.2	7.5	25.7
At 30 March 2008	**18.2**	**7.5**	**25.7**
Provided in the year	**86.6**	**–**	**86.6**
Released in the year	**(0.7)**	**–**	**(0.7)**
Utilised during the year	**(8.5)**	**(0.6)**	**(9.1)**
Exchange differences	**–**	**1.3**	**1.3**
At 28 March 2009	**95.6**	**8.2**	**103.8**

Analysis of total provisions:

	2009 £m	2008 £m
Current	**63.6**	11.1
Non-current	**40.2**	14.6
Total provisions	**103.8**	25.7

The provision for UK restructuring is comprised of exceptional costs related to the strategic restructure (see note 5), including onerous leases and redundancies, as well as costs of closing Lifestore. The provision for overseas restructuring costs primarily relates to future closure costs in respect of discontinued operations in Continental Europe.

The current element of the provision primarily relates to redundancy costs, costs relating to the rationalisation of IT and logistics networks, and costs of closing Lifestore.

The non-current element of the provision relates to store closures, primarily onerous leases, and the closure costs of discontinued operations in Continental Europe, and are expected to be utilised over a period of eight years.

Notes to the financial statements

23 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 28% (last year 28%) for UK differences and the local tax rates for overseas differences.

The movements in deferred tax assets and liabilities (after the offsetting of balances within the same jurisdiction as permitted by IAS 12 – 'Income Taxes') during the period are shown below. Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

Deferred tax assets/(liabilities)

	Fixed assets temporary differences £m	Accelerated capital allowances £m	Pension temporary differences £m	Other short-term temporary differences £m	Total UK deferred tax £m	Overseas deferred tax £m	Total £m
At 1 April 2007	(90.6)	(103.2)	183.5	21.9	11.6	(7.3)	4.3
Credited/(charged) to the income statement	13.7	(41.4)	(150.5)	(12.9)	(191.1)	0.4	(190.7)
Credited/(charged) to equity	–	–	(172.4)	(15.1)	(187.5)	1.8	(185.7)
At 29 March 2008	(76.9)	(144.6)	(139.4)	(6.1)	(367.0)	(5.1)	(372.1)
At 30 March 2008	**(76.9)**	**(144.6)**	**(139.4)**	**(6.1)**	**(367.0)**	**(5.1)**	**(372.1)**
Credited/(charged) to the income statement	**(2.0)**	**17.3**	**(87.0)**	**(5.7)**	**(77.4)**	**(0.2)**	**(77.6)**
Credited/(charged) to equity	**-**	**-**	**254.9**	**(29.5)**	**225.4**	**0.4**	**225.8**
At 28 March 2009	**(78.9)**	**(127.3)**	**28.5**	**(41.3)**	**(219.0)**	**(4.9)**	**(223.9)**

Analysis of total provisions:

	2009 £m	2008 £m
Deferred tax assets	**1.6**	–
Deferred tax liabilities	**(225.5)**	(372.1)
Total	**(223.9)**	(372.1)

In arriving at the deferred tax on fixed assets, credit has been taken for capital losses with a tax value of £60.5m (last year £53.0m).
No deferred tax is recognised on the unremitted earnings of overseas subsidiaries. As the earnings are continually reinvested by the Group, no tax is expected to be payable to them in the foreseeable future. Undistributed profits of overseas subsidiaries amount to £380.6m (last year £295.1m).

The Group is claiming UK tax relief for losses incurred by some of its current and former European subsidiaries. In light of continuing litigation, no asset has been recognised in respect of these claims.

24 Share capital

	2009 Shares	2009 £m	2008 Shares	2008 £m
Authorised ordinary shares of 25p each	**3,200,000,000**	**800.0**	3,200,000,000	800.0
Allotted, called up and fully paid ordinary shares of 25p each:				
At start and end of year	**2,850,039,477**	**712.5**	2,850,039,477	712.5

Notes to the financial statements

25 Statement of changes in shareholders' equity

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Retained earnings[1,2] £m	Total £m
At 1 April 2007	712.5	386.1	8.0	(4.4)	2,634.3	3,736.5
Profit for the year attributable to shareholders	–	–	–	–	821.6	821.6
Dividends	–	–	–	–	(344.0)	(344.0)
Foreign currency translation	–	–	–	–	21.3	21.3
Put option for acquisition of minority interest[3]	–	–	–	–	(52.2)	(52.2)
Actuarial gain on retirement benefit scheme	–	–	–	–	605.4	605.4
Deferred tax on retirement benefit scheme	–	–	–	–	(172.4)	(172.4)
Deferred tax on share schemes	–	–	–	–	(10.6)	(10.6)
Charge for share-based payments	–	–	–	–	29.0	29.0
Cash flow and net investment hedges						
– losses deferred in equity	–	–	–	(33.5)	–	(33.5)
– recycled and reported in net profit[4]	–	–	–	1.3	–	1.3
– amount recognised in inventories	–	–	–	2.4	–	2.4
– tax on fair value gains	–	–	–	(2.7)	–	(2.7)
At 29 March 2008	712.5	386.1	8.0	(36.9)	3,532.4	4,602.1
At 30 March 2008	**712.5**	**386.1**	**8.0**	**(36.9)**	**3,532.4**	**4,602.1**
Profit for the year attributable to shareholders	–	–	–	–	**508.0**	**508.0**
Dividends	–	–	–	–	**(356.3)**	**(356.3)**
Derecognition of financial liability[5]	–	–	–	–	**571.7**	**571.7**
Foreign currency translation	–	–	–	**(0.8)**	**33.9**	**33.1**
Actuarial loss on retirement benefit scheme	–	–	–	–	**(927.1)**	**(927.1)**
Deferred tax on retirement benefit scheme	–	–	–	–	**254.9**	**254.9**
Deferred tax on share schemes	–	–	–	–	**0.2**	**0.2**
Charge for share-based payments	–	–	–	–	**14.3**	**14.3**
Cash flow and net investment hedges						
– fair value movement in equity	–	–	–	**317.2**	**(61.3)**	**255.9**
– recycled and reported in net profit[4]	–	–	–	**(206.8)**	–	**(206.8)**
– amount recognised in inventories	–	–	–	**(8.6)**	–	**(8.6)**
– tax on fair value gains	–	–	–	**(29.3)**	–	**(29.3)**
Transfer of exchange on net investment hedges	–	–	–	**27.8**	**(27.8)**	–
At 28 March 2009	**712.5**	**386.1**	**8.0**	**62.6**	**3,542.9**	**4,712.1**

1 Cumulative goodwill of £nil (last year £nil) arising on the acquisition of subsidiaries has been written off against retained earnings.

2 Includes a cumulative £52.3m gain (last year £18.4m gain) in the currency reserve.

3 Fair value of the put option over the 49% minority interest in the share capital of Marks and Spencer Czech Republic a.s.

4 Amounts recycled and reported in net profit have all been recorded in cost of sales.

5 Reclassification of financial instrument to equity. See note 20 for further details.

Notes to the financial statements

26 Contingencies and commitments

A. Capital commitments

	2009 £m	2008 £m
Commitments in respect of properties in the course of construction	**52.1**	182.8

In respect of its interest in a joint venture (see note 15), the joint venture is committed to incur capital expenditure of £31.9m (last year nil), of which the Group's share of this commitment is £19.3m (last year nil).

B. 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 property, plant and equipment, at values ranging from historical net book value to market value, which are currently owned and operated by them on the Group's behalf.

C. Commitments under operating leases

The Group leases various stores, offices, warehouses and equipment under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

	2009 £m	2008 £m
Total future minimum rentals under non-cancellable operating leases expiring:		
Not later than one year	**44.0**	17.9
Later than one year and not later than five years	**178.5**	90.4
Later than five years and not later than 25 years	**2,464.4**	2,223.6
Later than 25 years	**1,488.0**	1,551.1
Total	**4,174.9**	3,883.0

The total future sublease payments to be received are £64.9m (last year £70.5m).

