

FC 001553 45

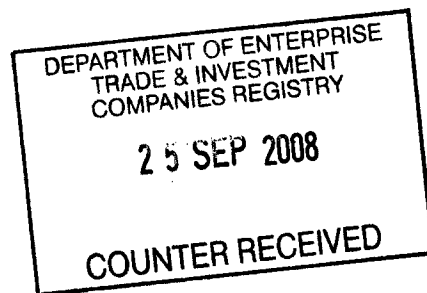


00549446

6256886

you | M & S

Annual report and
financial statements 2008



TUESDAY



AACI81F2

A09

15/07/2008

126

COMPANIES HOUSE

What's inside

About us

- 1 Our plan

Key performance indicators

- 2 Key performance indicators

Business review

- 4 Chairman's foreword
- 5 Chief Executive's statement
- 9 Group Finance and Operations Director's statement
- 10 Our core UK business
- 11 Womenswear and lingerie
- 11 Marketplace trends
- 14 Menswear
- 15 Kidswear
- 16 Home
- 17 Food
- 20 People
- 22 Service, IT and logistics
- 24 Property and store environment
- 26 M&S Direct
- 28 International
- 30 Plan A

Your Board

- 32 Your Board

Financial review

- 33 Financial review

Governance

- 35 Group Directors' report
- 39 Corporate governance statement
- 48 Remuneration report

Financial statements

- 56 Auditors' report
- 57 Consolidated income statement
- 57 Consolidated statement of recognised income and expense
- 58 Consolidated balance sheet
- 59 Consolidated cash flow information
- 60 Notes to the financial statements
- 92 Company income statement
- 92 Company balance sheet
- 93 Company statement of changes in shareholders' equity
- 93 Company cash flow statement
- 94 Company notes to the financial statements
- 96 Group financial record

Shareholder information

- 99 Shareholder information
- Index

What's online...

This year, the majority of M&S shareholders will be clicking through to marksandspencer.com/annualreport08 to read our Annual report online. The experience will not only be a more engaging one, but a greener one, which helped us save about four million pages of paper.

It's a major step forward for us, as we move towards online becoming our main form of shareholder communication (see page 4 for details).

Our annual report website now offers

• An interactive experience

We've created different features for you to explore, such as an interactive timeline of the year and map.

• Clear and simple navigation

Making it quick and easy to find the information you need.

• View as you please

There's no need to read or print the whole report if you don't want to – you can simply print selected pages as you view them, or download a PDF of the sections you're interested in. The majority of the report can also be viewed on handhelds.

• A user-friendly experience

The website has been designed to be accessible for people with disabilities. Key features include the ability to resize text to a larger font, tagged images, charts and graphs, and optimisation for screen readers.

marksandspencer.com/annualreport08

About M&S

We are one of the UK's leading retailers, with over 21 million people visiting our stores each week. We offer stylish, high quality, great value clothing and home products, as well as outstanding quality foods, responsibly sourced from around 2,000 suppliers globally. We employ over 75,000 people in the UK and abroad, and have 622 UK stores, as well as an expanding international business.

Our plan

In the last year, we've built on our plan to grow M&S into a world-class retailer that's customer-focused, fast-moving and flexible. We work hard to ensure we offer only the highest quality products, service and shopping environments in all of our stores.

Looking forward, our plan hasn't changed, but it has broadened to focus on five key growth areas. We will:

- continue to invest in and grow our core UK retail business, by introducing new goods and services;
- strengthen our UK property portfolio,
- drive our M&S Direct business,
- expand our International business; and
- integrate Plan A (our 'eco plan') into every aspect of how we do business, so that we grow in a sustainable way

We will monitor and measure our performance against these objectives. In the following pages, we've begun this process by setting out Key Performance Indicators (KPIs).

In the current difficult economic climate, our brand values – **quality, value, service, innovation** and **trust** – are more important than ever. Our commitment to these values sets us apart from our competitors, and enables us to offer our customers something truly special.

2007/08 has been a year of positive achievements, as you'll see in the Chief Executive's statement. Although the outlook for the global and domestic economy remains uncertain, we're confident that we're making good progress towards long-term growth.

Total group sales
£9,022m

Clothing and Home
UK sales (excluding VAT)
£4,059m (+1.4%)

We are the UK's largest clothing retailer with a value market share of 11.0% and volume market share of 11.2% (source: TNS Worldpanel) and sales accounting for 48.9% of our UK business.

>read more on page 5

Food
UK sales (excluding VAT)
£4,250m (+6.9%)

Food accounts for 51.1% of our UK business and we have a market share of 4.3% (source: TNS Worldpanel). We opened 98 Simply Food stores growing our portfolio to 299 across the UK, including franchised stores in BP Connect forecourts, motorway service stations, railway stations and airports.

>read more on page 5

International
Sales (excluding VAT)
£713m (+16.8%)

Our International business accounts for 7.9% of Group turnover and has grown to 276 stores in 39 territories globally. During the year, we entered 4 new territories and opened 38 new stores.

>read more on page 5

Key performance indicators

Group revenue £m

£m	2004/05	2005/06	2006/07	2007/08
A UK Retail	7,034.7	7,275.0	7,977.5	8,309.1
B International Retail	455.8	522.7	610.6	712.9
Total	7,490.5	7,797.7	8,588.1	9,022.0

2007/08	A	B	9,022.0
2006/07	A	B	8,588.1
2005/06	A	B	7,797.7
2004/05	A	B	7,490.5

Group operating profit £m

£m	2004/05	2005/06	2006/07	2007/08
A UK Retail	588.4	790.1	956.5	972.9
B International Retail	60.7	65.7	87.5	116.4
Total	649.1	855.8	1,044.0	1,089.3

2007/08	A	B	1,089.3
2006/07	A	B	1,044.0
2005/06	A	B	855.8
2004/05	A	B	649.1

Group profit before tax £m

2007/08	1,007.1
2006/07	965.2
2005/06	751.4
2004/05	556.1

Earnings per share

2007/08

43.6p

2006/07 40.4p

2005/06 31.4p

2004/05 19.2p

Group gross margin

2007/08

38.6%

2006/07 38.9%

2005/06 38.3%

2004/05 34.7%

Market share value Clothing & footwear

2007/08

11.0%

2006/07 11.1%

2005/06 10.4%

	2005/06	2006/07	2007/08
Womenswear	10.5	11.3	11.1
Lingerie	24.3	26.1	24.8
Menswear	9.6	10.3	10.5
Kidswear	4.2	4.5	4.8

Market share value Food

2007/08

4.3%

2006/07 4.2%*

2005/06 4.1%

Note: As part of TNS annual restatements, data can sometimes differ in prior years as they make changes to definitions or clean up the data following more detailed information. This has always been the case and any changes are typically very small adjustments. This is a process that all data providers do as a part of due diligence.

Rebased figure

Market share volume Clothing & footwear

2007/08

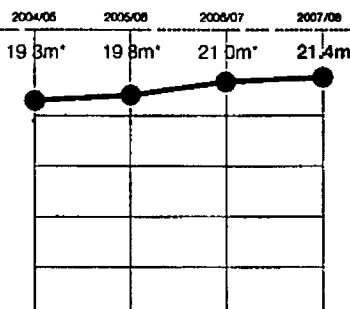
11.2%

2006/07 10.7%

2005/06 10.1%

	2005/06	2006/07	2007/08
Womenswear	8.8	10.0	10.0
Lingerie	16.7	18.3	17.9
Menswear	11.2	11.1	13.1
Kidswear	4.4	5.0	5.2

Average weekly footfall



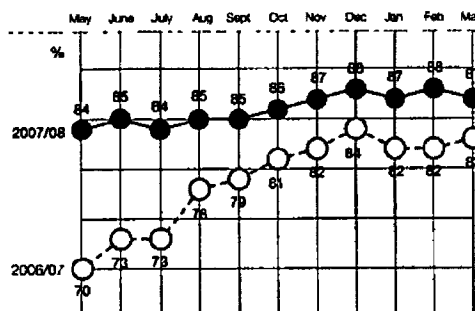
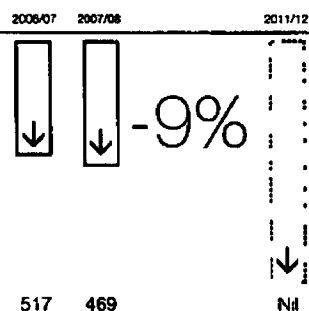
Approximately half of M&S UK stores are fitted with entrance cameras that record the number of people who visit our stores. This known footfall is analysed so that we can establish the ratios between the visits and sales, and then apply this to stores without cameras. A total average footfall figure can then be calculated.

In 2007/08 there was a change in methodology and an upgrade in technology that means we are more accurately capturing customer footfall. Previously we were under-stating our customer flow. We switched to enhanced technology – thermal image cameras that are more sensitive in picking up flow of individuals and separating groups of people as they walk into the store. We also increased the sample of annualised stores from 33 to 260, weighted to represent the whole chain.

* Rebased figure

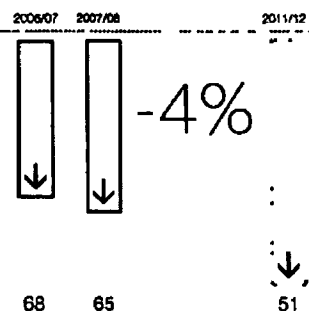
Mystery shopping

Each of our stores is anonymously visited once a month – twice in the case of our larger flagship stores – by a mystery shopper who evaluates service quality. In 2007/08 that was the equivalent of approximately 6,240 visits to our stores. Scores for each question are validated through an online customer survey.

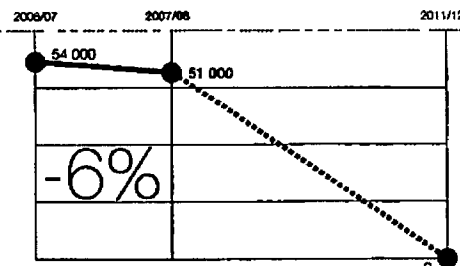
Operational CO₂e emissions tonnes

We've reduced our carbon dioxide and equivalent emissions (CO₂e) produced by our UK and Republic of Ireland stores, offices, warehouses, business travel and logistics. Emissions are down by 9% from 517,000 tonnes in 2006/07 to 469,000 tonnes, despite a 5% increase in sales-floor area.

Energy efficiency kWh/sq ft



Waste sent to landfill tonnes



Chairman's foreword

Your dividend

22.5p

Total dividend

8.3p

Interim dividend

14.2p

Final dividend

Lord Burns

This is my final report to you as Chairman, and I'm pleased to report that while the market has become tougher in the second half, it has been a good year for M&S. Profits are up; our plan remains firmly on track; and we end 2007/08 as a stronger, more competitive business than for many years. As a result, we report an increase in your dividend of 23% to 22.5p and an increase in adjusted earnings per share (EPS) of 7.9% to 43.6p.

The work done over the last four years in getting the basics right has enabled us to deliver good results despite difficult conditions. However, the trading environment remains uncertain and we need the right management in place to take us forward.

For these reasons, the Board concluded that it would be in the best interests of the business to retain Sir Stuart Rose in a leadership role until 2011. We also wanted to prepare for a smooth transition to a new Chief Executive before Stuart's eventual departure, and more generally, to ensure continuity in a business that has experienced a great deal of change in recent years.

We decided that these objectives could best be achieved by Stuart taking up the position of Executive Chairman. He explains on page 6 how this will enable him to continue to drive the business forward, while giving others greater scope to demonstrate their talents and leadership ability.

Although the decision to retain Stuart until 2011 has received widespread support, there has been some criticism of combining the roles of Chairman and Chief Executive. We remain strongly of the view that this was the only practical way to secure his extended term, and is the right decision for M&S. As I explained in detail in the letter sent to all shareholders on 3 April 2008, we have put in place a number of safeguards to mitigate the governance concerns arising from Stuart's new role. These include the appointment of Sir David Michels as

independent Deputy Chairman and the search for a new independent non-executive director is underway. We have introduced annual voting for Stuart's reappointment starting this year and are also considering recruiting a further new independent non-executive director. To see a copy of this letter go to marksandspencer.com/thecompany.

You may notice certain changes to this year's report, resulting from the new Companies Act 2006. Shareholders were given a choice of formats in which to receive our report, and we were pleased that so many have opted to read it online, enabling us to reduce our environmental impact. With greater emphasis on online reporting, we've created a much improved website, which you can see at marksandspencer.com/annualreport08.

I have enjoyed my time with M&S. Significant progress has been made as the business has continued to be transformed in the eyes of customers, employees and the wider world. I am confident that our strong Board, and plan for long-term growth, puts M&S on course for a successful future.

Lord Burns
Chairman

Chief Executive's statement

It's been another good year for M&S, achieved in difficult circumstances. We started with a strong first half, but experienced more difficult trading conditions in the second half, largely as a result of the economic slowdown.

Having completed the first phase of our recovery, we are now broadening our plan in order to take the business into the next stage of growth. In 2008/09 we will need to manage the business in a challenging economic environment, while continuing to invest for future growth.

Broadening the plan

In 2004 we put in place a three-part plan for renewing and reinvigorating M&S in order to secure profitable growth and build the business for the long term. Our focus was on getting the basics right, by improving the products we offer, our customer service and shopping environments.

In 2007/08 we continued to make progress against the plan. We sold more goods to more people, reporting our biggest volume increase in sales in eight years, with volume market share in clothing and footwear at 11.2%. At the same time, we held our lead in the value market for clothing and footwear achieving 11.0% market share. Clothing and home sales were up 1.4% to almost £4.06bn. Per una also performed strongly under the leadership of George Davies, reporting sales of more than £428m.

Sir Stuart Rose

Highlights

£1,007m

Adjusted pre-tax profits

4.3%

Increase in adjusted pre-tax profits

£9,022m

Group sales

5.1%

Increase in Group sales

UK stores

Flagship stores	44	Simply Food stores	167
High street stores	219	Simply Food franchised stores	132
Retail park stores	27	Total UK stores	622
M&S outlets	33		

International stores

Bahrain	1	Philippines	14
Bermuda	1	Poland	4
Bulgaria	1	Qatar	1
Croatia	4	Republic of Ireland	17
Cyprus	10	Romania	6
Czech Republic	10	Russia	12
Gibraltar	1	Saudi Arabia	8
Greece	35	Serbia	1
Guernsey	4	Singapore	7
Hong Kong	8	Slovakia	1
Hungary	9	Slovenia	1
India	14	South Korea	17
Indonesia	13	Spain	5
Jersey	6	Switzerland	1
Kuwait	1	Taiwan	3
Latvia	1	Thailand	10
Lithuania	1	Turkey	34
Malaysia	4	UAE	5
Malta	3	Ukraine	3
Oman	1	Total International stores	278

1 store opened in Libya in April 2008

In food, a good performance saw sales increase from £3.97bn to almost £4.25bn, and value market share remain steady at 4.3%

M&S Money continues to benefit from our partnership with HSBC, with 3.8 million customers now signed-up to an M&S Money financial product. M&S Money now has more than 3.1 million M&S Money credit cards in circulation. 114 bureaux de change in our stores, and it served 4.8 million travel money customers during the year. Its range of financial products also includes car, home, travel, pet and wedding insurance, as well as cash ISA and unit trusts like the M&S Ethical Fund.

As we take the business forward, we are broadening the plan for long-term growth. This will be achieved by continuing to invest in our core UK retail business introducing new goods and services, strengthening our UK property portfolio, driving our M&S Direct business, expanding our international business, and ensuring Plan A – our 'eco plan' – is integrated in everything we do.

I will return to the specific steps we're taking to achieve our objectives on page 7. First I want to review the changes we've made to ensure we are building on a strong foundation.