27 Analysis of cash flows given in the cash flow statement

Cash flows from operating activities

	52 weeks ended 28 March 2009 £m	52 weeks ended 29 March 2008 £m
Profit on ordinary activities after taxation	**506.8**	820.9
Income tax expense	**199.4**	308.1
Interest payable and similar charges	**214.5**	146.6
Interest receivable	**(50.0)**	(64.4)
Operating profit	**870.7**	1,211.2
Increase in inventories	**(46.0)**	(54.4)
Decrease/(increase) in receivables	**54.8**	(33.5)
Payments to acquire leasehold properties	**(14.1)**	(47.6)
Increase/(decrease) in payables	**213.2**	(61.9)
Exceptional operating cash outflow	**(27.4)**	(2.5)
Depreciation and amortisation	**409.0**	317.6
Share-based payments	**14.3**	29.0
Profit on property disposals	**(6.4)**	(27.0)
Exceptional costs	**135.9**	–
Exceptional pension credit	**(231.3)**	(95.0)
Cash generated from operations	**1,372.7**	1,235.9

Exceptional operating cash outflows related to UK restructuring costs £26.9m (last year £2.2m) and the closure of European operations £0.5m (last year £0.3m).

Notes to the financial statements

28 Analysis of net debt

A. Reconciliation of movement in net debt

	At 30 March 2008 Restated £m	Cash flow £m	Exchange and other non-cash movements £m	**At 28 March 2009 £m**
Net cash				
Bank loans (see note 20)	(871.4)	(6.8)	(45.1)	**(923.3)**
Less: amounts treated as financing (see below)	671.3	82.3	45.1	**798.7**
	(200.1)	75.5	–	**(124.6)**
Cash and cash equivalents (see note 18)	318.0	97.1	7.8	**422.9**
Net cash per cash flow statement	117.9	172.6	7.8	**298.3**
Current financial assets (see note 16)	2,633.4	35.8	3.2	**2,672.4**
Debt financing				
Bank loans and overdrafts treated as financing (see above)	(57.3)	25.8	(3.0)	**(34.5)**
Syndicated bank facility (see note 20) (see above)	(614.0)	(108.1)	(42.1)	**(764.2)**
Medium-term notes (see note 20)	(1,795.0)	–	(6.7)	**(1,801.7)**
Finance lease liabilities (see note 20)	(83.5)	1.0	(19.4)	**(101.9)**
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 20)	(694.6)	15.1	539.6	**(139.9)**
Debt financing	(3,244.4)	(66.2)	468.4	**(2,842.2)**
Net (debt)/funds	(493.1)	142.2	479.4	**128.5**

B. Reconciliation of net funds/(debt) to balance sheet

	2009 £m	2008 Restated £m
Balance sheet and related notes		
Cash and cash equivalents	**422.9**	318.0
Current financial assets (see note 16)	**2,672.4**	2,633.4
Bank loans and overdrafts (see note 20)	**(159.1)**	(257.4)
Syndicated bank facility (see note 20)	**(781.2)**	(615.0)
Medium-term notes (see note 20) – net of US dollar hedging derivatives[1]	**(1,848.1)**	(1,842.0)
Finance lease liabilities (see note 20)	**(101.9)**	(83.5)
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 20)	**(139.9)**	(723.2)
	65.1	(569.7)
Interest payable included within related borrowing	**63.4**	76.6
Total net funds/(debt)	**128.5**	(493.1)

1 Medium-term notes have been restated for this note to include the derivatives relating to them.

Notes to the financial statements

29 Related party transactions

A. Parent company and subsidiaries

During the year, the Company paid dividends to its parent company, Marks and Spencer Group plc, of £356.3m (last year £344.0m) and increased the loan to its parent company by £34.7m (last year £9.1m).

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Company and its subsidiaries are disclosed in the Company's separate financial statements.

B. Hedge End joint venture

A loan of £5.0m was received from the joint venture on 9 October 2002. It is repayable on five business days' notice and was renewed on 1 January 2008. Interest was charged on the loan at 5.25% until 31 December 2007 and 5.5% thereafter.

C. Lima (Bradford) joint venture

A loan facility was provided to the joint venture on 11 August 2008. At 28 March 2009, £13.6m was drawn down on this facility. Interest was charged on the loan at 1.1% above 3-month LIBOR.

D. Marks & Spencer Pension Scheme

Details of other transactions and balances held with the Marks & Spencer Pension Scheme are set out in notes 10 and 20.

E. Key management compensation

	2009 £m	2008 £m
Salaries and short-term benefits	**4.7**	7.3
Post-employment benefits	**0.1**	0.4
Termination benefits	**-**	0.4
Share-based payments	**1.9**	12.3
Total	**6.7**	20.4

Key management in the comparative period included the directors, the Group Secretary and those members of key management who were members of the Executive Committee. In 2007 the Financial Services Authority issued new guidance on PDMRs (Persons Discharging Managerial Responsibilities) which, combined with increased size of the Executive Board in March 2008, has enabled the Group to restrict the number of PDMRs to Board directors only and it is this group that is considered to be key management under IAS 24 in the current year. Under this revised basis the comparative total key management compensation would have been £12.6m. Further information about the remuneration of individual directors is provided in the Remuneration report.

During the year, key management have purchased goods at the Group's usual prices less a 20% discount. This discount is available to all staff employed directly by the Group in the UK.

F. Other related party transactions

Supplier transactions occurred during the year between the Group and a company controlled by a close family member of Kate Bostock. These transactions amounted to £5.2m during the year (last year £5.4m) with an outstanding trade payable of £nil at 28 March 2009 (last year £0.1m). The company was a supplier prior to Kate's employment by the Group.

Supplier transactions occurred during the year between the Group and a company controlled by Martha Lane Fox's partner. These transactions amounted to £0.1m during the year with an outstanding trade payable of £nil at 28 March 2009. There were no transactions with the company last year.

On 8 August 2008 Marks and Spencer Group plc made a loan of £0.5m to Graham Oakley, a director of Marks and Spencer plc. This loan is due in full on 14 December 2009 and carried interest at 6% for the period from 8 August 2008 to 31 July 2009. Since 1 August 2009 the loan has carried interest at 3%. The loan plus interest outstanding at the end of the year was £0.5m.

30 Post balance sheet event – acquisition of subsidiary

On 31 March 2009, Marks and Spencer Reliance India Pvt Limited, a 51% subsidiary of the Group, completed the acquisition of 100% of the issued share capital of Supreme Tradelinks Private Limited, which up until this date was the Group's franchisee in India, for cash consideration of £6.5m.

31 Ultimate parent company

The ultimate parent company and controlling party is Marks and Spencer Group plc, a company incorporated in Great Britain. Copies of the Marks and Spencer Group plc financial statements can be obtained from Waterside House, 35 North Wharf Road, London, W2 1NW.

Company statement of recognised income and expense

	52 weeks ended 28 March 2009 £m	52 weeks ended 29 March 2008 £m
Profit for the year	**350.2**	696.5
Actuarial (losses)/gains on retirement benefit schemes	**(909.6)**	607.3
Fair value movement in equity of available-for-sale assets	**(48.9)**	-
Cash flow and net investment hedges		
– fair value movements in equity	**238.4**	17.2
– recycled and reported in net profit	**(176.4)**	(14.0)
– amount recognised in inventories	**(1.3)**	0.3
Tax on items taken directly to equity	**237.6**	(183.4)
Net (losses)/gains not recognised in the income statement	**(660.2)**	427.4
Total recognised income and expense for the year	**(310.0)**	1,123.9

The profit attributable to shareholders of the Company for the year is £350.2m (£696.5m).