Building management capability

On page 4, Lord Burns explains the business rationale for my appointment to Executive Chairman. As the decision has attracted much comment, I'd like to highlight the immediate and longer-term benefits for the business.

We believe in developing management talent internally, but this has been difficult for M&S in recent years, with the business experiencing considerable turbulence, followed by rapid change since the turn of the millennium. However, we now have a strong senior team in place, which has an opportunity to develop its skills – with Ian Dyson as Group Finance and Operations Director, Steven Esom and Kate Bostock appointed as Executive Directors running food and clothing respectively, and Steven Sharp continuing in his role as Executive Director of Marketing. We also benefit from an expanded and talented Executive Committee (pictured on page 8).

With Ian taking on significant new responsibilities, I can now focus on a more specific set of executive responsibilities,

in particular product, people development, and key growth areas for the business including M&S Direct and International. My new role will also give me time to develop and mature talent within the business – a key task for any Chairman. At the same time the Board will be able to continue to drive a proven plan without distraction, in a difficult economic environment.

Responding to market conditions

2007/08 was a year of two halves, with a strong start followed by a weaker performance. While we believe our second half performance is largely attributable to a deterioration in market conditions, like any retailer there are things we could have done better. For instance, although we sold significantly more volume, we under-potentialised products in the middle and top price categories – what we call 'better' and 'best' – during the key Christmas period.

Although we can't predict how severe the current downturn will be, or how long it will last, we expect its impact to be felt into 2009/10. However, we believe we have the potential to outperform the competition by planning for modest sales growth and keeping a tight control on costs and stock levels, while at the same time, driving our business using our five key values of **quality, value, service, innovation and trust**.

Our efforts in the last three years to re-engage with customers so they once again consider M&S as 'great value' for money, will support us in the years ahead.

We have reviewed our pricing architecture in order to attract a broad range of customers. We are now achieving a wider price span – staying in touch with the supermarkets at entry levels, while extending our offers above and beyond other high street retailers. It will enable us to flex our 'good', 'better' and 'best' ranges to respond to changing customer demand, as and when the economic situation alters.

We continue to invest in our stores, having completed 70% of our store modernisation programme. We plan to modernise an additional 10% of space, and open an additional 5.5% of new space in 2008/09 so that we enter a difficult period for UK retailing, with the majority of our stores looking their best and using every square foot to its full potential.

April 2007 'Wash at 30' campaign

M&S announces campaign to wash at 30°C, and to re-label almost 75% of its clothing ranges to include the words 'Think Climate – Wash at 30°C'.

June 2007 Recycled schoolwear launches

M&S becomes the first retailer to launch schoolwear made from recycled plastic bottles.

September 2007 Saturated fat levels cut

M&S cuts as much as 82% of saturated fat levels from over 500 products including sandwiches, ready meals, crisps and savoury snacks.

September 2007 Big & Tall launches

Offering more than 450 items online, ranging from tailoring to knitwear to casual shirts and trousers, at the same price as standard sized clothes.

November 2007 A Hollywood Christmas

The Christmas advertising campaign launches featuring leading man Antonio Banderas alongside the M&S leading ladies.

Finally, owning 70% of our assets and having relatively low gearing means M&S has one of the strongest balance sheets in the retail sector. Ian will discuss this further on page 9.

1. Investing in our core UK business

Product

Our core UK business comprises the individual business units of womenswear, lingene, menswear, kidswear, home and food. In 2007/08 we made good progress in each business unit.

In womenswear and lingene, the emphasis was on our segmentation plan, where we clarified our sub-brands (such as Autograph) to help our customers quickly and easily find what they're looking for. Further work is needed this year to ensure customers feel comfortable in shopping for their requirements. At the same time, ranges were continually refreshed so that customers can always find something new. This adds up to what we call 'Every Woman, Every Time' – where we make it easier for our customers, regardless of their age, size and budget – to find clothes that are beautifully made, stylish and offer great value for money.

Work to segment our sub-brands was also central to the kidswear plan, as we took important steps to win back market share.

In menswear and home, changing customers' perception of value was the focus as we competed hard on opening price points (with home prices at almost 12% below the high street average), while improving 'better' and 'best' products for the more aspirational shopper.

In food, we delivered against our commitment to provide food of the highest quality without compromise, with a focus on provenance, innovation and health.

Brand stretch

Our brand is strong, and in 2008/09 we believe we can build on the trust it inspires to offer our customers better service and more of what they want through 'brand stretch'. For instance, by featuring plus sizes online, offering bespoke Made to Measure shirts for men, and expanding our in-store hospitality options.

Additionally, while M&S will always be essentially an 'own brand' business, we believe we can add significant extra value, by partnering with guest brands that complement our values. In the last year, this was predominantly with trusted technology brands in home, such as Sony and Apple. In food, where we face strong competition, customers tell us that time and convenience are key drivers. During the summer we will therefore trial the sale of up to 350 branded food products – such as Marmite, Heinz tomato ketchup and other branded 'must haves' – in a small number of stores. We will roll this out if successful.

Service and store environments

In addition to our products, we have continued to improve the quality of our service and store environments.

In service, during 2007/08 our store colleagues sold record volumes, while simultaneously improving their scores in our mystery shopping programme – achieving an above average score of 86%. It's to their credit that we continue to be seen as one of the high street's best customer service providers.

We've invested behind the scenes in our IT and logistics infrastructure in order to maintain service efficiency. In 2007/08, as well as delivering 13% more stock to our stores than in 2006/07, our logistics network responded to a 63% rise in volume from M&S Direct. The plan has helped us to develop faster and more efficient IT systems throughout our business. For instance, we are introducing new point-of-sale systems, including more than 2,000 new tills and 258 new hand-held terminals in-store to make stockchecking easier and more efficient. Ian will discuss this further on page 9.

While our IT and logistics improvements help support our stores to run more efficiently, our store modernisation programme is improving our shopping environments (see page 24).

2. Strengthening the UK property portfolio

We are undertaking one of the biggest store investment programmes in the UK – modernising and expanding our existing footage (with 70% now complete), increasing the number of stores we have, and ensuring we offer the right stores in the right locations. We will modernise a further 10% this year.

January 2008 Oxfam Clothes Exchange

Exchange launches to reduce the 1 million tonnes of clothing sent to landfill each year in the UK, and raise funds for Oxfam's work to tackle poverty and injustice.

February 2008 Carrier bag charging

A 5p charge for food carrier bags announced, to be introduced in M&S stores from the beginning of May. All profits to go to environmental charity Groundwork.

April 2008 Artificial colours and flavourings removed

M&S becomes the first retailer to remove all artificial colours and flavourings from its entire food and soft drinks range.

May 2008 Eco factory launch

M&S suppliers launch two eco factories in Sri Lanka. They will produce per una and Autograph lingene exclusively for M&S.

About us

Key performance
indicators

Business review

Financial review

Governance

Financial statements

Shareholder
information

In order to achieve the scale of our property plan, in November 2007 we announced that we would open an additional 15% to 20% more space in the next three to four years

But, like any business in this market, we need to prioritise costs. Although we will continue to invest in our store modernisation and expansion programme, this year we will particularly focus on new footage, and modernisations with extensions. See page 9

3. Developing our M&S Direct business

M&S Direct covers our e-commerce website, home catalogue, Christmas hamper delivery, flower and wine delivery, in-store ordering service, and Lunch to Go. During the year it not only became an important part of our commitment to become a multi-channel retailer but with sales up £60m to £220m, it put us on course to reach our target of £500m annual sales by 2010/11.

On our e-commerce site in particular (relaunched with Amazon in March 2007), we have recorded strong growth with visits to the website up by nearly 60%, and sales growing ahead of the market.

4. Building an International business

Expanding internationally provides strong opportunities to build a broader revenue base and drive profitable growth in some of the world's most exciting markets. In November 2007 we set ourselves a target for International to achieve between 15% to 20% of total Group revenues within the next five years (in 2007/08 it contributed 7.9%). We will do this by flexing our business model so that we expand not just through franchise partners, but also on a part-owned and wholly-owned basis.

We have already signed deals in Europe with two of our existing partners, and in India where we will open around 30 to 50 new stores in the next five years. This is in addition to our plans to enter China on a wholly-owned basis later this year.

In 2007/08 we made significant strides against the plan, opening 38 new stores, which helped lift sales by 16.8% to £712.9m, and operating profit by 33% to £116.4m.

5. Keeping up momentum on Plan A

Plan A, our five-year 'eco plan', reached the end of its first year in January 2008. We pledged to meet 100 separate Plan A commitments within five years, and so far we've made progress on 94.

Despite the tough consumer climate, our commitment to Plan A remains, because there are compelling moral as well as commercial reasons to do so. Plan A gives us brand differentiation, and as Al Gore said, "a sustainable business can be a profitable one".

Looking ahead

The next year will be tough. We will have to continue to challenge ourselves to become more efficient, drive down costs and improve our rate of return. At the same time we must maintain our investment for the long term both in the UK and overseas. I believe that we have started to achieve this. We have talented and motivated people, well-priced, quality products, a clear plan, and dedication to understanding what our customers want – all of which put us in a good position to meet the difficult market conditions that lie ahead.

I would like to pay tribute to all of our staff and suppliers for their hard work this year. It has been a tough but rewarding experience, and they can take pride in their achievement. I would also like to thank Lord Burns for his support as Chairman over the past two years. He has guided the Board through some difficult discussions, always having the best interests of the Company at heart.

Sir Stuart Rose
Chief Executive

1	2	3	4	5	6	7	8	9	10	11	12	13
1 Clem Constantine Director of Property and Store Development	2 Steve Rowe Director of Retail	3 Kate Bostock Executive Director of Clothing	4 Carl Leaver Director of International Business	5 Kate Bostock Executive Director of Clothing	6 Ian Dyson Group Finance and Operations Director	7 Sir Stuart Rose Chief Executive	8 Steven Sharp Executive Director of Marketing	9 Steven Esom Executive Director of Food	10 Tanith Dodge Director of Human Resources	11 Andrew Skinner Director of GM Merchandising and Planning	12 Darrell Stein Director of IT and Logistics	13 John Dixon Director of Home and M&S Direct

Group Finance and Operations Director's statement

Highlights

7.9%

Increase in earnings per share

£1.1bn

Capital expenditure

£914m

Returned to shareholders

Ian Dyson

2007/08 was a year in which we made good progress in moving the business forward. Earnings per share were up 7.9%. At the same time as continuing to grow our earnings, we invested £1.1bn in our business to drive future growth, and also returned £914m to our shareholders via dividends and the share buy back.

Results

Sales were up 5.1% to over £9.0bn with a robust performance in the UK boosted by almost 5% of new space, and another strong year for International, where sales were up 16.8%. Gross margin in the UK was down slightly to 43%, but good control of our costs enabled us to deliver profit growth of 4.3% overall, to £1.0bn.

Our interest charge was up only 4.3%, despite a significant increase in net debt to £3.1bn, reflecting a much higher pension credit. With a low tax rate of 27% and a lower number of shares in issue, earnings per share were up 7.9% to 43.6p.

Investing in the business

Last year we invested £1,055m to support the future growth of the business. This investment was focused in three areas: UK property portfolio, International and supply chain and information technology (IT).

We modernised a further 35% of our store portfolio to take us to 70%. This included some major developments and extensions at stores such as Edinburgh, London Colney, Cheshunt, Lisburn and Braehead. We expect to modernise a further 10% of our estate in 2008/09. We also added space in line with our strategy to develop and expand the M&S footprint in the UK. In total we added 4.8% of new space, with 3% in general merchandise (GM) and 1.8% in food, reflecting the continued roll out of our successful Simply Food format. In 2008/09 we expect to add a further 5.5% of new space.

In International we continued to build our business in Ireland, and worked with our franchise partners to move the business forward. The biggest developments however, were the acquisition of controlling interests in our franchise businesses in Greece and the Balkans, and in the Czech Republic. We see substantial growth opportunities for these businesses over the coming year.

We have also moved on in establishing M&S in the exciting markets of China and India. We will open our first store in

Shanghai in the autumn, and in India we have signed a deal with Reliance to develop M&S throughout this fast developing nation.

Underpinning our growth prospects is a plan to invest to upgrade our supply chain and our IT systems. This is a major programme that will enable us to grow our business effectively and efficiently. We will add logistics capacity in food and restructure our GM logistics, centred on the opening of fewer, larger distribution centres, beginning with Bradford in 2010/11. In IT we will implement new store systems, including POS, new trading systems and new support systems.

While we are sensitive to the economic environment, we are continuing to invest to move our business forward and intend to spend between £800m and £900m in capital expenditure in 2008/09.

A strong balance sheet

Our strong balance sheet underpins our future plans to invest in the business and gives us resilience against difficult market conditions. Our ratios remain strong and we retain ownership of 70% of our property portfolio.

The strength of our balance sheet enabled us to return more than £900m to our shareholders during 2007/08. Dividends increased by 23% and we bought back 7.4% of our share capital at a cost of £556m.

As Stuart has said, 2008/09 will be tough. We will manage our business accordingly but will also not lose sight of the longer term opportunity by continuing to invest in our business. This approach will, we believe, drive value for our shareholders over time.

Ian Dyson
Group Finance and Operations Director

About us

Key performance indicators

Business review

Financial review

Governance

Financial statements

Shareholder information

Our core UK business

In the following pages we review our core UK business, which covers the individual business units of womenswear, menswear, kidswear, home and food, as well as our service (including IT and logistics) and store environments.

Building our brand

“The challenge for M&S marketing is how we stay ahead of the competition, by responding to the things that matter the most to our customers.”

One way we've responded to this challenge is by evolving our well-loved and successful food and womenswear advertising campaigns

In food, we've retained the same broad approach, but we've started to respond to the issues we know our customers care about. Everyone knows that our food tastes good, so our new 'manifesto' campaign now goes a step further by introducing powerful messages on provenance and healthy eating. For example, our 'mellow yellow' ad showcased our commitment to using only free range eggs in all of our food, and 'true colours' told the story of how all our food is now 100% free of artificial colours and flavourings.

Our womenswear ads – which feature the famous faces of Twiggy, Ern O'Connor, Lizzie Jagger, Noémie Lenoir, Laura Bailey and Myleene Klass (and at Christmas, special guest Antonio Banderas) – change with the seasons, featuring new soundtracks and locations. As with the food ads, we survey shoppers each month, and we're encouraged by the customer feedback we've received. Figures from Adwatch (who analyse the impact of company advertising), show more than half of our food ads rated within the top five, and our womenswear ads continue to lead at number one.

Our marketing evolved during the year, with changes made to refresh in-store décor so that it's consistent with the look and feel of our new and modernised stores. We communicated our Plan A achievements to customers both in-store and through the relaunched Plan A section of our website at marksandspencer.com/planA. In both cases we provided details on how our customers can get involved in specific initiatives such as 'Wash at 30', the Oxfam Clothes Exchange and reusing carrier bags.

The effectiveness of our advertising and marketing campaigns is evidenced by our ability to hold brand momentum (our brand impact and performance) despite a slowdown on the high street.

In the year to come, our challenge is to maintain this momentum – with Plan A playing an important role here – and by ensuring we retain brand consistency as we expand internationally.

Steven Sharp, Executive Director of Marketing
Steven joined M&S in 2004. In addition to his marketing role, he is also responsible for store design and presentation as well as running the relationship with M&S Money.

Womenswear and lingerie

A few of our favourite things...

In 2007/08 we strengthened our position as the number one brand for womenswear and lingerie, despite a tough second half, by doing what we do best. From classic and tailored looks, to fast fashion inspired from the catwalk, we demonstrated that 'Every Woman, Every Time' is at the heart of our womenswear and lingerie plan. In short, it's our commitment to help every woman – regardless of her age, size and budget – to find stylish clothes that are beautifully made, at great value prices.

Our performance

During the year, value market share in womenswear fell from 11.3% to 11.1% in the face of tough competition on the high street, strong downward pressure on prices, and a slowdown in customer spending. However, volume market share remained steady at 10.0%. We achieved this by looking closely at our price structure to ensure our competitiveness at opening price points.

Cashmere

Selling at £49 in 2007/08 (down from £69 in 2006/07), we sold more than one cashmere item a minute during our busiest week in London's Marble Arch store.

Lingerie

We offer 78 bra sizes, from 28AA through to 44J, and are the only high street retailer to offer machine washable silk lingerie.

Leather

From biker jackets to our famous Little Black Dress, we introduced affordable leather in line with the latest catwalk trends.

Marketplace trends

In 2007/08, the retail market continued to grow, but at a slower rate than previous years. Increasing levels of debt and household bills have had an impact on consumer confidence, which is at its lowest point since 1993 (GfK research). The growing demand on disposable income has also seen customers prioritise essential bills at the expense of shopping and leisure activities.

Generally, customers continue to look for more choice and convenience. As a result, the trend for shopping online has increased, partly due to greater customer confidence in payment security and delivery. Retail parks and out-of-town shopping centres have also grown in popularity,

offering greater breadth of choice in products and shopping formats that fit around customers' differing needs and busy lifestyles.

Looking specifically at the clothing market, sales have been the hardest hit by the recent decline in customer confidence – slowing through the last quarter of 2007/08 and now in decline on the year (TNS market research). In a change to last year, customers have started to spend more on individual items of clothing, investing in a few key pieces that offer versatility and can be dressed-up or down. As a result, value growth is marginally ahead of volumes. The exception to this is in womenswear where customers continued to buy

'more for less' driven by a desire for fast fashion and multiple looks.

Despite a slowdown in the housing market, there was generally strong growth in homeware sales as customers updated their homes, rather than move house. Specifically, electronic goods continued to sell well across the industry, as price deflation of the latest 'must-haves' made them more accessible to more people.

The food market held up primarily through price inflation and customers buying more premium products. Customers have become savvy in shopping across different outlets to make the most of their food budget – carefully choosing

'what they buy where' from the basics, to treats.

The growing trend for fresh ingredients has continued, with customers looking for key ingredients to cook from scratch, or quality products that allow them to assemble a fresh meal. The increasing profile of food sourcing and animal welfare issues, has also encouraged them to trade-up to products that are free range and organic.

In the year ahead, the trading environment will be tough. Customers will feel ongoing pressure on their personal finances. In these challenging conditions, they are expected to turn to trusted, well-established brands that provide reassurance they are spending their money wisely.

In lingere, the continual introduction of innovative products in an extended range of sizes as well as better segmentation of our brands, helped us stay at number one with 24.8% value market share and 17.9% volume market share.

An easier way to shop

In 2007/08, as part of our 'Every Woman, Every Time' commitment, we reviewed the segmentation of our sub-brands, so that we can help our customers quickly and easily find what they're looking for. Although this will continue in 2008/09, improvements can already be seen within Autograph (see below) and lingere (see page 13).

Competing on value and quality

During the last year, we responded to market demand by becoming even more competitive at our opening price points. While this increased both our sales volume and market share volume, we recognise the opportunity to drive our 'better' and 'best' ranges – with

particular emphasis on building on the success of Autograph.

We offer knitwear at prices from £9 to £49 and bras from £5 to £20, and will continue to do so. However, we want our customers to recognise our reputation for offering incredible quality and excellent cuts across all of our price points.

No limits

We don't aspire to be a brand where fast fashion is all that matters, but we do want to cater for women of all ages. Limited Collection helps us do that – answering our younger customers' demands for affordable looks from the catwalk.

It's growing faster than any other part of our womenswear business, with market share up amongst women under-35. That's because our customers now know that if they like something at M&S they should buy it now.

Brand strength in Autograph

“Autograph stands for the best of modern and sophisticated M&S. It grew strongly in 2007/08 by offering elegant and timely pieces, in luxury fabrics and cuts, which are flexible for all lifestyles.”

In recent months, we've seen some of our customers become more interested in buying products of enduring style and quality, than in finding the lowest possible prices. In response to this trend, we have improved our quality throughout our price architecture, which means our value credentials are stronger than ever. For example in Autograph, our customers are willing to spend more on our luxury fabrics such as silks and cashmere. By driving more product choice in these fabrics, we continue to grow our Autograph business.

Over the last year, we have expanded and strengthened the Autograph brand, introducing Autograph Exclusive, which offers a range of limited edition pieces such as coats and eveningwear, and Autograph Weekend, a new casual look with an American East Coast flavour. Both play an important role in our segmentation strategy and have added incremental sales to the brand.

Kate Bostock Executive Director of Clothing
Kate joined M&S as Director of Womenswear in 2004, and was appointed to the Board as Executive Director of Clothing in March 2008.

Clearer choices in lingerie

Selling 50 million knickers a year (that's nearly two pairs of knickers every second), and 25 million bras – it's estimated that one in three women wear M&S lingerie. To meet the underwear needs and tastes of every woman, we have in the past introduced a wide range of different brands.

As part of our segmentation work, we reviewed our lingerie brands, matching them to our different customer profiles, before fine-tuning our offer – cutting out duplication and filling in any gaps. We now offer five brands – Adored, Autograph, Body Solutions, Limited Collection and per una.

The move to fewer brands in lingerie has given women of all ages, sizes and budgets, a clearer choice. It's also helped us to focus on good basics at our opening price points, as well as great value across the entire offer.

Faster, fresher fashions

The journey from catwalk to high street is faster than ever, with customers expecting something new and different each time they come into store. Satisfying this increasing demand poses a major challenge for any retailer.

In response, we've adopted a phased approach to introducing new stock, which means that 25% of our womenswear will be new every five to six weeks. Within that, we have brands that release new products into stores on a three-week cycle. To make this quicker turnaround possible, we are now buying collections in two of our major brands (Limited Collection and Autograph Weekend), from our suppliers in Turkey, just eight weeks ahead.

Looking ahead

In 2007/08 we introduced great value at our opening price points in both womenswear and lingerie and in doing so made good progress in attracting customers in the under-35 age range.

2008/09 will be a tough year. It will be more important than ever to continually improve our ranges across all our price points, and to ensure we're responding to trends by quickly getting new products into store. We're now working closely with our suppliers to achieve even greater speed and flexibility, ensuring we continue to keep pace with customer demand.

In store it is still important to ensure that the distinctive offering of each of our sub-brands makes the shopping experience an easy one for our customers. In the year ahead, we will push our brands even harder, for instance, by expanding Autograph gifts and introducing Autograph essentials, and by further reducing duplication and filling the gaps in our ranges. Finally, we'll also be finding new and innovative ways to present womenswear online (see page 26).

per una

It was another strong year for per una. The brand enjoyed its seventh successive year of growth with sales of £429m in womenswear and lingerie. Growth came from a number of key product areas, including cardigans, dresses, jeans, macs and coats. Our capital expenditure programme positively impacted on per una sales, with the store modernisation and expansion programme increasing per una footage by 15% for the year. Online sales grew by 153%, and International sales by 40% for the year.

Per una's point of difference in today's retail climate, is in giving styles the per una 'twist'. From the lining, to the buttons, to the trims – the per una twist is the detail that makes its customers feel special. This was seen in the reintroduction of suiting, where the emphasis was on special details and quality fabrics that are part of per una's distinct style. Following the success of suiting, per una will introduce *Speziale Tailoring* later in 2008.

Another key moment in 2007/08 was the launch of a 25-piece capsule collection called GD25, inspired by George Davies' 25-year career as a fashion innovator.

Left: George Davis,
Chairman of per una

Cottoning on to Fairtrade

We sell about 4.8 million Fairtrade cotton garments annually (that's about 92,000 a week).

As the first major retailer to introduce a Fairtrade cotton clothing range, which includes the popular £5 Fairtrade t-shirt, we now work with some 5,000 Fairtrade cotton farmers so they not only get a fair price for their cotton, but a Fairtrade premium that they can use to improve their working and living conditions.

Menswear

Menswear performed well in 2007/08, despite the difficult second half. We grew and protected volume market share from 11.1% last year to 13.1%, and value market share from 10.3% to 10.5%, by competing hard on price, quality and innovation.

Over the course of the year, we began to see a change of mood in the market. As we've seen in womenswear, some customers became less concerned about finding the lowest possible prices but more interested in the value represented by clothes of enduring style and quality.

A range of prices

Our strategy was to compete by having a wider price span – ensuring customers always have a broad choice of price points.

Tailoring is a good example. We now offer suits in a wide range of styles, fabric and fit – from a great value 'first suit' at £49.50 to handmade suits at £799 that rival varieties on Savile Row.

Making quality count

As 2008/09 gets underway, we've observed a shift in priorities from some customers. Lasting quality of the kind that M&S is famous for, is appealing more to our customers as they begin to trade up, for example from a £15 linen/cotton shirt, to a £29.50 100% ultimate linen option. We've been doing all we can to respond to this trend, by searching for the highest quality materials, such as finer gauge merino wool and silks spun in Italy.

Our menswear brands

In menswear, as in womenswear, our sub-brands are important in helping customers quickly find products that match their tastes and needs. All of our three key menswear brands – Autograph, Blue Harbour and Collezione – made good progress over the last year (see below).

Autograph

Autograph has established its credentials as offering sharper styles and contemporary design, which helped it to achieve significant growth in 2007/08. Footwear, knitwear and tailoring are particular strengths, from designers such as the Jeffery-West team for shoes and Timothy Everest for suits. As Autograph continues to grow, we'll have even more opportunity to bring in guest designers and faces, like we did with Take That, who featured in autumn's Autograph campaign.

Smart new ideas

More than a quarter of our menswear sales come from products with ground-breaking performance benefits. From ultimate non-iron shirts, and the high street's first machine washable formal wool trousers, to water repellent Stormwear™ jeans (see above) – the M&S technical teams are continuously looking for the latest developments in textiles.

New in 2007/08 were 'climate control' underwear, featuring temperature-regulating technology developed by NASA, and coin catcher pockets in all of our chinos.

Blue Harbour

Our Blue Harbour brand was reinvigorated in 2007/08. We've taken it back to its East Coast American roots, and in doing so, have begun to attract a younger 35 to 44 year-old customer.

Collezione

Inspired by Italian style, our luxury Collezione brand continued to flourish in 2007/08. We widened the choice of 'better' and 'best' options – introducing new shoes at £75, as well as wool and cashmere mix trousers at £49.50.

Kidswear

In 2007/08 we made positive progress towards our long-term goal of winning back market share in children's clothing

Achieving greater consistency across our sub-brands, pricing structure and supply base has helped us increase our volume market share from 5.0% to end the year at 5.2% and our value market share from 4.5% to 4.8%. This is underpinned by our growing share of the newborn and toddler market, and our continued position as the number one provider of schoolwear for UK families. Strong online sales, up 54% on last year, have also made an important contribution.

In the year ahead, our challenge is to change perceptions, so that M&S kidswear is the first choice for style, as well as quality and price.

Competing on price

As in womenswear and menswear, we believe there is increasing demand for greater choice within our 'better' and 'best' categories, whilst maintaining a strong opening price point stance. In response, we're segmenting our kidswear offer into three key areas: everyday casualwear, Autograph and Limited (see across).

Our determination to compete on price and quality is clearly demonstrated by our plans to offer an entire school outfit – polo shirt, jumper and trousers or skirt – for just £6.50. We'll also be carrying this over to online, where customers can buy complete outfits in just one click.

Superheroes, super opportunities

From Thomas the Tank Engine and Iron Man, to High School Musical, our character-wear performed strongly for us in 2007/08. In fact, we sell the widest range of character clothing and merchandise on the high street – featuring more than 40 different characters.

In the year ahead, we'll be focusing on our best sellers, to ensure they are represented across the entire department – from babywear to socks to pyjamas. With the support of the marketing team, our kidswear section will be themed to coincide with the launch of new movies or programmes, when popularity will be at its highest.

Everyday casualwear

Featuring all the junior wardrobe basics, such as jeans, t-shirts, sweats, and weekend-wear.

Limited

Our most fashionable range, for all age groups from newborn to 14, featuring a bold use of colour and a fast response to the latest trends.

Top of the class for innovation

At M&S, quality and innovation go hand-in-hand. We believe it's important to offer our customers things they simply can't get from a supermarket. For example:

All of our school blazers are now made from recycled polyester – consistent with our Plan A credentials.

We've introduced iPod blazers and coats, a must-have for young music-lovers.

Parents can text us their child's details and we'll send personalised name-tags ready to use.

Autograph

Offering something a bit more special, in more luxurious fabrics, with key elements including party dresses and suits, high quality knitwear and daywear separates.

About us

Key performance indicators

Business review

Financial review

Governance

Financial statements

Shareholder information

Home

We achieved growth in every area of home – our best performing business unit. In the face of growing pricing pressures, we continued to raise our quality standards, whilst significantly widening choice and lowering prices.

Sales for the year were up by 7.9%. In addition, in August 2007, we launched our first standalone home store in Lisburn, Northern Ireland, which performed ahead of expectations. We'll be opening two more in 2008/09.

Down with prices, up with quality

We've successfully met the challenge of price deflation, maintaining our home prices at 12% below the high street average. Far from compromising on quality, we regularly upgrade our core ranges without increasing our prices. For example, in 2007/08 we upgraded our 'good' 100% cotton non-iron range in bedding, to 100% Supima cotton non-iron (our mid-priced sheet), while keeping the price the same.

At the upper end of the price spectrum, we have grown our Autograph branded homeware range, offering the very best of M&S quality in everything from bedding and bathrooms to furniture and home accessories.

Stretching the brand, extending choice

During the year we successfully trialled an extended range of electrical goods in 20 stores and online, selling market-leading brands such as Sony and Apple. We'll be extending this range to 50 stores in 2008/09. A range of white goods, including fridges, cookers and washing machines, were introduced in Lisburn and online in 2007/08 and we will continue to expand this offer to new standalone home stores, as well as online.

Almost a quarter of M&S customers shop from our home range, and we want to attract more. To do this, we will continue to widen choice within existing home areas, and move into new categories such as gardening tools. We will also be redeveloping our beauty business, while continuing to grow our online service (see page 26 for more details).

At home with Plan A

Sleep easy on our new bedding that combines both organic and Fairtrade cotton.

We're the only major retailer to ensure every light fitting we sell will accommodate energy-saving light bulbs.

Branching out – we offset CO₂ emissions from our deliveries by planting 10,000 trees every year.

Jargon-busting with M&S

Customers who don't know a megabyte from a megapixel can relax, we've rewritten the technology manufacturers' instructions.

When technology instructions start to get too technical, we translate them into everyday language, so that they're not only more user-friendly, but help our customers get the most out of their product.

Food

M&S has always been committed to being the first choice for fresh, high quality and convenient food that is ethically sourced. In achieving this, the emphasis in 2007/08 was firmly on provenance, healthy eating and innovation, as we reported continued growth for the year.

In the year ahead, as well as reinforcing these values, we want to stretch the brand further, so we offer our customers greater choice and convenience.

Performance

In 2007/08 we grew sales by 6.9% to about £4.25bn, reflecting the contribution from new space, with the launch of 98 Simply Food stores (including 64 BP stores). Strong performance in key product areas, realignment of prices on key product lines, whilst rigorously maintaining and improving quality, also played an important role.

Value market share for the year improved to 4.3%, despite increasing high street competition. In the next few years, we want to increase our market share to just over 5% of the total UK food market.