Company balance sheet

	Notes	As at 28 March 2009 £m	As at 29 March 2008 £m
Assets			
Non-current assets			
Intangible assets	C6	**223.4**	125.2
Property, plant and equipment	C7	**2,952.8**	2,886.3
Investment in joint ventures	C8	**10.5**	6.1
Investment in group undertakings	C8	**1,579.7**	1,585.7
Other financial assets	C9	**14.1**	63.0
Retirement benefit asset	C4	**-**	504.0
Trade and other receivables	C10	**218.2**	272.5
Derivative financial instruments	C14	**255.5**	18.2
		5,254.2	5,461.0
Current assets			
Inventories		**359.9**	350.7
Amounts owed by parent company	C10	**2,619.3**	2,584.6
Amounts owed by subsidiary companies	C10	**1,999.1**	794.3
Trade and other receivables	C10	**245.4**	265.4
Current tax asset		**-**	5.0
Derivative financial instruments	C14	**125.6**	46.0
Cash and cash equivalents	C11	**112.8**	85.8
		5,462.1	4,131.8
Total assets		**10,716.3**	9,592.8
Liabilities			
Current liabilities			
Trade and other payables	C12	**3,409.0**	2,122.8
Borrowings and other financial liabilities	C13	**924.2**	854.9
Derivative financial instruments	C14	**137.1**	43.1
Provisions	C15	**61.5**	9.6
Current tax liabilities		**59.0**	–
		4,590.8	3,030.4
Non-current liabilities			
Retirement benefit deficit	C4	**133.6**	19.3
Trade and other payables	C12	**214.3**	147.5
Borrowings and other financial liabilities	C13	**2,099.1**	1,926.0
Derivative financial instruments	C14	**3.1**	1.3
Provisions	C15	**27.1**	8.6
Deferred tax liabilities	C16	**157.3**	316.7
		2,634.5	2,419.4
Total liabilities		**7,225.3**	5,449.8
Net assets		**3,491.0**	4,143.0
Equity			
Called-up share capital – equity	C17	**712.5**	712.5
Share premium account	C17	**386.1**	386.1
Capital redemption reserve	C17	**8.0**	8.0
Hedging reserve	C17	**48.3**	5.1
Retained earnings	C17	**2,336.1**	3,031.3
Total shareholders' equity		**3,491.0**	4,143.0

The financial statements were approved by the Board and authorised for issue on 9 September 2009. The financial statements also comprise the notes on pages 42 and 58.

Stuart Rose Chairman

Ian Dyson Group Finance and Operations Director

Company cash flow statement

	Notes	52 weeks ended 28 March 2009 £m	52 weeks ended 29 March 2008 £m
Consolidated cash flow statement			
Cash flows from operating activities			
Cash generated from operations	C19	**1,160.0**	1,161.3
Tax paid		**(75.0)**	(158.1)
Net cash inflow from operating activities		**1,085.0**	1,003.2
Cash flows from investing activities			
Purchase of investment in subsidiary company		**(2.2)**	(16.0)
Purchase of property, plant and equipment		**(493.7)**	(963.0)
Proceeds from sale of property, plant and equipment		**57.0**	91.6
Purchase of intangible assets		**(119.9)**	(60.4)
Purchase of non-current financial assets		**(4.4)**	–
Net purchase of shares held in employee trusts		**–**	(31.9)
Interest received		**9.1**	35.8
Net cash outflow from investing activities		**(554.1)**	(943.9)
Cash flows from financing activities			
Interest paid		**(168.5)**	(156.9)
Cash (outflow)/inflow from borrowings		**(29.2)**	7.7
Drawdown/(repayment) of syndicated bank facility		**108.1**	317.6
Issue of medium-term notes		**–**	631.6
Repayments under finance leases		**(2.1)**	(3.5)
Movement in intercompany loans treated as financing		**19.6**	(575.4)
Equity dividends paid		**(356.3)**	(344.0)
Net cash outflow from financing activities		**(428.4)**	(122.9)
Net cash inflow from activities		**102.5**	(63.6)
Opening net cash		**(114.3)**	(50.7)
Closing net cash	C20	**(11.8)**	(114.3)

Company notes to the financial statements

C1 Accounting policies

The Company's accounting policies are the same as those set out in note 1 of the Group financial statements, except as noted below.

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

Loans from other group undertakings and all other payables are initially recorded at fair value, which is generally the proceeds received. They are then subsequently carried at amortised cost.

The Group has adopted the exemption to apply Companies Act 1985, s230. A company income statement has not been produced.

C2 Employees

A. Aggregate remuneration

The aggregate remuneration and associated costs of the Company's employees were:

	2009 Total £m	2008 Total £m
Wages and salaries	**844.7**	832.2
Social security costs	**57.3**	54.0
Pension costs	**60.9**	96.9
Share-based payments	**14.3**	29.0
Employee welfare and other personnel costs	**34.4**	33.0
Ex-gratia costs	**8.4**	10.5
Capitalised staff costs	**(21.3)**	(20.9)
Aggregate remuneration	**998.7**	1,034.7
Exceptional redundancy costs (see note 5)	**10.7**	–
Exceptional pension credit (see note 5)	**(231.3)**	(95.0)
Total	**778.1**	939.7

Details of key management compensation are given in note 29E.

B. Average number of employees

	2009	2008
UK stores		
– management and supervisory categories	**5,442**	5,267
– other	**62,533**	62,820
UK head office		
– management and supervisory categories	**2,564**	2,586
– other	**633**	804
Total average number of employees	**71,172**	71,477

If the number of hours worked was converted on the basis of a normal working week, the equivalent average number of full-time employees would have been 49,267 (last year 49,502).

C3 Dividends

	2009 per share	2008 per share	2009 £m	2008 £m
Dividends on equity ordinary shares				
Paid final dividend	**7.9p**	7.2p	**225.2**	203.8
Paid interim dividend	**4.6p**	4.9p	**131.1**	140.2
	12.5p	12.1p	**356.3**	344.0

In addition, the directors have proposed a final dividend in respect of the year ended 28 March 2009 of 5.3p per share amounting to a dividend of £151.1m.

Company notes to the financial statements

C4 Retirement benefits

The Group provides pension arrangements for the benefit of its UK employees through the Marks & Spencer UK Pension Scheme. This has a defined benefit section, which was closed to new entrants with effect from 1 April 2002, and a defined contribution section which has been open to new members with effect from 1 April 2003.

The defined benefit section operates on a final salary basis and at the year end had some 21,000 active members (last year 24,000), 57,000 deferred members (last year 58,000) and 42,000 pensioners (last year 39,000). At the year end, the defined contribution section had some 8,000 active members (last year 8,000) and some 1,000 deferred members (last year 1,000).

Retirement benefits also include a UK post-retirement healthcare scheme and unfunded retirement benefits.

Within the total retirement benefit cost, excluding the exceptional pension credits, of £26.1m (last year £39.7m), £14.0m (last year £28.0m) relates to the UK defined benefit section, £10.9m (last year £10.5m) to the UK defined contribution section and £1.2m (last year £1.2m) to other retirement benefit schemes.

A. Pensions and other post-retirement liabilities

	2009 £m	2008 £m
Total market value of assets	**3,931.6**	4,992.7
Present value of scheme liabilities	**(4,048.9)**	(4,488.7)
Net funded pension plan (deficit)/asset	**(117.3)**	504.0
Unfunded retirement benefits	**(0.5)**	(0.9)
Post-retirement healthcare	**(15.8)**	(18.4)
Net retirement benefit (deficit)/asset	**(133.6)**	484.7
Analysed on the balance sheet as:		
Retirement benefit asset	**-**	504.0
Retirement benefit deficit	**(133.6)**	(19.3)
	(133.6)	484.7

B. Financial assumptions

A full actuarial valuation of the UK defined benefit pension scheme was carried out at 31 March 2006 and showed a deficit of £704.0m. The financial assumptions for the UK scheme and the most recent actuarial valuations of the other post-retirement schemes have been updated by independent qualified actuaries to take account of the requirements of IAS 19 – 'Retirement Benefits' in order to assess the liabilities of the schemes:

	2009 %	2008 %
Rate of increase in salaries	**1.0**	3.1 to 4.5
Rate of increase in pensions in payment for service		
– pre April 1997	**2.6**	2.8
– between April 1997 and July 2005	**2.9**	3.5
– post July 2005	**2.3**	2.4
Discount rate	**6.8**	6.8
Inflation rate	**2.9**	3.5
Long-term healthcare cost increases	**7.9**	8.5

The amount of the deficit varies if the main financial assumptions change, particularly the discount rate. If the discount rate increased/decreased by 0.1% the IAS 19 deficit would decrease/increase by c. £75m.