We plan to achieve this growth by opening more Simply Food stores, expanding the range of food we sell in all of our stores, improving the value and quality of our lines, maintaining our lead on innovation and quality, and enhancing our store experience and hospitality offers. We continue to respond to food trends, such as cooking from scratch, Fairtrade and organic, and health awareness through the reduction of saturated fats, salt, sugar, additives and preservatives.

A convenient offer

In the last year, we've responded to customer feedback by taking steps towards becoming a more convenient food shop. Our first step was to begin opening more stores in out-of-town and retail park locations. We've now also recently begun to broaden our product offer so that our customers can buy more of what they want at M&S, whether cooking from scratch (see page 18), buying something partly pre-prepared, or picking up a ready meal.

As part of our commitment to delivering convenience and service to our customers, we will also trial up to 350 lines of branded food and household essential items in a number of our stores in the North East of England from summer 2008. New lines include Marmite and Heinz tomato ketchup, as well as other branded 'must haves'.

Percy Pig superstar!

Originally the star of our best selling sweets, Percy has become an iconic figure featuring on everything from money boxes to egg cups. We've now sold over 1 billion Percy Pigs, with two pigs eaten every second. His fans have also set up their very own Facebook Appreciation Society, registering more than 25,000 members.

The year in numbers

Some 4,000 new and improved products, including the new Food to Go sandwiches and Gourmet to Go deli salads, more than 100 newly trained wine specialists, and over 300 awards for our cheese, just a few of the numbers behind our growing food business.

3 fast facts on M&S food...

1 We submit hundreds of products each year for independent taste testing. Products are rated on a scale of 1 to 10, with our average score being 7.8 – higher than our nearest competitor. This year we've achieved a few perfect 10s including our raspberry and panacotta terrine and asparagus and peconno frittata.

2 We work with specialist producers, nurturing smaller quality businesses at home and abroad – our artisan chocolates by Gerard Coleman are just one example.

3 According to independent research by Allegra, our Fairtrade coffee served in-store is the industry's best.

Sustainable sourcing

“Sustainable sourcing is at the heart of our fish business, so that we not only protect our waters, but the communities that depend on them.”

In the UK we love cod, but we're loving it to the point of extinction. That's why we're taking action to protect it and other endangered species. British waters provide a range of wonderful seafood to enjoy, and we've been working in partnership with the fishing industry to bring more options from the sea to the plate.

In addition to our work in Scotland to provide sustainable farmed Lochmuir™ salmon, we're the largest retailer of Scottish haddock, and we've also been working with the Cornish fishing industry. For instance, an exercise in rebranding has transformed the once unpopular pilchards fished in the shallow waters of Penzance and Mevagissey, into the summertime favourite – Cornish sardines. The product was always great – it just needed a new image. In doing this we've helped create a viable industry using a sustainable and under-utilised catch.

At the same time, we've been encouraging the Cornish sardine, and other small-scale fisheries, to achieve Marine Stewardship Council (MSC) certification. We've also asked our suppliers to create more products using these species, such as Cornish pollack – an alternative to cod and haddock.

Other projects include the National Lobster Hatchery and 'Meet the Fisherman' days in local stores such as Truro Lemon Quay, where skippers cook sardines on the quayside and discuss sustainable sourcing with our customers.

Steven Esom, Executive Director of Food
Steven joined M&S in June 2007 and was appointed to the Board as Executive Director of Food in March 2008.

“When it's in season, it's British.”

Everyday value

As part of this move to be a more convenient place to shop, we have reviewed the prices of popular shopping basket items to ensure they are competitive. These items range from cornflakes and frozen peas, to flavoured whole roast chickens.

However, we firmly believe that low prices should never be achieved through a reduction of quality. So although we're responding to market demand on pricing, we are doing so without any loss of M&S quality or standards.

The return to cooking

Great food starts with great ingredients – something our ready meals have long been famous for. Now with more of our customers spending longer in the kitchen, we want to make M&S the one-stop-shop for all of their cooking needs.

Our new ingredients range gives customers a choice of more than 300 new ingredients – from fresh herbs and spices like our lazy garlic and cinnamon, to bread and cake mixes – that make it easier to start cooking from scratch. And it's easier still with the help of our M&S recipe cards.

The best of British

From that comfort food favourite, our outdoor bred Lincolnshire Pork Sausages, to our hand-made Somerset cheddar, we go to great lengths to source the very best speciality foods right on our doorstep. When it's in season, it's British.

M&S is the only major retailer to stock 100% home grown asparagus in season. We've been working with British growers to extend the season, so it lasts from April to July – almost double the length it was five years ago.

The M&S food experience

Not everyone who eats in one of our stores is an M&S food customer. That's why by improving the breadth of our in-store hospitality options, and achieving a balance between healthy eating and indulgence, we're able to introduce new customers to our food. In fact, we're one of the UK's fastest growing hospitality providers, with over 12% like-for-like growth in the last year.

As part of our store modernisation programme, in 2007/08 we increased our in-store hospitality offer to create a repertoire of unique breadth and quality. We now offer five in-store hospitality options, including 239 cafés, 5 restaurants, 7 delis, 34 Hot Food to Go counters and 2 M&S Kitchens.

Within these new formats we've stretched the brand even further, for example offering kids meals in our restaurant, as well as steaks cooked to our customers' preference. Our deli bars also offer the option of a glass of champagne and a greater volume of fresh (and raw) ingredients, such as freshly prepared salads.

Internationally, we look forward to opening an M&S Café in our new Shanghai store (see page 29).

Looking ahead

In 2008/09 we will continue to grow our food business in line with consumer trends for cooking from scratch and healthy eating, and our programme to open more space.

Provenance and ethical sourcing remain high on our agenda, and we expect the Best of British range and our expanding Eat Well range to help us make further progress in attracting a younger customer. Our Simply Food business is important here, and will work alongside our hospitality business in helping broaden our customer base.

Our move to become a more convenient food shop is of increasing relevance, as we expand our ingredients and introduce branded food and household items.

This not only gives our customers more opportunity to enjoy asparagus, but also enables them to support farmers like John Chinn – winner of the '2005 Grower of the Year' award for innovation.

Additionally, all of our fresh beef comes from the UK, much of it from Scotland, and we've been working closely with Welsh farmers to extend the lamb season by a full two months. In 2008/09 we'll introduce home-reared products to local stores, such as home-reared Oakham chicken in Scotland.

With no legally defined industry standard for free range pork, we decided to review all of the many standards and specifications, so that we could introduce our own 'leading standard'. As a result we now offer in a number of stores truly free range pork, which is the first step towards meeting of our Plan A commitment to convert all of our outdoor bred fresh pork to free range.

All of our food is free...

from artificial colours, flavourings, sweeteners and hydrogenated fats, as part of our commitment to help our customers eat well.

As of 1 April 2008 we became the first retailer to remove all artificial colours and flavourings from our entire food and soft drinks range. It has taken three years to remove artificial colours and flavourings from over 900 products, with some more difficult than others. For instance, finding a natural colour from fruit and vegetable extracts to replace the vibrant pink filling of Turkish Delight.

We've also made excellent progress in salt reduction, having reached our 2010 targets in 11 out of 15 categories, including ready meals and sandwiches.

Simply Food

We've expanded the presence of our Simply Food business (see page 24) so that our customers can now pick up a pint of milk, or a ready meal from 299 stores located across the country, including airports, train stations, and service station forecourts. This year we plan to open up to another 70 stores.

Kids count too

It's not just food for grown-ups where health matters – we don't believe in 'dumbing down' our kids' food either. That's why we relaunched our entire range of children's products during 2007/08 so we could ensure every product – even treats such as our Easter eggs (see above) and birthday cakes – is completely free of artificial additives.

People

As we grow our business and invest for the future, it's important we keep strengthening our team at every level, from the shop-floor through to management

To attract and retain the best talent in the industry, we have to demonstrate that M&S is a good employer, committed to making all our people feel valued and providing them with career opportunities and quality training. The following section reports on how we delivered against these objectives in 2007/08

Training and development

Good training and a clearly defined career path are essential to our staff. That's why we have over 7,500 people in stores who coach their colleagues so their skills are kept up-to-date. In our stores, most training takes place on-the-job, since learning is more effective in real-life situations. All new joiners complete a thorough induction and up to 26 weeks ongoing training – the longest on the high street.

We also run a number of specialist training initiatives for people moving into senior management roles. Additionally, more than

4,000 people completed our Buying Academy and Food Academy courses, and we're now trialling similar academies for womenswear and merchandising.

Valued and proud to work for M&S

Our staff turnover rate is among the lowest in the industry – 27% for customer assistants, and 12% for management. Moreover, some 40% of our people in the UK have been with us for at least five years, with about 680 celebrating 25 or 40 years service during 2007/08. For us, this is one of the clearest signs that we're succeeding in making our people feel valued and proud to work for M&S.

In addition to our commitment to providing quality training and rewarding our people well, we have a number of specific initiatives designed to make them feel well cared for. For instance, we provide free breast cancer screening to M&S employees and pensioners – last year we screened more than 13,000 people. The service is available from the age of 40 (10 years earlier than the NHS), and can play a potentially life-saving role by detecting cancer early.

Listening to our people

More than 3,500 employee representatives have been elected to sit on Business Involvement Groups (BIGs), representing staff views on matters relating to work and employment. They regularly discuss employment issues directly with company management at a local, divisional and national level.

We also engage with employees through our annual YourSay survey, giving them the chance to tell us what they think about a range of issues – including job satisfaction and management performance.

Rewarding our people

25,000

Employees participated in our Sharesave Schemes in 2007/08, saving between £5 and £250 a month

11,160

Employees shared a gain of £37m from the Sharesave Scheme that matured in 2007

40,000

Great Service Awards handed out to staff who did a particularly good job taking care of our customers

Marks & Start breaking down barriers

Many people face barriers getting into employment. For groups such as disabled or homeless people, the difficulties are obvious, but we're also concerned with helping parents get back into work and the young-unemployed to get a job. Over the last year, we offered placements to about 650 people through the Marks & Start scheme. Recruits were teamed with an M&S 'buddy' to help build their confidence – with approximately 40% finding employment at the end of the work placement.

Not just any graduate career...

“If you work hard at M&S, and take responsibility, you will be rewarded, as there are just so many opportunities to take your career to the next level.”

More and more graduates are discovering that the M&S graduate recruitment scheme is not only a fast track to an interesting and varied career, but in some cases, also a direct route into management

Our graduate recruits benefit from an intensive training course, and are given the opportunity to build their skills in a challenging but supportive environment. They are also assigned real responsibilities from the outset, in order to help them make rapid progress within the business. For example, Katie was running one of our stores within four years. Graduates joining M&S in other roles – food technology, design, HR, buying or IT – can make similarly fast progress in their careers.

Each year we employ between 150 and 200 graduates and business placement programme undergraduates. In 2007/08 we received a record 8,500 applications in just over two months.

All of which helps to explain why we won four major graduate recruitment awards last year, including The Times' 'Graduate Employer of Choice' for retail in 2008.

Katie Wyle, Store Manager Brighton

Katie Wyle started at M&S as a temporary customer assistant during Christmas 2003. The experience encouraged her to join the M&S graduate programme and in just four years, she had proven her talent, stepping into her first store manager position.

Going the extra mile

Our people are passionate about what they do. They care deeply about M&S, and want to make a contribution that goes beyond just doing their job, to making a difference on issues that matter to them and their local community.

Now in their seventh year, our national Employee Volunteer Awards recognise the outstanding achievements of the many hundreds of staff who fundraise and volunteer for local charities in their own time. A special mention must be made of Jean Turner and the Chester store team, who have won the group fundraising category three years running. In 2007 they did whatever it took – selling cakes, running the 'Great North Run' and even managing car boot sales – so they could raise more than £30,000 for a number of charities including their local children's hospice, Hope House.

Plan A Champions

The environment and all things green, is a particular passion amongst our employees, which is why we've appointed 570 Plan A Champions in our stores and offices, to keep their colleagues updated on Plan A, and to find innovative new ideas to implement in-store. You can read more from our Leeds Plan A Champion Kate Edwards on page 30.

Service, IT and logistics

Good service continues to be a priority at M&S. In addition to training and developing our in-store staff so that they consistently perform well, we're also investing behind the scenes to improve our logistics and IT infrastructure. This investment will allow us to efficiently run our supply chain and IT systems so that stock is managed tightly and transactions are processed effectively.

Mystery shopping

Each of our stores is anonymously visited once a month – twice in the case of our larger flagship stores – by a mystery shopper who evaluates service quality. In 2007/08 that was the equivalent of some 6,240 visits to our stores. We're pleased with the outcome, as our teams achieved a new record average score – 86%.

The mystery shopping programme was developed in partnership with a customer panel to help us identify where we need to support our stores with additional training. As a result the questions and scoring system accurately reflect our customers' priorities, such as the standard of our fitting rooms.

Supporting our growth

Supporting our people behind the scenes, our supply chain and IT systems play a crucial part in ensuring our stores perform efficiently, and provide maximum customer satisfaction.

For our supply chain, the challenge in 2007/08 was to handle significantly increased volumes, while remaining cost-effective. Despite the growth of M&S Direct, increasing sales volumes and more direct buying from our suppliers, our supply chain coped well under these pressures, delivering 13% more stock to our stores, and responding to a 63% rise in volume from M&S Direct.

A more efficient future

The majority of our supply chain's physical infrastructure – the warehouses and distribution centres – has remained unchanged since the 1970s. The next major requirement is to develop a world class infrastructure that will support us not just in the UK but around the world.

Having formed a strategic partnership with logistics property organisation ProLogis, we've been working together to build a new warehouse in Bradford (see picture below). This will play an important role in increasing the speed and efficiency of our supply chain and further reducing costs.

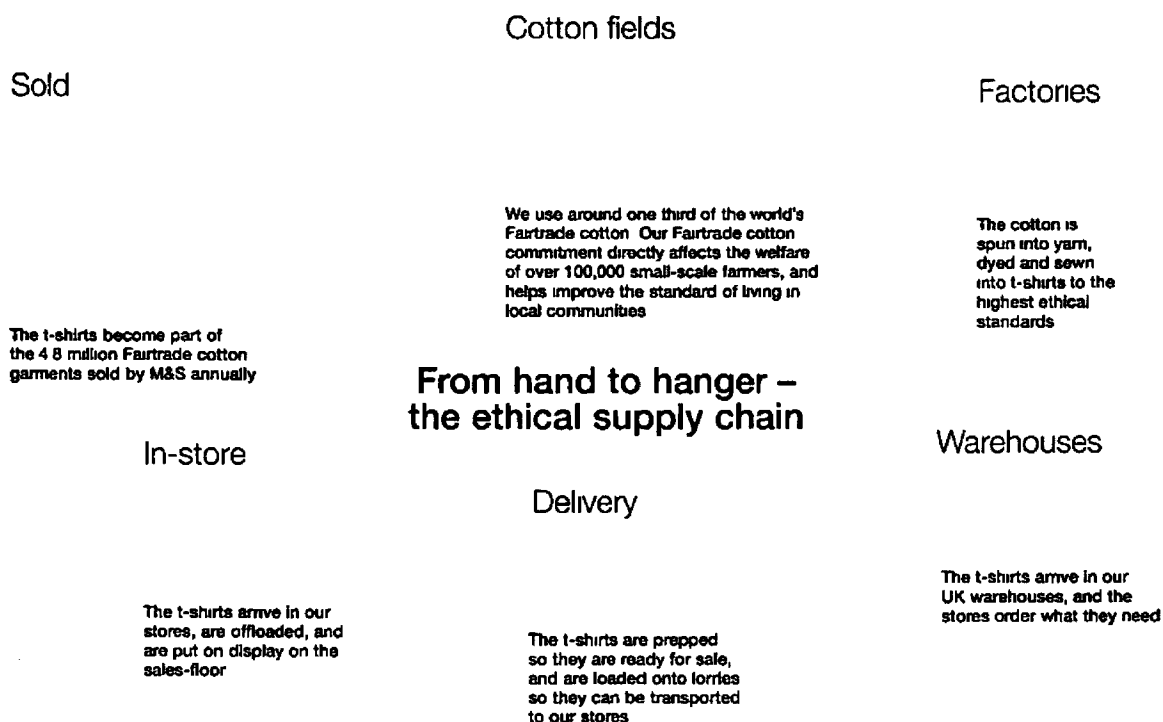
Teardrop trailers

We became the first company in the world to adopt a revolutionary new trailer (developed by Don-Bur) whose teardrop shape will reduce our carbon footprint.

With 141 trailers now on the road, our teams have achieved a 10% improvement in fuel efficiency and a 20% reduction in CO₂ emissions per garment moved. At the same time, the teardrop trailers also deliver up to 10% more load than a conventional trailer.

86%

The average score in our mystery shopping programme



From source to store

As we expand our business internationally, we're planning to take more control of our logistics from source to store, allowing us to monitor our stock more efficiently and improve margins

We plan to develop a modern and streamlined logistics network that consists of new overseas warehouses, as well as offshore stockholding and consolidation facilities

Remodelling our supply chain infrastructure is a major investment that will help us stay one step ahead of demand in our market for the fresh and new. Fast fashion, for example, is about to get faster still

Getting our IT in shape for growth

At the same time as renewing our physical network, we have also made progress in IT. We now have an integrated company-wide IT plan, a three-year roadmap that sets out how our systems will deliver on every aspect of our business plan, both within the UK and internationally. This means – for example, that our IT strategy for China – where we are only just establishing a foothold – is already in place

The plan has helped us to develop faster and more efficient IT systems throughout our business. For instance, we are introducing new point of sale systems, including more than 2,000 new tills and 258 new handheld terminals in-store to make stockchecking easier and more efficient. This will help us further improve service in our stores. We extended the trial of our food self-service tills across the business, as well as a first trial in general merchandise

We also made vital behind the scenes improvements with the introduction of new financial and back-office systems. Both of these changes are behind an overall increase in operational efficiency, with 97% of our tills fully operational, up from 90% two years previously

At the same time as achieving these important improvements, we also succeeded in reducing like-for-like IT running costs by 13.5%

Giving goes electronic at M&S

During the year, we introduced the electronic M&S Gift Card. Smaller and more convenient for our customers, as well as being quicker and easier to process. Gift Cards have been an important success, with over 80% transition from paper to plastic

About us

Key performance indicators

Business review

Financial review

Governance

Financial statements

Shareholder information

Property and store environment

Over the last three years, we've undertaken one of the biggest store investment programmes within the UK retail sector. We are focused on increasing the number of stores we have, expanding and modernising our existing footage, and ensuring we offer our customers the right stores in the right locations.

In order to achieve this, in November 2007 we announced that we are expanding our space by 15% to 20% in the next three to four years. We will also complete the modernisation of our remaining store portfolio in the next few years.

70%

Store modernisation complete

3 more green success stories to build on.

- 1 We recycled 75% of all construction waste in 2007/08, and aim to achieve 85% in 2008/09
- 2 How we design, procure and build our stores is now clearly laid out in our Sustainable Construction Manual produced in conjunction with the Building Research Establishment (BRE)
- 3 Like-for-like store energy usage is down by 4%

A bigger and better M&S

During 2007/08, we increased our total space through new openings and extensions by 815,000 sq ft, or 4.8%. We opened more than 100 new stores in the UK, ranging from a large high street store at 66,000 sq ft, to Simply Food stores of around 7,000 sq ft.

We've made good progress against the strategy we laid out in 2006, and in the year ahead we plan to accelerate our expansion, increasing our space by a further 5.5% in 2008/09, by moving ahead on five fronts:

- 1 Expanding and modernising our city centre stores – in 2007/08 this included Edinburgh and Belfast and in 2008/09 we will modernise our Cardiff store
- 2 Opening bigger out-of-town and flagship stores of over 100,000 sq ft and expanding our space where we already trade – we extended London Colney and Lisburn in 2007/08 and in 2008/09 we opened a new store in Colliers Wood, with White City and Brooklands to open later in the year
- 3 Creating a better presence in retail parks – we opened seven stores in 2007/08 including Preston, Kinnaird Park and Silverlink and have several more in the pipeline including Swindon Orbital and Malvern
- 4 Examining our portfolio of high street stores to ensure they are the right size and in the right place – for example in 2007/08 we doubled the size of the Eltham store in London and relocated in Derby and High Wycombe. In 2008/09 we will open in Luton and take two stores down to one in Worcester
- 5 Building on the success of Simply Food (see below)

Simply Food

In the last seven years, our Simply Food business has grown in the UK to 299 stores trading in a highly competitive market. We opened 26 wholly-owned stores and 72 franchised stores (64 of which are located on BP forecourts) during 2007/08, and based on their strong performance, we believe there is potential for up to 70 new wholly-owned and franchised Simply Food stores during 2008/09.

Store modernisation

We have always acknowledged that stores were in need of refurbishment, particularly those which have been in our portfolio for many years. This is important in not only helping our stores run more efficiently, but in ensuring they are bright and contemporary, with easy-to-shop food halls and, to complete the experience, a range of hospitality options.

In 2007/08 we completed work on 86 stores, (excluding franchise openings), relaunching about 5 million sq ft. This means that 70% of all our space is now in the new improved format. Inevitably the work caused some disruption in stores, but trading generally held up well, with the new format stores out-performing non-modernised stores. Our target is to modernise the remaining 30% in the next few years, with 10% planned in 2008/09.

An award-winning shopping experience

- 1 Town Centre Retailer of the Year Award and Green Award 2007 – at the Retail and Leisure Property Awards organised by Property Week
- 2 Department Store Interior of the Year Award 2007 – for M&S Bluewater, against 550 other contenders, at the 10th Annual Retail Interior awards
- 3 Convenience Chain of the Year for Simply Food – Checkout Magazine

A greener way to shop

In September 2007, we opened the first of our new 'eco stores'. Located in Bournemouth, we deliberately decided to modernise one of our older stores, to find out how eco-friendly we could make it.

Rising to the challenge, we incorporated a wide range of eco-features – from a green roof to capture airborne pollutants and escalators running at reduced voltage, to more efficient heating, lighting and refrigeration systems. In this way, we hope to achieve energy savings of up to 55%.

Following Bournemouth, we opened a further two green stores at Silverburn in Pollok (pictured below) and a new Simply Food in Galashiels.

As we continue to introduce more 'eco stores', we'll be testing a number of cutting edge techniques, such as using hempcrete – which uses hemp plant fibres as the aggregate – instead of concrete. We'll continue to trial many further innovations to ensure that as our property portfolio grows larger it also grows greener.

M&S Direct

A new website and an extended range of products are just two of the reasons behind M&S Direct's strong growth

M&S Direct is an important part of our commitment to becoming a multi-channel retailer. In addition to providing our e-commerce website, it also includes our home catalogue, flower and wine delivery, Christmas hamper delivery, in-store food ordering service and Lunch to Go, which delivers lunchtime platters.

Sales were up £60m in 2007/08 to £220m, with M&S Direct growing faster than the market, and putting us on course to achieve our target of £500m in sales through M&S Direct by the end of 2010/11.

Visits to the website were also up by nearly 60%.

A new site, a new experience

Relaunched at the end of March 2007, our website was designed and developed in partnership with world leaders in e-commerce, Amazon. Our customers tell us they find the new site much easier to use, a fact reflected in an independent online shopper survey by Forsee ranking the 'Top 30' UK online retailers. We came sixth overall and were the best performing high street retailer, ahead of competitors like John Lewis, Tesco and Next.

63%

Sales increase

Spoilt for choice

Each year we move closer towards becoming a true multi-channel retailer, by offering our customers more ways to shop. For instance, a customer might see a sofa they like in our home catalogue, and decide to try it out in-store. They then have the choice of visiting our website, where they can see every sofa, in every fabric, size or colour combination – as many as 10,000 variations.

Blooming good idea

We continue to extend not just the breadth, but the quality of our online offer. For instance, we're now bringing the luxurious quality and style of the Autograph brand to a bouquet, with the launch of Autograph Flowers in-store and online. Just like our Autograph fashion and home collections, this exclusive range of flowers will change seasonally, offering extra-long stems (60-80cm) and larger blooms in striking arrangements – from £35 for a dozen and £45 for two dozen.

Each flower is individually selected by M&S Flower Specialist Claire Broomhead, so they are as competitive as those you'd buy in a florist.

“The Autograph brand is about effortless style and luxury and the new range of Autograph Flowers reflects this perfectly, either as a gift, or as an amazing centrepiece in the home.”

Claire Broomhead
M&S Flower Specialist

But there's still plenty of room for improvement. In particular, we want to make the site more interactive. We've already added features such as a behind-the-scenes video interview with Lily Cole (the face of Limited Collection). Additionally, we publish beauty tips and lingerie advice from the Your M&S magazine editor Sarah Gowland. In 2008/09, we're planning to add even more of these features, including areas for customers to post reviews and ratings of M&S products.

More reasons to visit

Our website offers a number of exclusive products, including a wider choice of electricals than in-store, an increased selection in clothing ranges such as per una, and our exclusive online range of affordable and contemporary furniture called Furniture to Go.

Our new Made to Measure shirts service, which launched in November 2007, allows customers to design a tailor-made shirt from just £30 for delivery within 21 days. Customers simply choose their fabric, collar, cuffs, pocket, fit and monogramming, and type in their height, collar size and weight, and we'll tailor-make a shirt specifically for them.

A number of other popular features on our website include our Greener Living shop, improved wine cellar and Big and Tall range.

Extending our online cellar

From around just 30 lines last year, the range of wines available on our website has increased to around 550. Fifty of these are exclusive to the web and can't be found in-store. We sell over 20 varieties of champagne with prices from approximately £100 to £240 per case. Customer response to our improved online offering has been so positive that we're planning to launch a wine club in 2008/09.

Big and Tall

“I usually have to look for specialists that cater for big fellas, and then end up choosing from a small range and paying a lot more. When M&S approached me I was amazed at the offer available, with excellent quality at the same price as standard sized clothes.”

Martin Johnson, England Rugby Team Manager

It would be hard to find space in our stores for our exclusive Big and Tall offer, but it's a perfect fit online. As the name suggests, Big and Tall offers clothes to fit 'big fellas', like England Rugby Team Manager Martin Johnson who is the face of the brand. Only available online, the collection includes more than 450 items ranging from tailoring to knitwear to casual shirts and trousers.

Greener living. now easier online

In 2007/08 we introduced a Greener Living section to our website so that we could make it easier for our customers to find products that will help them to do their bit for the planet. From compost bins and Hippo Water Savers to recycled fleeces and Fairtrade t-shirts, a more eco-friendly lifestyle is just a couple of clicks away.

About us

Key performance
indicators

Business review

Financial review

Governance

Financial statements

Shareholder
information

International

In 2007/08 we announced plans to grow our International business to between 15% and 20% of total Group revenues within the next five years

We're pleased to report strong progress towards this goal. Not only have we expanded our franchise operation, but we have also entered into partnerships in some of the world's most dynamic emerging economies

A growing contribution

In 2007/08 our International business contributed over 7.9% of total Group turnover. At £712.9m, sales were up 16.8% on last year, and operating profit was up 33% to £116.4m.

During the year, we increased our overseas stores by 38 bringing the total to 278, and increased our space by over 18% to almost 266,400 sq m. In 2007/08 we entered Lithuania, Serbia, Taiwan and Ukraine, taking our global reach to 39 territories.

A flexible business model

Our expansion to date has been primarily through franchising which remains our preferred model for smaller or particularly challenging markets.

Looking ahead though, we intend to invest our own capital to increase returns to our shareholders. In some cases we will invest alongside partners who will bring local knowledge and expertise. In other markets we may choose to go it alone.

One of the most exciting examples of this new plan can be seen in India, where in April 2008 we announced our intention to open up to 50 new stores in the next five years with Reliance Retail.

At the end of 2007/08 we also completed two deals in Europe with existing franchise partners. The first in February 2008 was with the Mannopoulos Group, the leading private company in Greece. Mannopoulos has been our franchise partner for 30 years and currently operates 38 M&S stores in Greece and the Balkan states, including Romania and Bulgaria, as well as Switzerland. The €50m deal to acquire a 50% share of the business will see an additional 50 new stores opened in these markets over the next few years.

The second deal was signed in March 2008 with another existing franchise partner – COMSA – to expand in Central and Eastern Europe. With a 51% stake in the partnership, we will work to open around 30 new stores in the Czech Republic, Slovakia, Latvia, Lithuania and Estonia over the next few years.

Investing in Ireland

In 2007/08 we opened four new stores in the Republic of Ireland bringing the portfolio up to 17 stores in total. The pipeline of future developments is strong, and we expect to add between 30% and 40% to our footage in the next few years.

16.8%

Sales increase

Expanding in India

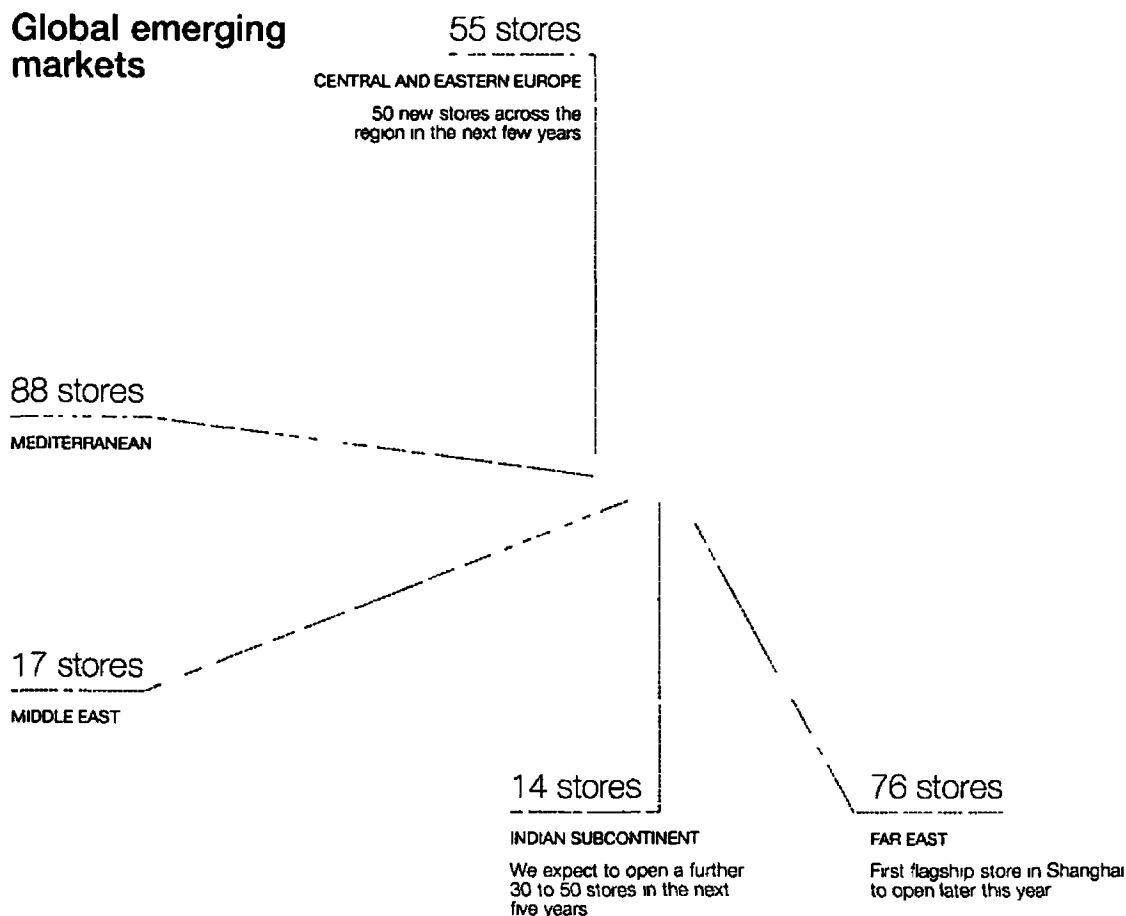
One of the world's fastest growing economies, India is expected to become the world's fifth largest consumer market by 2025 (McKinsey). With an estimated 350 million middle-class consumer base by 2015, India presents an exciting opportunity for growth.