C. Demographic assumptions

The demographic assumptions are in line with those adopted for the last formal actuarial valuation of the scheme. One of the most significant demographic assumptions underlying the valuation is mortality. The post-retirement mortality assumptions are based on an analysis of the pensioner mortality trends under the scheme for the period to March 2006 updated to allow for anticipated longevity improvements over the subsequent years. The specific mortality rates used are based on the PMA92 and PFA92 tables, adjusted to allow for the experience of scheme pensioners. The life expectancies underlying the valuation are as follows:

Company notes to the financial statements

C4 Retirement benefits continued

		2009 years	2008 years
Current pensioners (at age 65)	– males	**21.2**	21.0
	– females	**23.6**	23.5
Future pensioners (at age 65)	– males	**22.0**	21.9
	– females	**24.3**	24.3

D. Analysis of assets and expected rates of return
The major categories of assets as a percentage of total plan assets are:

	2009 £m	2008 £m	2009 %	2008 %
Property partnership interest	**529.8**	506.6	**13**	10
UK equities	**448.8**	748.6	**12**	15
Overseas equities	**644.3**	1,116.6	**16**	23
Government bonds	**127.2**	460.4	**3**	9
Corporate bonds	**2,278.0**	2,058.5	**58**	41
Cash and other	**(96.5)**	102.0	**(2)**	2
	3,931.6	4,992.7	**100**	100

The expected long-term rates of return are:

	2009 %	2008 %
Property partnership interest	**7.1**	6.0
UK equities	**8.0**	8.3
Overseas equities	**8.0**	8.3
Government bonds	**4.2**	4.6
Corporate bonds	**6.8**	6.0
Cash and other	**4.2**	5.0
Overall expected return	**7.2**	6.7

The overall expected return on assets assumption is derived as the weighted average of the expected returns from each of the main asset classes. The expected return for each asset class reflects a combination of historical performance analysis, the forward-looking views of financial markets (as suggested by the yields available) and the views of investment organisations. Consideration is also given to the rate of return expected to be available for reinvestment.

At year end, the UK scheme indirectly held 369,793 (last year 479,356) ordinary shares in Marks and Spencer Group plc through its investment in an Aquila Life UK Equity Index Fund.

E. Analysis of amount charged against profits

	2009 £m	2008 £m
Operating cost		
Current service cost	**65.9**	100.5
Curtailment gain	**(5.0)**	(3.0)
Exceptional pension credit (see note 5)	**(231.3)**	(95.0)
	(170.4)	2.5
Finance cost		
Expected return on plan assets	**(330.0)**	(339.0)
Interest on scheme liabilities	**295.2**	281.2
Net finance income	**(34.8)**	(57.8)
Total	**(205.2)**	(55.3)

Company notes to the financial statements

C4 Retirement benefits continued

F. Scheme assets

Changes in the fair value of the scheme assets are as follows:

	2009 £m	2008 £m
Fair value of scheme assets at start of year	**4,992.7**	5,174.8
Expected return on scheme assets[1]	**330.0**	339.0
Employer contributions[2]	**86.1**	107.1
Contributions from scheme members	**2.0**	1.0
Benefits paid	**(224.5)**	(219.2)
Actuarial loss	**(1,254.7)**	(410.0)
Fair value of scheme assets at end of year	**3,931.6**	4,992.7

1 The actual return on scheme assets was a loss of £924.7m (last year £71.0m).

2 Last year the Group agreed to pre-fund £200.0m of its annual contribution to the UK defined benefit pension scheme for the next three years. The prepayment is in respect of annual contributions to the UK scheme at the rate of 23.7% of pensionable salaries up to 30 September 2009 and then 23.2% up to the next financial year. It is estimated that approximately £66m of the prepayment will relate to the year ended 3 April 2010.

G. Retirement benefit obligations

Changes in the present value of retirement benefit obligations are as follows:

	2009 £m	2008 £m
Present value of obligation at start of year	**4,508.0**	5,459.6
Current service cost	**65.9**	100.5
Curtailment gain	**(5.0)**	(3.0)
Exceptional pension credit	**(231.3)**	(95.0)
Interest cost	**295.2**	281.2
Contributions from scheme members	**2.0**	1.0
Benefits paid	**(224.5)**	(219.2)
Actuarial gain	**(345.1)**	(1,017.1)
Present value of obligation at end of year	**4,065.2**	4,508.0
Analysed as:		
Present value of pension scheme liabilities	**4,048.9**	4,488.7
Unfunded pension plans	**0.5**	0.9
Post-retirement healthcare	**15.8**	18.4
Present value of obligation at end of year	**4,065.2**	4,508.0

H. Cumulative actuarial gains and losses recognised in equity

	2009 £m	2008 £m
Loss at start of year	**(343.3)**	(950.4)
Net actuarial (losses)/gains recognised in the year	**(909.6)**	607.1
Loss at end of year	**(1,252.9)**	(343.3)

I. History of experience gains and losses

	2009 £m	2008 £m
Experience adjustments arising on scheme assets	**(1,254.7)**	(410.0)
Experience gains/(losses) arising on scheme liabilities	**81.0**	(61.5)
Changes in assumptions underlying the present value of scheme liabilities	**264.1**	1,078.6
Actuarial (losses)/gains recognised in equity	**(909.6)**	607.1

Fair value of scheme assets	**3,931.6**	4,992.7
Present value of scheme liabilities	**(4,065.2)**	(4,508.0)
Pension scheme (deficit)/asset	**(133.6)**	484.7

Company notes to the financial statements

C5 Share-based payments

Disclosures for the Company are not provided here as the impact on the income statement, and the assets and liabilities of the Company are not materially dissimilar to that of note 10 in the Company's consolidated financial statements.

C6 Intangible assets

	Computer software £m	Computer software under development £m	Total £m
At 31 March 2007			
Cost or valuation	50.6	25.3	75.9
Accumulated amortisation	(18.5)	–	(18.5)
Net book value	32.1	25.3	57.4
Year ended 29 March 2008			
Opening net book value	32.1	25.3	57.4
Additions	18.5	65.1	83.6
Transfers	12.5	(12.5)	–
Amortisation charge	(15.8)	–	(15.8)
Closing net book value	47.3	77.9	125.2
At 29 March 2008			
Cost or valuation	81.6	77.9	159.5
Accumulated amortisation	(34.3)	–	(34.3)
Net book value	47.3	77.9	125.2
Year ended 28 March 2009			
Opening net book value	**47.3**	**77.9**	**125.2**
Additions	**1.1**	**118.7**	**119.8**
Transfers	**18.0**	**(18.0)**	**–**
Amortisation charge	**(21.6)**	**–**	**(21.6)**
Closing net book value	**44.8**	**178.6**	**223.4**
At 28 March 2009			
Cost or valuation	**100.7**	**178.6**	**279.3**
Accumulated amortisation	**(55.9)**	**–**	**(55.9)**
Net book value	**44.8**	**178.6**	**223.4**

Computer software and software under development are internally generated. Computer software is amortised on a straight-line basis over a period of three to five years.

Company notes to the financial statements

C7 Property, plant and equipment

	Land and buildings £m	Fixtures, fittings and equipment £m	Assets in the course of construction £m	Total £m
At 31 March 2007				
Cost	1,111.4	3,346.6	96.5	4,554.5
Accumulated depreciation	(78.3)	(1,961.0)	–	(2,039.3)
Net book value	1,033.1	1,385.6	96.5	2,515.2
Year ended 29 March 2008				
Opening net book value	1,033.1	1,385.6	96.5	2,515.2
Additions	129.8	687.8	146.4	964.0
Transfers	9.4	76.1	(85.5)	–
Disposals	(322.6)	(4.2)	–	(326.8)
Depreciation charge	(3.0)	(263.1)	–	(266.1)
Closing net book value	846.7	1,882.2	157.4	2,886.3
At 29 March 2008				
Cost	922.7	4,026.7	157.4	5,106.8
Accumulated depreciation	(76.0)	(2,144.5)	–	(2,220.5)
Net book value	846.7	1,882.2	157.4	2,886.3
Year ended 28 March 2009				
Opening net book value	**846.7**	**1,882.2**	**157.4**	**2,886.3**
Additions	**20.8**	**374.8**	**72.3**	**467.9**
Transfers	**13.0**	**101.2**	**(114.2)**	**–**
Disposals	**(55.6)**	**(4.9)**	**–**	**(60.5)**
Depreciation charge	**(2.5)**	**(338.4)**	**–**	**(340.9)**
Closing net book value	**822.4**	**2,014.9**	**115.5**	**2,952.8**
At 28 March 2009				
Cost	**898.8**	**4,370.1**	**115.5**	**5,384.4**
Accumulated depreciation	**(76.4)**	**(2,355.2)**	**–**	**(2,431.6)**
Net book value	**822.4**	**2,014.9**	**115.5**	**2,952.8**

The net book value above includes land and buildings of £38.4m (last year £39.2m) and equipment of £58.7m (last year £35.6m) where the Group is a lessee under a finance lease.

Additions to property, plant and equipment during the year amounting to £32.8m (last year £23.5m) were financed by new finance leases.

C8 Investments

A. Investments in joint ventures

	2009 £m	2008 £m
Opening net book value	**6.1**	6.1
Additions	**4.4**	–
End of year	**10.5**	6.1
Cost	**10.5**	6.1
Accumulated provision	**–**	–
Net book value	**10.5**	6.1

The joint ventures represent a 50% equity interest in Hedge End Park Limited, a property investment company incorporated in Great Britain, and a 50% equity interest in Lima (Bradford) S.a.r.l, a property investment company incorporated in Luxembourg, acquired during the year. The partner in the Hedge End Park Limited joint venture is J Sainsbury plc and the partner in the Lima (Bradford) S.a.r.l joint venture is ProLogis UK Holdings S.A.

Company notes to the financial statements

B. Investment in Group undertakings

	Shares in Group undertakings £m	Loans to Group undertakings £m	Total £m
At 31 March 2007			
Cost or valuation	1,482.9	0.5	1,483.4
Accumulated amortisation	(113.6)	–	(113.6)
Net book value	1,369.3	0.5	1,369.8
Year ended 29 March 2008			
Opening net book value	1,369.3	0.5	1,369.8
Additions	218.9	–	218.9
Provision for impairment	(3.0)	–	(3.0)
Closing net book value	1,585.2	0.5	1,585.7
At 29 March 2008			
Cost or valuation	1,701.8	0.5	1,702.3
Accumulated amortisation	(116.6)	–	(116.6)
Net book value	1,585.2	0.5	1,585.7
Year ended 28 March 2009			
Opening net book value	**1,585.2**	**0.5**	**1,585.7**
Additions	**2.2**	**–**	**2.2**
Provision for impairment	**(8.2)**	**–**	**(8.2)**
Closing net book value	**1,579.2**	**0.5**	**1,579.7**
At 28 March 2009			
Cost or valuation	**1,704.0**	**0.5**	**1,704.5**
Accumulated amortisation	**(124.8)**	**–**	**(124.8)**
Net book value	**1,579.2**	**0.5**	**1,579.7**

C. 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.

			Proportion of voting rights and shares held by:	
	Principal activity	Country of incorporation and operation	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 and Spencer Marinopoulos BV	Holding Company	The Netherlands	–	50%
Marks and Spencer Czech Republic a.s.	Retailing	Czech Republic	–	51%
Marks and Spencer (Ireland) Limited	Retailing	Republic of Ireland	–	100%
Marks and Spencer (Asia Pacific) Limited	Retailing	Hong Kong	–	100%
Marks and Spencer Simply Foods Limited	Retailing	Great Britain	100%	–
Marks and Spencer Marinopoulos Greece SA	Retailing	Greece	–	100%
M.S. Insurance L.P.	Financial Services	Guernsey	–	100%
Marks and Spencer Investments Limited	Finance	Great Britain	–	100%
St Michael Finance plc	Finance	Great Britain	100%	–
Marks and Spencer SCM Limited	Procurement	Great Britain	100%	–
Per Una Group Limited	Procurement	Great Britain	100%	–
Marks and Spencer Scottish Limited Partnership	Property Investment	Great Britain	–[1]	–

1 Marks and Spencer plc is the general partner.

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

Company notes to the financial statements

C9 Other financial assets

	2009 £m	2008 £m
Non-current		
Unlisted investments	**3.0**	3.0
Other investments[1]	**11.1**	60.0
	14.1	63.0

1 Other investments are the shares in Marks and Spencer Group plc held for employee share schemes.

Other financial assets are measured at fair value with changes in their value taken to the income statement.

C10 Trade and other receivables

	2009 £m	2008 £m
Non-current		
Other receivables	**8.0**	10.1
Prepaid pension contributions	**60.7**	124.0
Prepaid leasehold premiums	**149.5**	138.4
	218.2	272.5
Current		
Trade receivables	**84.6**	73.5
Less: Provision for impairment of receivables	**(4.0)**	(3.2)
Trade receivables – net	**80.6**	70.3
Other receivables	**13.8**	20.9
Prepaid pension contributions	**65.7**	76.0
Prepaid leasehold premiums	**2.8**	2.7
Other prepayments and accrued income	**82.5**	95.5
	245.4	265.4

Trade receivables that were past due but not impaired amounted to £9.9m (last year £12.6m) and are mainly sterling denominated.

As at 28 March 2009, £741.3m (last year £594.5m) of the intercompany receivable is interest bearing. Overall the interest received during the year was £36.5m (last year £55.3m). Interest rates are set within individual intercompany loan agreements however are approximately in line with LIBOR. The remaining £3,877.1m (last year £2,784.4m) of intercompany receivables are interest-free.

C11 Cash and cash equivalents

Cash and cash equivalents includes short-term deposits with banks and other financial institutions, with an initial maturity of three months or less and credit card payment received within 48 hours. The carrying amount of these assets approximates their fair value.

The effective interest rate on short-term bank deposits is 0.4% (last year 4.8%); these deposits have an average maturity of five days (last year three days).

C12 Trade and other payables

	2009 £m	2008 £m
Current		
Trade payables	**273.3**	163.3
Other payables	**303.8**	299.8
Social security and other taxes	**44.5**	59.2
Accruals and deferred income	**264.8**	304.0
Amounts owed to subsidiaries	**2,522.6**	1,296.5
	3,409.0	2,122.8
Non-current		
Other payables	**214.3**	147.5

As at 28 March 2009, £1,090.2m (last year £491.8m) of the intercompany payable is interest bearing. Overall the interest paid during the year was £61.7m (last year £35.7m). Interest rates are set within individual intercompany loan agreements however are approximately in line with LIBOR. The remaining £1,432.4m (last year £804.7m) of intercompany payables are interest free.