Whilst we have traded in India for a number of years through a franchise agreement, in view of the long term opportunity, we set out to find a new partner who could help us grow in the market. One organisation stood out from the crowd, and in April 2008 we entered into a partnership with Reliance Retail, subject to the approval of the Indian Government's Foreign Investment Promotion Board and certain other conditions. Reliance has great strength in technology, logistics and property in India.

With a 51% stake in the venture, we will work with Reliance to open around 50 new stores in the next five years. The new stores will sell a wider range of products than previously, and at lower prices, including a full range of clothing and homeware, and a growing number of products sourced from local suppliers.

INDIA	
April 2008	Deal signed with Reliance Retail
51%	Stake in partnership
30-50	New stores in the next five years

Global emerging markets



A taste of Britain

In 2007/08 we started to freeze our ready meals for international sale and have launched a range of 70 lines in eight countries. The new category has been well received, and we are presently working on extending the range and the numbers of stores carrying the lines. The frozen ready meals, which include pizzas, rhubarb crumble and traditional mince and cheese, are prepared in the UK and join the growing range of 1,200 ambient products already on sale in a number of overseas stores. Our ambient products include a number of everyday items, and traditional British favourites, such as shortbread biscuits.

A global fashion brand

From Singapore to Switzerland, we work with our overseas partners to ensure brand consistency. Our international merchandisers work closely with our UK-based buying teams to ensure the products selected reflect the key M&S looks for the season. Our advertising and branding has also proven to be highly relevant overseas. For instance, we are replicating our holiday campaign throughout Europe and the rest of the world this summer.

A foothold in China

Drawing on our experience in Hong Kong – where we have eight wholly-owned stores and have been trading for 20 years – in November 2007 we announced our intention to enter the Chinese market on a wholly-owned basis.

Having secured a 4,836 sq m store in Shanghai, we look forward to opening our first store in China – a new flagship for M&S in Asia. We will adapt our ranges, introducing smaller sizes into womenswear and 2-inch shorter sleeve shirts in menswear, as we do in Hong Kong. We'll also stock the Asia special – redcurrant puffs – in the food section.

Looking ahead...

While the economic outlook remains uncertain, our International business model gives us an opportunity to build a broader revenue base and drive profitable growth in some of the world's most exciting emerging markets. We have a strong pipeline of International openings planned for 2008/09, demonstrating the important role that International will play in positioning M&S for future growth.

Plan A

Plan A is our five-year 'eco plan' to address some of the key social and environmental challenges facing M&S. We pledged to meet 100 separate Plan A commitments within five years, and so far we have made progress on 94 of the 100 commitments.

By 2012 M&S will

- become carbon neutral with minimal offsetting,
- send no waste to landfill from our operations,
- extend sustainable sourcing,
- set new standards in ethical trading, and
- help customers and employees live a healthier lifestyle

We're committed to Plan A, because it's the right thing to do. There's also a powerful business case. Plan A not only gives us distinction in a crowded marketplace, but challenges us to increase efficiencies, and

continually seek new and better ways of doing business, so that we can achieve the ambitious targets we have set ourselves.

Climate change

Despite opening more than 100 new stores in 2007/08, we cut our total CO₂ emissions from our stores, offices and warehouses by nearly 50,000 tonnes. We achieved this 9% decrease on last year by switching an additional 21% of our electricity to renewable sources. We also improved our energy efficiency by 4%, and started sourcing electricity from farm-based wind turbines and an anaerobic digestion facility which generates power from food waste.

Because around 60% of our carbon footprint is generated by our suppliers, and a further 30% by our customers, we've been looking closely at how we can encourage our suppliers to reduce their CO₂ emissions. For example, we encouraged the development of low carbon supplier factories (see story to right).

Green from top to bottom

We worked in collaboration with two suppliers – MAS Holdings and Brandix – to launch two eco clothing factories, which will use 40% less energy and half as much water as typical supplier factories. From July, customers can buy lingene made from these factories, under our Autograph and per una labels. We hope to open a similar plant later this year in Wales.

Banish the bag

“The carrier bag initiative has been a big hit with our customers who want to do their bit to make a difference. We can't wait to start working with Groundwork in Leeds so we can begin to see changes here in the local area.”

One of our highest profile projects in 2007/08 was undoubtedly our decision to introduce a food carrier bag charge of 5p in all of our UK stores, with profits funding local environmental projects run by our partner Groundwork UK.

Initial trials in more than 50 M&S stores in Northern Ireland and the South West, showed around a 70% drop in plastic carrier bag usage, and raised over £80,000 to create and improve green spaces in local neighbourhoods. If M&S customers continue at this rate, we'll save over 250 million bags from landfill every year.

Kate Edwards, Plan A Champion for Leeds store
Kate joined M&S as customer assistant in 2003 at the Blackburn store before moving to the Leeds store in 2004. As a Plan A Champion, on top of her everyday job as store operations manager, it's her role to motivate some 350 staff to 'think green'. She's pictured with the M&S cotton shoppers.

Wash at 30

As part of the Climate Group's 'Together' campaign, we're encouraging our customers to save energy by washing their laundry at 30°C. By introducing 'Think Climate – Wash at 30' labels in 70% of our clothes and on our washing powder, we've seen the number of washes now done at 30°C increase by 23% to 31% since April 2007. That's a total reduction of 25,000 tonnes in CO₂ emissions.

Waste

Right across our business, we've been finding new ways to ensure that by 2012 we send zero waste to landfill from our own operations. We've seen a 6% reduction in the amount of waste sent to landfill, as a result of improving the recycling of our construction waste (see page 24), and collecting 122 million clothing hangers to reuse and recycle – over double the amount collected last year.

In January 2008, we launched the M&S and Oxfam Clothes Exchange – calling on customers to dig deep into their wardrobes to help fight poverty. Customers taking M&S items to an Oxfam store will help reduce the 1 million tonnes of clothing going to landfill each year, and in doing so will receive a £5 (€7) M&S discount voucher to spend on purchases of £35 (€50) or more.

One of the biggest challenges we face is to reduce our packaging, but without making our products susceptible to damage, or in the case of food, reducing their freshness. In 2007/08 we reduced the weight of packaging around each Easter egg by nearly 20%. At the same time, we've increased the amount of our food packaging that is recyclable to 70%.

Sustainable raw materials

During the year we converted all our toilet rolls, kitchen rolls and tissues to either Forestry Stewardship Council (FSC) certified or recycled paper. We also used FSC materials for more than 50% of our range of Christmas greeting cards (over 30 million in total) as well as our publications for customers, including the 'Your M&S' magazine. In total 62% of current wood materials used in M&S products are FSC certified, certified by another independent organisation, or recycled (excluding fabrics).

Fair partner

We use around one third of the world's Fairtrade cotton. We are working with local communities and organisations around the world, such as the Fairtrade Foundation, to increase the availability of this and other

Fairtrade commodity crops such as sugar and tea. Additionally we are extending our Fairtrade ranges of jams.

The Fairtrade premium improves the standard of living in the local communities funding the building of schools, healthcare clinics and transport links.

Health

One of our most significant achievements for the year is our commitment that all food produced after 1 April 2008 is now entirely free of artificial flavours and colouring. Originally, we planned to only do this with our children's food, but having completed this work by September 2007, we decided to extend it to all foods. Page 19 details our greatly increased range of Eat Well healthier options, as well as our excellent progress in salt reduction.

Plan A: next steps

We've achieved a great deal, and learned even more during our first full year as a Plan A business. But we know that there's a lot to do if we are to achieve our five-year targets.

Plan A isn't perfect, and we revisited our ethical trading commitments to make them stronger. We will continue to review our progress and where we need to, change our commitments to meet emerging issues.

In 2008/09 we will develop better, more robust systems for gathering the data we need to evaluate and improve our Plan A performance. We'll also be working harder than ever to develop partnerships that communicate our messages or help us to find innovative solutions.

For more detailed information, please visit our Plan A website at marksandspencer.com/planA or download our 2007/08 How we do business report at marksandspencer.com/annualreport08.

Fancy a cuppa?

Already, 100% of the tea and coffee we sell is Fairtrade, and we're pleased to have recently launched a new range of single origin Fairtrade coffees from Rwanda, as part of Fairtrade Fortnight.

Award-winning work

- 1 We were awarded the World Environment Center's (WEC) 24th Annual Gold Medal for International Corporate Achievement in Sustainable Development, for linking sustainability with our supply chain, operations and customers.
- 2 We were named joint leaders in the Marne Conservation Society's supermarket league table on responsible fish sourcing.
- 3 We won the RSPCA 'Good Business' award for animal welfare in fashion for the third consecutive year.
- 4 We were named Compassionate Supermarket of the Year for 2007 – not just because all of our eggs are free range, but because we only sell UK reared veal which meets high animal welfare standards.

Your Board

Lord Burns Chairman ▲ (Chairman)

Appointed in October 2005 becoming Chairman in July 2006. Age 64. Lord Burns will retire as Chairman on 1 June 2008. He is Chairman of Abbey National plc and Glas Cymru Ltd (Welsh Water) and a non-executive director of Banco Santander SA and Pearson Group plc. He is a former non-executive director of Legal & General plc and The British Land Company plc and a former Chairman of the National Lottery Commission. He was Permanent Secretary to HM Treasury from 1991 to 1998 and Chief Economic Advisor from 1980 to 1991. He was appointed a Life Peer in 1998.

Sir Stuart Rose Chief Executive ▲

Appointed in May 2004. Age 59. Stuart will be appointed Executive Chairman on 1 June 2008. He is a non-executive director of Land Securities plc and Chairman of Business in the Community. Stuart began his career in retail at Marks & Spencer in 1972 before going on to the Burton Group in 1989. He left the Group following the demerger in 1997. Stuart was Chief Executive of Argos plc in 1998 and later became Chief Executive of Booker plc. Before rejoining Marks & Spencer as Chief Executive in 2004 he was Chief Executive of Arcadia Group plc from 2000 until 2002. Stuart was knighted in the New Year Honours List this year for his services to the retail industry and corporate social responsibility.

Kate Bostock Executive Director, Clothing

Appointed in March 2008. Age 51. Kate joined Marks & Spencer in October 2004. Previously Kate was Product Director for Childrenswear at Next before joining Asda in 2001 as Product Director for the George brand covering all areas of clothing and footwear. She was responsible for the launch of the stand alone George concept and the launch of the George brand globally.

Ian Dyson Group Finance and Operations Director

Appointed in June 2005. Age 45. Ian was appointed Group Finance Director in June 2005 becoming Group Finance and Operations Director in March 2008. Ian was formerly Finance Director of The Rank Group plc. Prior to this he was Group Financial Controller of Hilton Group plc. He joined Hilton from Le Meridien, a division of Forte plc where he had been Finance Director. His early career was spent with Arthur Andersen, where he qualified as a Chartered Accountant in 1986 and was promoted to a Partner of the firm in 1994. Ian was a non-executive director of Mays plc until September 2005.

Steven Esom Executive Director, Food

Appointed in March 2008. Age 47. Steven is a non-executive director of The Carphone Warehouse Group plc. He joined Marks & Spencer in June 2007 from Waitrose where he had been the Managing Director. Steven joined the John Lewis Partnership in 1996 as Director of Buying at Waitrose. He spent his early career at J Sainsbury's in various buying roles. In 1993 Steven was appointed Buying and Merchandising Director for Texas Homecare, later becoming Vice-President - Global Merchandising at Hilton International.

Steven Sharp Executive Director, Marketing

Appointed in November 2005. Age 57. Steven joined Marks & Spencer in May 2004. He started his career with Bejam in 1978 progressing to the Argyl Group and became Marketing Director of Asda in 1987. He joined the Board of Debenhams in 1989. He later became Marketing Director of the Burton Group, Booker plc and Arcadia Group plc. Steven is a non-executive director of Adnams plc. He is a Fellow of the Chartered Institute of Marketing, The Marketing Society and The Royal Society of Arts, as well as a visiting Professor of Glasgow Caledonian University. Steven is a special advisor to the Tate Members' Council.

On 10 March 2008 we announced that with effect from 1 June 2008, Lord Burns will stand down as Chairman. Sir Stuart Rose will be appointed Executive Chairman and Sir David Michels will be appointed Deputy Chairman whilst continuing his role as senior independent director. Sir David Michels will become Chairman of the Nomination Committee on 1 June 2008.

Sir David Michels

Senior Independent Director ●●●▲

Appointed in March 2006. Age 61. David will be appointed Deputy Chairman and Chairman of the Nomination Committee on 1 June 2008. He was appointed senior independent director in September 2006. He is senior independent director of easyJet plc, and is also a non-executive director of Strategic Hotels & Resorts and Jumeirah Group, Dubai. He is resigning as a senior independent director of The British Land Company plc and was a non-executive director of RAB Capital plc until 18 April 2008. David spent his early career employed by Grand Metropolitan, Ladbrokes and Stakis before rejoining Hilton/Ladbrokes in 1999 as Chief Executive becoming Chief Executive of Hilton Group plc from 2000 to 2006. David was knighted in June 2006.

Jeremy Darroch

Non-Executive Director ●▲● (Chairman)

Appointed in February 2006. Age 45. Jeremy was appointed Chairman of the Audit Committee in September 2006. He was appointed the Chief Executive of British Sky Broadcasting plc in December 2007 having been the Chief Financial Officer since 2004. Jeremy was previously Group Finance Director and Retail Finance Director at Dixons Group plc. He spent 12 years at Procter & Gamble in a variety of roles, becoming European Finance Director for their Healthcare division. He qualified as a chartered accountant with Deloitte Haskins and Sells.

Martha Lane Fox

Non-Executive Director ●●●▲

Appointed on 1 June 2007. Age 35. Martha is a non-executive director of Channel 4 Television and a Trustee of the charity Reprieve. She is founder of a chain of private room karaoke clubs, Lucky Voice and of her own grant giving foundation, Antigone. Martha is also a director of mydeco.com. She co-founded lastminute.com in 1998 taking the Company public in March 2000, remaining on the Board until the company was purchased by Sabre Holdings in 2005. Martha is also a patron of CAMFED.

Steven Holliday

Non-Executive Director ●●●▲

Appointed in July 2004. Age 51. Steven was appointed Group CEO of National Grid plc at the end of 2006, having at different times been responsible for the UK Electricity and Gas businesses. He was formerly an executive director of British Borneo Oil and Gas. Previously he spent 19 years with the Exxon Group where he held numerous senior positions. His international experience includes a four-year spell in the US. Steven has also developed business opportunities in countries such as China, Australia, Japan and Brazil.

Louise Patten

Non-Executive Director ●▲● (Chairman)

Appointed in February 2006. Age 54. Louise was appointed Chairman of the Remuneration Committee in January 2007. She is non-executive Chairman of Brixton plc, a non-executive director of Bradford & Bingley plc and a senior adviser to Barn & Co. Louise began her career at Citibank and remained in financial services until 1993 when she joined Barn & Co as a Partner. She was formerly a non-executive director of Hilton Group plc, GUS plc, Somerfield plc and Harveys Furnishings plc.