Company notes to the financial statements

C13 Borrowings and other financial liabilities

	2009 £m	2008 £m
Current		
Bank loans and overdrafts[1]	**129.6**	234.4
Syndicated bank facility[2]	**781.2**	615.0
Finance lease liabilities	**13.4**	5.5
	924.2	854.9
Non-current		
6.375% £375m medium-term notes 2011[3]	**382.6**	382.0
5.875% £400m medium-term notes 2012[3]	**417.9**	421.4
5.625% £400m medium-term notes 2014[3]	**399.0**	398.8
6.250% US$500m medium-term notes 2017[4]	**354.4**	253.0
7.125% US$300m medium-term notes 2037[4]	**212.0**	151.1
6.875% £250m puttable callable reset medium-term notes 2037[3,5]	**252.6**	252.9
Finance lease liabilities	**80.6**	66.8
	2,099.1	1,926.0
Total	**3,023.3**	2,780.9

1 Bank loans and overdrafts includes a £5.0m (last year £5.0m) loan from the Hedge End Park Limited joint venture (see notes 15 and 29).

2 Relates to a £1.2bn committed bank revolving credit facility set to mature on 26 March 2013.

3 These notes are issued under Marks and Spencer plc's £3bn European Medium-Term Note Programme and all pay interest annually.

4 Interest on these bonds is payable semi-annually.

5 These notes include an investor put and issuer call option exercisable in December 2012.

Finance leases

The minimum lease payments under finance leases fall due as shown in the table on the following page. It is the Group's policy to lease certain of its properties and equipment under finance leases. The average lease term for equipment is six years and 125 years for property. Interest rates are fixed at the contract rate. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent payments. The Company's obligations under finance leases are secured by the lessors' charges over the leased assets.

C14 Financial instruments

Treasury policy and financial risk management

Marks and Spencer plc is the main treasury entity of the group and as a result the treasury function is managed through this company. The term Company and Group are therefore interchangeable in the risk analysis below. The Company operates a centralised treasury function to manage the Group's funding requirements and financial risks in line with the Board approved treasury policies and procedures, and their delegated authorities.

The Company'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 finance the Company's operations.

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

It remains the Group's policy not to hold or issue financial instruments for trading purposes, except where financial constraints necessitate the need to liquidate any outstanding investments. The treasury function is managed as a cost centre and does not engage in speculative trading.

The principal financial risks faced by the Company are liquidity/funding, interest rate, foreign currency and counterparty risks. The policies and strategies for managing these risks are summarised as follows:

Company notes to the financial statements

C14 Financial instruments continued

(a) Liquidity/funding risk

The risk that the Company could be unable to settle or meet its obligations as they fall due at a reasonable price.

- The Group's funding strategy ensures a mix of funding sources offering flexibility and cost effectiveness to match the requirements of the Group.
- Operating subsidiaries are financed by a combination of retained profits, bank borrowings, medium-term notes and committed syndicated bank facilities.

At year end, the Company had a committed syndicated bank revolving credit facility of £1.2bn set to mature on 26 March 2013. This facility contains only one financial covenant being the ratio of earnings before interest, tax, depreciation, amortisation and rents payable; to interest plus rents payable. The covenant is measured semi-annually. In addition, the term out option under the £400m credit agreement which expired on 13 February 2009 was converted into a committed facility for the same period, expiring on 11 February 2010. This facility has the same financial covenant as the main £1.2bn facility. The Company also has a number of undrawn uncommitted facilities available to it. At year end, these amounted to £105m (last year £155m), all of which are due to be reviewed within a year. At the balance sheet date a sterling equivalent of £764m (last year £614m) was drawn under the committed facilities and £nil (last year a further £29m) was drawn under the uncommitted facilities.

In addition to the existing borrowings, the Company has a euro medium-term note programme of £3bn, of which £1.4bn (last year £1.4bn) was in issuance as at the balance sheet date.

The contractual maturity of the Company's non-derivative financial liabilities and derivatives is as follows:

	Bank loans and overdrafts £m	Syndicated bank facility £m	Medium-term notes £m	Finance lease liabilities £m	Total £m	Derivative assets £m	Derivative liabilities £m	Total £m
Timing of cash flows								
Within one year	(234.4)	(615.0)	(112.6)	(10.6)	(972.6)	1,252.7	(1,250.8)	1.9
Between one and two years	–	–	(112.6)	(16.4)	(129.0)	154.0	(153.3)	0.7
Between two and five years	–	–	(1,088.9)	(22.1)	(1,111.0)	84.8	(82.9)	1.9
More than five years	–	–	(1,866.5)	(178.3)	(2,044.8)	747.3	(736.4)	10.9
	(234.4)	(615.0)	(3,180.6)	(227.4)	(4,257.4)	2,238.8	(2,223.4)	15.4
Effect of discounting and foreign exchange	–	–	1,321.4	155.1	1,476.5			
At 29 March 2008	(234.4)	(615.0)	(1,859.2)	(72.3)	(2,780.9)			
Timing of cash flows								
Within one year	**(129.6)**	**(781.2)**	**(123.8)**	**(17.7)**	**(1,052.3)**	**1,671.4**	**(1,669.8)**	**1.6**
Between one and two years	**–**	**–**	**(123.8)**	**(14.9)**	**(138.7)**	**103.2**	**(94.9)**	**8.3**
Between two and five years	**–**	**–**	**(1,476.8)**	**(32.8)**	**(1,509.6)**	**114.0**	**(83.2)**	**30.8**
More than five years	**–**	**–**	**(1,706.2)**	**(176.2)**	**(1,882.4)**	**1,003.8**	**(708.9)**	**294.9**
	(129.6)	**(781.2)**	**(3,430.6)**	**(241.6)**	**(4,583.0)**	**2,892.4**	**(2,556.8)**	**335.6**
Effect of discounting and foreign exchange	**–**	**–**	**1,412.1**	**147.6**	**1,559.7**			
At 28 March 2009	**(129.6)**	**(781.2)**	**(2,018.5)**	**(94.0)**	**(3,023.3)**			

This table does not include trade and other payables (see note C12) due to the low associated liquidity risk.

Company notes to the financial statements

C14 Financial instruments continued

(b) Counterparty risk
Counterparty risk exists where the Company can suffer financial loss through default or non-performance by financial institutions.

Exposures are managed through Group treasury policy which limits the value that can be placed with each approved counterparty to minimise the risk of loss. The counterparties are limited to the approved institutions with secure long-term credit ratings A+/A1 or better assigned by Moody's and Standard & Poor's respectively, unless approved on an exception basis by a Board director. Limits are reviewed regularly by senior management. The credit risk of these financial instruments is estimated as the fair value of the assets resulting from the contracts.

The table below analyses the Company's cash and cash equivalents and derivative assets by credit exposure excluding bank balances, store cash and cash in transit.

	Credit rating of counterparty						
	AAA/Aaa £m	AA/Aaa £m	AA/Aa1 £m	AA-/Aa1 £m	AA-/Aa2 £m	AA-/Aa3 £m	Total
Money market deposits[1]	–	3.4	2.2	–	–	–	5.6
Derivative assets[2]	5.2	11.6	6.2	–	0.6	0.6	24.2
At 29 March 2008	5.2	15.0	8.4	–	0.6	0.6	29.8

	AAA/Aaa £m	AA/Aa1 £m	AA/Aa2 £m	A+/Aa3 £m	A+/A1 £m	A/A2[2] £m	Total
Money market deposits	**–**	**–**	**1.6**	**4.1**	**13.0**	**–**	**18.7**
Derivative assets[1]	**105.4**	**25.9**	**27.7**	**142.0**	**8.7**	**9.8**	**319.5**
At 28 March 2009	**105.4**	**25.9**	**29.3**	**146.1**	**21.7**	**9.8**	**338.2**

1 Excludes derivative asset option which is embedded within the £250m puttable callable reset medium-term notes due 2037.

2 Exposure to A/A2 counterparty approved as an exception to treasury policy.

The Company has very low retail credit risk due to transactions being principally of a high volume, low value and short maturity.

The maximum exposure to credit risk at the balance sheet date was as follows: trade receivables £81m (last year £70m), other receivables £22m (last year £31m), cash and cash equivalents £113m (last year £86m) and derivatives £381m (last year £64m).

(c) Foreign currency risk
Transactional foreign currency exposures arise from both the export of goods from the UK to overseas subsidiaries, and from the import of materials and goods directly sourced from overseas suppliers.

Group treasury hedge these exposures principally using forward foreign exchange contracts progressively covering up to 100% out to 18 months. Where appropriate hedge cover can be taken out longer than 18 months with Board approval. The Company is primarily exposed to foreign exchange risk in relation to sterling against movements in US dollar and euro.

Forward foreign exchange contracts in relation to the Company's forecast currency requirements are designated as cash flow hedges with fair value movements recognised directly in equity. To the extent that these hedges cover actual currency payables or receivables then associated fair value movements previously recognised in equity are recorded in the income statement in conjunction with the corresponding asset or liability. As at the balance sheet date the gross notional value in sterling terms of forward foreign exchange sell or buy contracts amounted to £1,489m (last year £1,294m) with a weighted average maturity date of six months (last year seven months).

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

The Company also hedges foreign currency intercompany loans where these exist. Forward foreign exchange contracts in relation to the hedging of the Company's foreign currency intercompany loans are designated as held for trading with fair value movements being recognised in the income statement. The corresponding fair value movement of the intercompany loan balance results in an overall nil impact on the income statement. As at the balance sheet date, the gross notional value of intercompany loan hedges was £108m (last year £80m).

Gains and losses in equity on forward foreign exchange contracts as at 28 March 2009 will be released to the income statement at various dates over the following 14 months (last year 19 months) from the balance sheet date.

Company notes to the financial statements

C14 Financial instruments continued

After taking into account the hedging derivatives entered into by the Company, the currency and interest rate exposure of the Company's financial liabilities is as set out below excluding short-term payables:

	2009			2008		
	Fixed rate £m	Floating rate £m	Total £m	Fixed rate £m	Floating rate £m	Total £m
Currency						
Sterling	**2,112.5**	**629.9**	**2,742.4**	1,931.5	650.0	2,581.5
Euro	**–**	**264.5**	**264.5**	–	192.5	192.5
Hong Kong dollar	**–**	**16.4**	**16.4**	–	6.9	6.9
	2,112.5	**910.8**	**3,023.3**	1,931.5	849.4	2,780.9

The floating rate sterling and euro borrowings are linked to interest rates related to LIBOR. These rates are for periods between one and three months.

As at the balance sheet date and excluding finance leases, the fixed rate sterling borrowings are at an average rate of 6.2% (last year 6.2%) and the weighted average time for which the rate is fixed is ten years (last year 11 years).

(d) Interest rate risk
The Company is exposed to interest rate risk in relation to the sterling, US dollar, euro and Hong Kong dollar variable rate financial assets and liabilities.

- The Group's policy is to use derivative contracts where necessary to maintain a mix of fixed and floating rate borrowings to manage this risk. The structure and maturity of these derivatives correspond to the underlying borrowings and are accounted for as fair value or cash flow hedges as appropriate.
- At the balance sheet date fixed rate borrowings amounted to £2,112.5m (last year £1,931.5m) representing the public bond issues and finance leases, and amounting to 70% (last year 69%) of the Company's gross borrowings.

The effective interest rates at the balance sheet date were as follows:

	2009 %	2008 %
Committed and uncommitted borrowings	**4.0**	5.5
Medium-term notes	**6.2**	6.2
Finance leases	**4.8**	4.6

Company notes to the financial statements

C14 Financial instruments continued

Sensitivity analysis

The table below illustrates the estimated impact on the income statement and equity as a result of market movements in foreign exchange and interest rates in relation to all of the Company's financial instruments. The Company considers that a 2% (last year 1%) +/- movement in interest rates and a 20% (last year 10%) weakening or strengthening in sterling represents reasonable possible changes. However, this analysis is for illustrative purposes only.

The impact in the income statement due to changes in interest rates reflects the effect on the Company's floating rate debt as at the balance sheet date. The impact in equity reflects the fair value movement in relation to the Company's cross currency swaps. The impact from foreign exchange movements reflects the change in the fair value of the Company's transactional foreign exchange cash flow hedges at the balance sheet date.

The table excludes financial instruments that expose the Company to interest rate and foreign exchange risk where such risk is fully hedged with another financial instrument. Also excluded are trade receivables and payables as these are either sterling denominated or the foreign exchange risk is hedged.

	1% decrease in interest rates £m	1% increase in interest rates £m	10% weakening in sterling £m	10% strengthening in sterling £m
At 29 March 2008				
Impact on income statement: gain/(loss)	8.4	(8.4)	–	–
Impact on equity: gain/(loss)	4.1	(3.3)	3.1	(2.5)

	2% decrease in interest rates £m	**2% increase in interest rates £m**	**20% weakening in sterling £m**	**20% strengthening in sterling £m**
At 28 March 2009				
Impact on income statement: gain/(loss)	**(20.6)**	**22.1**	**–**	**–**
Impact on equity: gain/(loss)	**208.7**	**(134.3)**	**15.3**	**(10.2)**

Derivative financial instruments

		2009		2008	
		Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Current					
Options	– held for trading	**27.0**	**(27.0)**	12.4	(12.4)
Commodity swap	– cash flow hedge	**–**	**(16.7)**	–	–
Forward foreign exchange contracts	– cash flow hedges	**59.9**	**(27.4)**	5.0	(21.8)
	– cash flow hedges with Group undertakings	**33.1**	**(61.0)**	27.6	(8.0)
	– held for trading	**5.6**	**(0.4)**	1.0	(0.9)
Interest rate swaps	– held for trading	**–**	**(4.6)**	–	–
		125.6	**(137.1)**	46.0	(43.1)
Non-current					
Commodity swap	– cash flow hedge	**–**	**(1.5)**	–	–
Cross currency swaps	– cash flow hedges	**253.9**	**–**	16.9	–
Forward foreign exchange contracts	– cash flow hedges	**0.1**	**(1.5)**	1.3	–
	– cash flow hedges with Group undertakings	**1.5**	**(0.1)**	–	(1.3)
		255.5	**(3.1)**	18.2	(1.3)

The Company holds a number of cross currency swaps to redesignate its fixed rate US dollar debt to fixed rate sterling debt. The attributes of these derivatives match the characteristics of the underlying debt hedged with rates of 7.034% (2017 bond) and 7.238% (2037 bond). The amounts reported as options held for trading in derivative assets and liabilities represent the fair value of the call option with the puttable callable reset notes mirrored by the fair value of the sold option to have this call assigned. During the year the Company entered into energy swap contracts to fix a portion of the forecast energy usage for the 2009/10 financial year. These swaps are accounted for as cash flow hedges.

Fair value of financial instruments

With the exception of the Company's fixed rate bond debt, there were no material differences between the carrying value of non-derivative financial assets and financial liabilities and their fair values as at the balance sheet date.

The carrying value of the Company's fixed rate bond debt was £2,018.5m (last year £1,859.2m), the fair value of this debt was £1,616.6m (last year £1,740.7m).

Company notes to the financial statements

C15 Provisions

	Total £m
At 1 April 2007	13.4
Provided in the year	11.5
Released in the year	(2.5)
Utilised during the year	(4.2)
At 29 March 2008	18.2
At 30 March 2008	**18.2**
Provided in the year	**79.6**
Released in the year	**(8.5)**
Utilised during the year	**(0.7)**
At 28 March 2009	**88.6**

Analysis of total provisions:

	2009 £m	2008 £m
Current	**61.5**	9.6
Non-current	**27.1**	8.6
Total provisions	**88.6**	18.2

The provision for UK restructuring is comprised of exceptional costs related to the strategic restructure (see note 5), including onerous leases and redundancies, as well as costs of closing Lifestore.