Graham Oakley

Group Secretary and Head of Corporate Governance

- ▲ Independent
- Audit Committee
- Remuneration Committee
- ▲ Nomination Committee

Financial review

Revenue

	UK Retail	International Retail
2008	£8,309.1m	£712.9m
2007	£7,977.5m	£610.6m
Total	+4.2%	+16.8%
Like-for-like	-0.5%	+6.6%

Revenues

Total revenues were up 5.1% driven by new space in the UK and strong performance in our International business

UK revenues were up 4.2% in total with like-for-like decline of 0.5%. The performance in the first half of the year was strong, despite the unseasonable weather and significant disruption from our modernisation programme. However, in the second half of the year the deterioration in the economic environment and consumer spending had an adverse impact on our performance.

During the year, we added 4.8% of space (on a weighted average basis), 8.7% in food and 3.0% in general merchandise.

International revenues were up 16.8% with good performances in both owned and franchised stores, up 15.5% and 18.7% respectively. This was driven by both strong like-for-like performance and 38 new store openings.

Operating profit

Operating profit before property disposals and exceptional items was £1,089.3m, up 4.3%.

In the UK, operating profit before property disposals and exceptional items was up 1.7% at £972.9m. The UK gross margin was 0.4 percentage points down on the year at 43.0%, mostly due to a greater proportion of food sales in the overall mix. General merchandise gross margin was level on the year at 52.6%, with further improvement in primary margin being offset by higher markdowns. Food gross margin was 0.1 percentage point lower than last year at 33.9% due to higher waste and the growth in franchised Simply Food stores which generate a lower gross margin. The net operating margin for franchised stores is above that achieved by owned Simply Food stores.

UK operating costs were up 4.3% to £2,630.0m. A breakdown of UK operating costs is shown below.

	52 weeks ended		% increase/ (decrease)
	29 March 2008 £m	31 March 2007 £m	
Retail staffing	834.8	819.5	+1.9
Retail occupancy	841.4	750.4	+12.1
Distribution	383.8	329.7	+16.4
Marketing and related	144.6	137.5	+5.2
Support	408.9	394.6	+3.5
Total before bonus	2,613.2	2,431.7	+7.5
Bonus	16.8	91.0	-81.5
Total including bonus	2,630.0	2,522.7	+4.3

Operating profit

	UK Retail	International Retail
2008	£972.9m	£116.4m
2007	£956.5m	£87.5m
Total	+1.7%	+33.0%

Despite the step up in space growth, retail staffing costs were well controlled, in response to the more difficult trading environment experienced over the year. Our mystery shop scores, which measure the quality of service in stores, continue to be very strong. The increase in retail occupancy costs reflects both space growth and the increased depreciation related to the modernisation programme. Increase in distribution costs reflects growth in both general merchandise and food volumes, as well as furniture order deliveries. Growth in marketing expenditure reflects higher in-store marketing costs due to new store openings and modernisations. Support costs, which include non-store related overheads, were well controlled.

We will be paying a bonus of £16.8m for 2007/08 (last year £91.0m). The level of bonus payment reflects performance against our original operating plan.

The UK operating profit includes a contribution of £28.3m (last year £19.5m) from the Group's continuing economic interest in M&S Money.

International operating profit before property disposals was £116.4m, up 33.0%, reflecting the strong sales performance of the business. Owned store operating profits decreased by 2.0% to £44.5m, largely due to the Republic of Ireland where operating results were affected by new store opening costs, and start up losses relating to Taiwan. Franchise operating profits grew by 70.8% to £71.9m reflecting strong sales and margin performance.

Profit on property disposals

Profit on property disposals was £27.0m (last year £1.9m). This relates to proceeds from the sale of stores where we have relocated, or plan to relocate at a later date.

Exceptional items

The exceptional pension credit of £95.0m (last year £nil) has arisen due to the changes made in the terms of the UK defined benefit plan relating to how members' future benefits build up from 1 October 2007. To the extent that members have chosen the option to limit their future pensionable salary increases in line with inflation, there is a past service credit to reflect the impact of adjusting their projected final pensionable salaries.

Net finance costs

Net interest payable was up 15.8% at £113.8m (last year £98.3m) reflecting an increase in the average net debt for the year. Consequently, net finance costs before exceptional items were up 4.3% after pension finance income of £58.9m (last year £20.8m) and the unwinding of the discount on the partnership liability to the pension scheme. Despite widening credit spreads within the debt capital markets and rising short-term LIBOR rates the Group's average cost of funding remained level on the year at 5.9%.

Financial review

continued

Taxation

The taxation charge reflects a pre-exceptional effective tax rate of 27.0% for the full year (last year 29.4%). The decrease reflects a restatement of UK deferred tax liabilities resulting from the reduction in Corporation tax rates on 1 April 2008, and a prior year credit. The 2008/09 tax rate is expected to be 28.0%.

Earnings per share

Adjusted earnings per share from continuing operations, which excludes the effect of property disposals and exceptional items, increased by 7.9% to 43.6p per share. The weighted average number of shares in issue during the period was 1,671.3m (last year 1,688.6m).

Dividends

The Board is recommending a final dividend of 14.2p per share. This will result in a total dividend of 22.5p, an increase of 23.0%. This reflects a base uplift of 15% on the prior year dividend plus the growth in adjusted earnings per share. In 2008/09 the Board will return to its existing policy of growing dividends broadly in line with adjusted earnings per share.

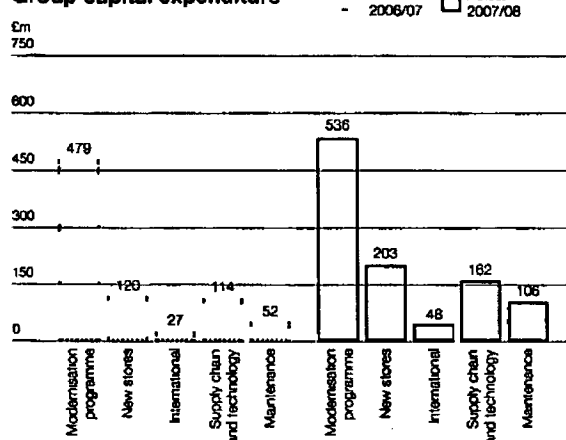
Share buy back

In November 2007 we announced our intention to purchase up to 10% of the Company's issued share capital, using the authority given by shareholders at the AGM in July 2007. As at 29 March 2008, we had bought back a total of c126m shares for cancellation, for a total consideration of £555.9m. This represents 7.4% of the shares in issue in July 2007. We intend to complete the 10% buy back programme during the summer of 2008.

Capital expenditure

Investing in the business continues to be a key part of our strategy. Capital expenditure for the year was £1,054.5m compared with £792.4m last year.

Group capital expenditure



The increased spend on the modernisation programme reflects a record 35% of our space being developed or modernised, including a number of significant projects such as Belfast, Edinburgh, London Colney, Braehead and Cheshunt. Capital expenditure on new stores was up to £203.1m reflecting the increase in new space coming on stream. We stepped up the investment in our supply chain and technology with the roll-out of the POS system in stores and investment in further distribution capacity.

Cash flow and net debt

The Group reported a net cash outflow of £917.5m (last year inflow £231.1m). Cash inflow from continuing operations decreased by £206.6m, reflecting a higher working capital outflow due to the timing of pension payments, the 2006/07 bonus, increased investment in inventories and leasehold prepayments in respect of new stores. Cash outflow on capital expenditure, net of disposals, was £927.4m (last year £710.5m) reflecting increased investment in our modernisation programme, as well as more aggressive new space growth. We generated £91.6m during the year from the disposal of properties.

On 28 February 2008, the Group acquired Board control and 50% of the issued share capital of the Mannopoulos Group, located in Greece, Bulgaria, Croatia, Romania, Serbia and Switzerland for cash consideration of £38.1m, transaction costs of £0.8m and net cash acquired of £2.0m. On 20 March 2008, the Group acquired 51% of the issued share capital of COMS a.s., located in the Czech Republic, Latvia, Lithuania and Slovakia for cash consideration of £10.6m, transaction costs of £0.8m and net cash acquired of £1.9m.

Pensions

At 29 March 2008 the IAS 19 net retirement benefit surplus was £483.5m (last year deficit £283.3m). The change is due to a £95m decrease in the liabilities arising from the change in the UK defined benefit plan, as well as the increase in the discount rate used to calculate the liability at the year end in accordance with the accounting standard. The year end discount rate, which was 6.8% (last year 5.3%), reflects corporate bond rates at the year end and has led to a significant reduction in the IAS 19 calculation of the pension liability for accounting purposes at 29 March 2008.

The partnership liability to the Marks & Spencer UK Pension scheme of £723.2m (last year £496.9m) relates to the amortising liability in respect of the obligations to the Marks & Spencer UK Pension Scheme. The increase in the liability is due to the decision by the Group to pre-fund £200m of its annual contributions to the pension scheme, by placing £400m of additional properties into the partnership established with the Pension Scheme in 2007. The impact of the transaction will be to increase the annual distribution out of the partnership to the pension scheme by £21.9m for the 14-year period from July 2009.

Group Directors' report

Business review

The Companies Act 1985 requires the Company to set out in this report, a fair review of the business of the Group during the financial year ended 29 March 2008, including an analysis of the position of the Group at the end of the financial year, and a description of the principal risks and uncertainties facing the Group (known as a 'Business review')

The information that fulfils the Business review requirements can be found in the following sections of this report. All the information detailed in these sections is incorporated by reference into this report and deemed to form part of this report

- Chairman's foreword on page 4,
- Chief Executive's statement on pages 5 to 8,
- Group Finance and Operations Director's statement on page 9,
- Financial review on pages 33 and 34,
- Principal risks and uncertainties on pages 44 and 45,
- Key performance indicators on pages 2 and 3, and
- Environmental, employee and social and community matters on pages 30 and 31 and within the How we do business report available on our website at marksandspencer.com/annualreport08

Pages 35 to 38 inclusive (together with the sections of the Annual report incorporated by reference) consist of a Group Directors' report that has been drawn up and presented in accordance with, and in reliance upon applicable English company law and the liabilities of the directors in connection with that report shall be subject to the limitations and restrictions provided by such law

Principal activities

Marks and Spencer Group plc is the holding company of the Marks & Spencer Group of companies (the 'Group'). We are one of the UK's leading retailers, with over 21 million people visiting our stores each week. We offer stylish, high quality, great value clothing and home products, as well as outstanding quality food, responsibly sourced from around 2,000 suppliers globally. We employ over 75,000 people in the UK and abroad, and have 622 UK stores, including Simply Food franchised stores, as well as an expanding international business.

Interests in voting rights

Information provided to the Company pursuant to the Financial Services Authority's (FSA) Disclosure and Transparency Rules (DTRs) is published on a Regulatory Information Service and on the Company's website. As at 6 May 2008, the Company had been notified under DTR5 of the following significant holdings of voting rights in its shares

	Ordinary shares	% of share capital	Nature of holding
Brandes Investment Partners, L P (21 03 07)	111,595,173	6.57%	Indirect Interest
Capital Research and Management Company (11 04 08)	86,833,000	5.47%	Indirect Interest
Legal & General Group plc (26 03 08)	72,771,104	4.57%	Direct Interest

Profit and dividends

The profit for the financial year, after taxation, non-equity dividends and minority interests amounts to £821.7m (last year £659.9m). The directors have declared dividends as follows

	£m
Ordinary shares	
Paid interim dividend of 8.3p per share (last year 6.3p per share)	140.1
Proposed final dividend of 14.2p per share (last year 12p per share)	217.9
Total ordinary dividend, 22.5p per share (last year 18.3p per share)	358.0

The final ordinary dividend will be paid on 11 July 2008 to shareholders whose names are on the Register of Members at the close of business on 30 May 2008.

Share capital and control

(i) Structure

The information in this section is given pursuant to section 992 of the Companies Act 2006 and is correct as at 29 March 2008.

The Company's authorised share capital was £800,000,000 divided into 3,200,000,000 ordinary shares of 25p each and there were 1,586,478,423 ordinary shares in issue. The ordinary shares are listed on the London Stock Exchange and can be held in certificated or uncertificated form.

The rights and obligations attaching to the Company's ordinary shares, in addition to those conferred on their holders by law, are set out in the Company's Articles of Association, a copy of which can either be viewed on our website marksandspencer.com/thecompany or obtained by writing to the Company Secretary, or from Companies House in the UK. The holders of ordinary shares are entitled to receive the Company's report and accounts, to attend and speak at general meetings of the Company, to appoint proxies and to exercise voting rights.

Changes to the Company's Articles must be approved by special resolution of the Company. New Articles are being proposed at this year's Annual General Meeting (AGM) which include a number of changes, some of which may impact on the rights, obligations, restrictions on transfer or voting rights attaching to those shares. Explanatory notes relating to these changes are included in the appendix to the Notice of Meeting booklet which accompanies this report.

Group Directors' report

continued

The Board is responsible for the management of the business of the Company and may exercise all the powers of the Company subject to the provisions of relevant statutes and the Company's Memorandum and Articles of Association. For example, the Articles contain specific provisions and restrictions regarding the Company's power to borrow money, provisions relating to the appointment of directors, subject to subsequent shareholder approval, delegation of powers to a director or secretary or committees of one or more persons, and subject to certain exceptions, a director shall not vote on or be counted in a quorum in relation to any resolution of the Board in respect of any contract in which he/she has an interest which he/she knows is material. There are no known arrangements under which financial rights are held by a person other than the holder of the shares. Shares to be acquired through the Company's share plans rank equally with the shares in issue and have no special rights. As far as the Company is aware, there are no persons with significant direct or indirect holdings of voting rights in the Company other than as set out in the paragraph entitled 'Interests in voting rights' on page 35.

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 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 between the Company and various banks dated 13 August 2004 contains a provision such that, upon a change of control event, unless new terms are agreed within 60 days, the facilities under that agreement will be cancelled with all outstanding amounts becoming immediately payable with interest, and
- 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.

The Company does not have agreements with any director or employee that would provide compensation for loss of office or employment resulting from a takeover except that provisions of the Company's share schemes and plans may cause options and awards granted to employees under such schemes and plans to vest on a takeover.

(ii) Issue of new ordinary shares

During the period, 12,447,224 ordinary shares in the Company were issued as follows:

- 114,556 shares under the terms of the 1997 Executive Share Option Scheme at prices between 358p and 557p,
- 66,030 shares under the terms of the 2000 Executive Share Option Scheme at prices between 215p and 350p,
- 2,054,623 shares under the terms of the 2002 Executive Share Option Scheme at prices between 270p and 353p, and
- 10,212,015 shares under the terms of the United Kingdom Employees' Save As You Earn Share Option Scheme at prices between 156p and 559p.

(iii) Purchase of ordinary shares

The Company was authorised by shareholders, at the July 2007 AGM, to purchase in the market up to 170 million shares, representing 10% of the Company's issued share capital, as permitted under the Company's Articles. The Company engages in share buy backs to create value for the shareholders, when cash flow permits and there is not an immediate alternative investment use for the funds. The Company announced on 6 November 2007 that it would begin a share buy back programme to purchase up to 10% of the Company's issued share capital. Since then and up to 19 May 2008, the date of this report, 127,017,902 of the Company's ordinary shares, with a nominal value of 25p each, were bought back and cancelled, representing 7.5% of the Company's issued share capital at 10 July 2007, the date of the 2007 AGM. An up-to-date summary of all transactions is available on our website. This standard authority is renewable annually and approval will be sought from shareholders at the 2008 AGM to renew for another year. It is the Company's present intention to cancel any shares it buys back, rather than hold them in treasury.