The current element of the provision primarily relates to redundancy costs, costs relating to the rationalisation of IT and logistics networks, and costs of closing Lifestore.

The non-current element of the provision relates to store closures, primarily onerous leases, and are expected to be utilised over a period of eight years.

Company notes to the financial statements

C16 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 28% (last year 28%).

The movements in deferred tax assets and liabilities (after the offsetting of balances within the same jurisdiction as permitted by IAS 12 – 'Income Taxes') during the period are shown below. Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

Deferred tax assets/(liabilities)

	Fixed assets temporary differences £m	Accelerated capital allowances £m	Pension temporary differences £m	Other short-term temporary differences £m	Total £m
At 1 April 2007	(85.4)	(76.7)	184.3	40.2	62.4
Credited/(charged) to the income statement	11.2	(43.2)	(150.1)	(13.6)	(195.7)
Credited/(charged) to equity	–	–	(172.5)	(10.9)	(183.4)
At 29 March 2008	(74.2)	(119.9)	(138.3)	15.7	(316.7)
At 30 March 2008	**(74.2)**	**(119.9)**	**(138.3)**	**15.7**	**(316.7)**
Credited/(charged) to the income statement	**(0.3)**	**15.0**	**(86.9)**	**(6.0)**	**(78.2)**
Credited/(charged) to equity	**–**	**–**	**254.9**	**(17.3)**	**237.6**
At 28 March 2009	**(74.5)**	**(104.9)**	**29.7**	**(7.6)**	**(157.3)**

C17 Statement of changes in shareholders' equity

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Retained earnings £m	Total £m
At 1 April 2007	712.5	386.1	8.0	2.0	2,225.5	3,334.1
Profit for the year attributable to shareholders	–	–	–	–	696.5	696.5
Dividends	–	–	–	–	(344.0)	(344.0)
Actuarial gain on retirement benefit scheme	–	–	–	–	607.3	607.3
Deferred tax on retirement benefit scheme	–	–	–	–	(172.5)	(172.5)
Deferred tax on share schemes	–	–	–	–	(10.5)	(10.5)
Charge for share-based payments	–	–	–	–	29.0	29.0
Cash flow and net investment hedges						
– losses deferred in equity	–	–	–	17.2	–	17.2
– recycled and reported in net profit	–	–	–	(14.0)	–	(14.0)
– amount recognised in inventories	–	–	–	0.3	–	0.3
– tax on fair value gains	–	–	–	(0.4)	–	(0.4)
At 29 March 2008	712.5	386.1	8.0	5.1	3,031.3	4,143.0
At 30 March 2008	**712.5**	**386.1**	**8.0**	**5.1**	**3,031.3**	**4,143.0**
Profit for the year attributable to shareholders	**–**	**–**	**–**	**–**	**350.2**	**350.2**
Dividends	**–**	**–**	**–**	**–**	**(356.3)**	**(356.3)**
Actuarial loss on retirement benefit scheme	**–**	**–**	**–**	**–**	**(909.6)**	**(909.6)**
Deferred tax on retirement benefit scheme	**–**	**–**	**–**	**–**	**254.9**	**254.9**
Deferred tax on share schemes	**–**	**–**	**–**	**–**	**0.2**	**0.2**
Charge for share-based payments	**–**	**–**	**–**	**–**	**14.3**	**14.3**
Fair value movement in equity of available-for-sale assets	**–**	**–**	**–**	**–**	**(48.9)**	**(48.9)**
Cash flow and net investment hedges						
– fair value movement in equity	**–**	**–**	**–**	**238.4**	**–**	**238.4**
– recycled and reported in net profit	**–**	**–**	**–**	**(176.4)**	**–**	**(176.4)**
– amount recognised in inventories	**–**	**–**	**–**	**(1.3)**	**–**	**(1.3)**
– tax on fair value gains	**–**	**–**	**–**	**(17.5)**	**–**	**(17.5)**
At 28 March 2009	**712.5**	**386.1**	**8.0**	**48.3**	**2,336.1**	**3,491.0**

Company notes to the financial statements

C18 Contingencies and commitments

A. Capital commitments

	2009 £m	2008 £m
Commitments in respect of properties in the course of construction	**29.1**	111.2

B. Other material contracts

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

C. Commitments under operating leases

The Company leases various stores, offices, warehouses and equipment under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

	2009 £m	2008 £m
Total future minimum rentals under non-cancellable operating leases expiring:		
Not later than one year	**1.3**	1.4
Later than one year and not later than five years	**54.2**	43.1
Later than five years and not later than 25 years	**2,168.5**	2,057.2
Later than 25 years	**1,353.0**	1,458.9
Total	**3,577.0**	3,560.6

The total future sublease payments to be received are £64.3m (last year £69.9m).

C19 Analysis of cash flows given in the cash flow statement

Cash flows from operating activities

	52 weeks ended 28 March 2009 £m	52 weeks ended 29 March 2008 £m
Profit on ordinary activities after taxation	**350.2**	696.5
Income tax expense	**157.4**	263.8
Interest payable and similar charges	**229.9**	176.1
Interest receivable	**(79.8)**	(95.3)
Operating profit	**657.7**	1,041.1
Increase in inventories	**(9.2)**	(37.5)
Decrease/(increase) in receivables	**62.7**	(24.4)
Payments to acquire leasehold properties	**(14.1)**	(16.5)
Increase/(decrease) in payables	**228.2**	46.2
Exceptional operating cash outflow	**(27.4)**	(2.2)
Depreciation and amortisation	**362.5**	281.9
Share-based payments	**14.3**	29.0
Provision for impairment	**8.2**	3.0
Profit on property disposals	**(5.2)**	(64.3)
Exceptional costs	**113.6**	–
Exceptional pension credit	**(231.3)**	(95.0)
Cash generated from operations	**1,160.0**	1,161.3

Exceptional operating cash outflows related to UK restructuring costs £26.9m (last year £2.0m) and the closure of European operations £0.5m (last year £0.2m).

Company notes to the financial statements

C20 Cash and cash equivalents

Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

	2009 £m	2008 £m
Cash at bank and in hand	**112.8**	85.8
Bank loans and overdrafts	**(146.6)**	(235.4)
Syndicated bank facility	**(764.2)**	(614.0)
Bank loans and overdrafts treated as financing	**786.2**	649.3
	(11.8)	(114.3)

C21 Related party transactions

A. Parent company and subsidiaries
During the year, the Company paid dividends to its parent company, Marks and Spencer Group plc, of £356.3m (last year £344.0m) and increased the loan to its parent company by £34.7m (last year £9.1m). The outstanding balance was £2,619.3m (last year £2,584.6m).

Transactions between the Company and its subsidiaries, which are related parties, are summarised below:

	2009		2008	
	Transactions £m	Outstanding balances £m	Transactions £m	Outstanding balances £m
Trading	**288.6**	**(523.5)**	220.5	(502.2)
Interest	**(25.2)**	**-**	(19.6)	-
Dividends paid	**(356.3)**	**-**	(344.0)	-
Dividends received	**0.5**	**-**	-	-

B. Hedge End joint venture
A loan of £5.0m was received from the joint venture on 9 October 2002. It is repayable on five business days' notice and was renewed on 1 January 2008. Interest was charged on the loan at 5.25% until 31 December 2007 and 5.5% thereafter.

C. Marks & Spencer Pension Scheme
Details of other transactions and balances held with the Marks & Spencer Pension Scheme are set out in notes 10 and 20.

D. Key management compensation

Payments and benefits relating to key management are set out on page 38.

C22 Ultimate parent company

The ultimate parent company and controlling party is Marks and Spencer Group plc, a company incorporated in Great Britain. Copies of the group financial statements can be obtained from Waterside House, 35 North Wharf Road, London, W2 1NW.