Board of directors

The membership of the Board and biographical details of the directors are given on page 32 and are incorporated into this report by reference.

Martha Lane Fox was appointed to the Board as a non-executive director on 1 June 2007. Jack Keenan retired from the Board on 10 July 2007.

On 10 March 2008 the Company announced a number of Board and senior management changes. Lord Burns will retire as Chairman with effect from 1 June 2008. Sir Stuart Rose will be appointed Executive Chairman from 1 June 2008.

Kate Bostock was appointed to the Board as an Executive Director of Clothing and Steven Esom was appointed to the Board as Executive Director of Food on 10 March 2008. Details of these changes are set out on page 39 of the Corporate governance statement and are incorporated into this report by reference.

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 and the secretary 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 29 March 2008 and remain in force, in relation to certain losses and liabilities which the directors (or secretary) may incur to third parties in the course of acting as directors (or secretary) or employees of the Company or of any associated company.

Directors' interests

The beneficial and non-beneficial interests of the directors and connected persons in the shares of the Company are shown on page 52. Options granted under the Save As You Earn (SAYE) scheme and Executive Share Option Schemes are shown on pages 54 and 55. Further information regarding employee share schemes is given in note 12 to the financial statements.

Related party transactions

Internal controls are in place to ensure that related party transactions involving directors, or their connected parties, are conducted on an arm's length basis.

Directors' responsibilities

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

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

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

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

In addition, the directors are responsible for maintaining adequate accounting records and sufficient internal controls to safeguard the assets of the Group and to prevent and detect fraud or any other irregularities, as described more fully in the Corporate governance statement on page 46.

Directors' responsibility statement pursuant to DTR4

The directors confirm that, to the best of their knowledge

(a) the Group and Company financial statements in this report, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, IFRIC interpretations and those parts of the Companies Act 1985 applicable to companies reporting under IFRS, give a true and fair view of the assets, liabilities, financial position and profit of the Group taken as a whole, and

(b) the management report contained in this report includes a fair review of the development and performance of the business and the position of the Company and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face.

Audit information

Each director confirms that, so far as he/she 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/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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 Chief Executive broadcasts at key points in the year to all head office employees and store management. These are supplemented by our employee publications including Your M&S magazine and DVD presentations. More than 3,500 employees elected onto Business Involvement Groups across every store and head office location 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.

The thirteenth meeting of the European Council took place last July. This Council provides an additional forum for informing, consulting and involving employee representatives from the countries in the European Community.

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

Share schemes are a long-established part of our total reward package, encouraging and supporting employee share ownership. In particular, over 25,000 employees currently participate in Sharesave, the Company's all employee Save As You Earn scheme. Full details of all schemes are given on pages 49 and 50.

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 our M&S Retirement Plan.

Equal opportunities

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

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

Group Directors' report

continued

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

Employees with disabilities

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

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

Creditor payment policy

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

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

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

- general merchandise payments are received between 16 and 23 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 Marks and Spencer plc for the year ended 29 March 2008 were 15.3 days, or 10.2 working days (last year 14.7 days, or 9.8 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 properties, at 29 March 2008 exceeded their net book value (including prepayments in respect of leasehold land) of the fixed asset and leasehold properties by approximately £1.0bn.

Charitable donations

During the year, the Group made charitable donations to support the community of £15m (last year £13.9m). These principally consisted of cash donations of £5.4m (last year £3.8m) which includes our 'Marks & Start' community programme, Breakthrough Breast Cancer, Save The Children, World Wildlife Fund, and local community donations, £1.9m (last year £3m) of employee time, principally on Marks & Start and school work experience programmes, and stock donations of £7.5m (last year £6.6m) to a variety of charities including Shelter, FareShare and The Birth Defects Foundation.

Political donations

It is our policy not to make donations for political purposes in the UK, to EU political parties or to incur EU political expenditure. Accordingly, the Company and its subsidiaries did not give any money for political purposes in the UK nor did they make any donations to EU political organisations or incur any EU political expenditure during the year.

Under the provisions of the Political Parties, Elections and Referendums Act 2000, shareholder authority is required for political donations to be made or political expenditure to be incurred by the Company or any of its subsidiaries in the EU and disclose any such payments in the Annual report. The legislation gives a wide definition of what constitutes political donations and political expenditure, including sponsorship, subscriptions, payment of expenses, paid leave for employees fulfilling public duties and support for bodies representing the business community in policy review or reform.

At the 2006 AGM shareholders gave a limited authority (£100,000) to the Company and each of the six principal employing companies to make political donations or to incur political expenditure in the EU (which would not ordinarily be regarded as political donations) as a precautionary measure, to allow the Company to continue supporting the community and such organisations without inadvertently breaching the legislation. This authority will expire in 2010.

Going concern

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

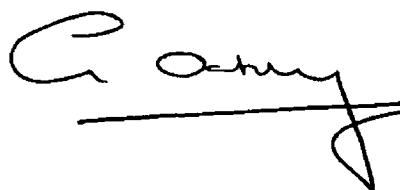
Auditors

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 2008 AGM.

Annual general meeting

The AGM of Marks and Spencer Group plc will be held at the Royal Festival Hall, London on 9 July 2008. The Notice is given, together with explanatory notes, in the booklet which accompanies this report.

By order of the Board
Graham Oakley, Group Secretary
London
19 May 2008



Corporate governance statement

The Board is committed to achieving success for the Company by building a sustainable business for the long term, generating shareholder value through consistent profitable growth whilst making sure that our customers can always trust us to do the right thing. This statement explains our governance policies and practices and provides insight into how the Board and management run the business for the benefit of shareholders. The governance rules which apply to all UK companies listed on the London Stock Exchange are found in the Combined Code on Corporate Governance which was updated by the Financial Reporting Council in June 2006 (the 'Code'). A detailed account of how the Company has applied the Code's principles and how we comply with its provisions can be found on our website at marksandspencer.com/thecompany

The Board

The Board's role is to

- provide entrepreneurial leadership of the Company within a framework of prudent and effective controls which enables risk to be assessed and managed,
- set the Company's strategic aims, ensuring that the necessary financial and human resources are in place for the Company to meet its objectives and review management performance, and
- set the Company's values and standards and ensure that its obligations to its shareholders and others are understood and met

All directors are individually briefed on appointment, on the duties they owe as directors to the Company. During the year, the directors have been briefed on their new statutory duties as set out in the Companies Act 2006, which came into effect on 1 October 2007. The central duty is the duty to act in good faith and in a way most likely to promote the success of the Company for the benefit of its members as a whole. In fulfilling this duty, directors should have regard (amongst other matters) to the likely consequences of any decision in the long term, the interests of employees, the need to foster business relationships with suppliers, customers and others, the impact of operations on the community and the environment, the desirability of maintaining a reputation for high standards of business conduct, and the need to act fairly between members of the Company.

The non-executive directors play a key governance role in protecting shareholders' interests. They are independent and bring an external dimension to the Board, whilst complementing the skills and experience of the executive directors through their range of knowledge, experience and insight from other sectors.

In January 2007 we announced Plan A, our business wide 'eco plan' setting out our ambitions to change the way we operate over the next five years. We are committed to our principles of Quality, Value, Service, Innovation and Trust. Trust is earned from others as a result of our commitment to long-held values and the way we behave. Our Code of Ethics is available on our website. It outlines the behaviours that M&S expects from its employees, whether they are dealing with our customers, suppliers, shareholders or colleagues. This includes acting in a professional manner with honesty and integrity at all times and following Company policies and

procedures. It also sets out guidelines on the environment, fraud and financial reporting, the management of conflicts of interest and how to raise concerns about possible improprieties in financial reporting or other matters. Senior managers sign their acceptance of the Code of Ethics each year and ensure it is applied in their areas of responsibility.

New Board structure

On 10 March 2008 we announced Board and senior management changes. We stated that Lord Burns would stand down as Chairman from 1 June 2008, when Sir Stuart Rose would be appointed Executive Chairman.

On 3 April 2008 Lord Burns wrote to shareholders setting out the detailed reasons behind the Board's decisions. A copy of this letter is available on our website. The Board has taken this decision, cognisant of its prime objective to ensure the Company's ongoing commercial success, and has put in place balancing controls to mitigate the governance concerns

- limited period of appointment of combined Chairman and Chief Executive until July 2011,
- appointment of Sir David Michels as Deputy Chairman,
- clear specification of duties of Executive Chairman and Deputy Chairman to ensure proper division of responsibilities and balance of power,
- appointment of two new executive directors and increased responsibility for the Group Finance and Operations Director,
- recruitment of an additional non-executive director to ensure a majority of independent directors on the Board. Following that appointment, the Board will consider the appointment of a further non-executive, and
- annual voting by shareholders for Sir Stuart Rose's reappointment as a director starting at the 2008 AGM.

The Board unanimously believes that the overall arrangements represent a sensible way forward and provide a sound transitional governance structure leading to the appointment of a new Chairman and separate Chief Executive by summer 2011. The new structure will ensure continuity of leadership, strengthen the Board and streamline the organisation. This will focus everyone on business performance during a period of significant trading uncertainty and it addresses investor concerns over succession.

Consultation with shareholders

The Code states that "If exceptionally a Board decides that a Chief Executive should become Chairman, the Board should consult major shareholders in advance and should set out its reasons to shareholders at the time of the appointment and in the next annual report."

In the period leading up to the announcement on 10 March 2008 of the Board and senior management changes, the Board considered how best to communicate with shareholders. The changes proposed as part of the new governance and management structure were wide-ranging and not only included the appointment of the Executive Chairman and Deputy Chairman but two new Board appointments, the extension of the Finance Director's role and a large number of senior management appointments, as well as news of the departures of several members of the senior management team.

Corporate governance statement

continued

In light of these proposed changes and their sensitivities the Board was concerned about the risk of leaks and did not consult major shareholders in advance. The Board was unanimous and clear that the proposed changes, taken as a whole, were in the interests of shareholders, customers and employees. The Board was also clear that whatever consultation was undertaken in advance of an announcement, its deliberations would nonetheless be subject to comment and scrutiny. The Board also knew that it would, rightly, be obliged under the Code to explain why it was proposing to combine the Chairman and Chief Executive roles and to answer questions from any shareholders with concerns.

Since the announcement, Lord Burns has consulted with a number of principal investors and shareholder representative bodies and he and Sir David Michels have met with those who had requested a meeting. A letter was also sent to all shareholders on 3 April 2008 setting out the detailed reasons behind the Board's decisions.

Division of responsibilities

The Board has reviewed and agreed a clear specification of duties under the new Board structure to ensure a proper division of responsibilities and balance of power. The Deputy Chairman will have joint responsibility with the Executive Chairman, for the agenda and the overall Board structure and composition. He will chair the Nomination Committee, provide

leadership for the non-executive directors, be responsible for monitoring Board effectiveness and lead on corporate governance issues. Sir David Michels has committed to spend sufficient and significant time in his role as Deputy Chairman. He is resigning from the Board of The British Land Company PLC and resigned from RAB Capital PLC on 18 April 2008 in order to ensure that he can fulfil his commitments.

In addition, the non-executive directors will meet independently at least twice a year to keep the governance structure under review to ensure appropriate safeguards are in place to protect shareholder interests.

Board balance and independence

On 29 March 2008 the Board comprised 11 directors: the Chairman, Chief Executive, four executive directors and five non-executive directors. On 1 June 2008 the Board will comprise 10 directors: the Executive Chairman, non-executive Deputy Chairman, four executive directors and four further non-executive directors. A full list of the directors, with details of their biographies and committee membership, is given on page 32.

The Board concludes that each non-executive director is independent in character and judgement and will keep under review whether there are relationships or circumstances which are likely to affect, or could appear to affect, independence.

The principal roles of the Executive Chairman, Deputy Chairman and non-executive directors are set out below.

Executive Chairman

- to ensure the Board achieves its full potential to build a sustainable business for the long term, generating shareholder value through consistent, profitable growth whilst making sure that our customers always trust us to do the right thing, and
- to act within delegated authority from the Board for all aspects of the management of the Group, which includes developing appropriate business strategies for Board approval and achieving timely and effective implementation.

During the period of combined Chairman and Chief Executive to keep the Deputy Chairman regularly informed on all matters that may be of importance to the Group, including its current performance and progress, and to monitor performance of the executive directors in their increased responsibilities, whilst focusing on the strategic growth areas of the business.

Deputy Chairman and Senior Independent Director

- to lead on all governance issues including conducting the annual review of Board effectiveness and ensuring that the performance of individual directors is kept under review, and
- to provide a communication channel between the Chairman and non-executive directors and, when required, principal shareholders including representative bodies.

During the period of combined Chairman and Chief Executive to monitor the effectiveness of the role of Executive Chairman, independently to lead the succession process for the appointment of a Chief Executive by 2011, and to maintain contact with principal investors and representative bodies on a regular basis, keeping the Board informed.

Non-Executive Directors

- to bring an independent and external dimension to the Board's activities and play their part in relation to strategy, performance, risk and people, and
- within the spirit of partnership and mutual respect on the unitary board, to support, constructively challenge and monitor the executive team.

During the period of combined Chairman and Chief Executive to keep the governance structure under review to ensure appropriate safeguards are in place to protect shareholder interests.

Information and professional development

The Chairman ensures that the directors receive accurate, timely and clear information. They receive regular updates on business performance against the annual operating plan and investment decisions, together with business reports and presentations from senior management at Board meetings. Directors are encouraged to update their skills, knowledge and familiarity with the Group through their initial induction, ongoing participation at Board and Committee meetings, meeting employees at store locations and elsewhere and are kept up-to-date on the views of customers and shareholders. The Board is regularly updated on governance and regulatory matters.

Graham Oakley as Group Secretary acts as a sounding board to the Chairman and individual directors. He supports the Chairman in ensuring the Board functions effectively and fulfils its role. He is secretary of the Audit, Remuneration and Nomination Committees and also heads the Corporate Governance Group, which supports the Board and its committees, as well as providing advice on a range of issues to commercial colleagues. From 1 June 2008 the Group Secretary will have an additional reporting line to the Deputy Chairman to assist him in fulfilling his governance duties.

There is an established procedure whereby the Board or any of its Committees may take independent professional advice when appropriate. Any individual director, wishing to do so in the furtherance of their duties, may also take independent professional advice through the secretary at the Company's expense. Directors are granted an indemnity from the Company in respect of liabilities incurred as a result of their office. In respect of those matters for which they cannot be indemnified, the Company maintains appropriate liability insurance for the benefit of directors.

Board performance

The performance of the Board is a vital component of the Group's success and the Board is keen to ensure that the annual review of its performance builds on the previous year's results to ensure a continuous process. In September 2007 the Board approved an action plan based on the key themes from the 2006/07 review of process, people, strategy and performance measures. The action plan also referred to the new statutory directors' duties, to address these as an integral part of Board performance. The Board agreed to conduct the 2007/08 review 'in house' and that it be led by Lord Burns. In January 2008 each director completed a questionnaire to rate collective performance over some 20 questions with free text boxes for comments. The Chairman then reviewed an unattributed executive summary, highlighting key outcomes which he has subsequently discussed with individual directors.

Some of the outcomes achieved in 2007/08 following the 2006/07 review

- a greater focus on the long-term growth prospects of the business leading to the announcement in November 2007 of our priorities for the next five years. Whilst continuing to invest in our core business we have ambitious plans for our UK property portfolio, M&S Direct and International businesses and Plan A,
- regular reviews of the bench strength of senior management and future skills and composition of the Board, leading to the new governance and management structures announced on 10 March 2008. Succession planning will continue to be a priority and from 1 June 2008 Sir David Michels, Deputy Chairman, will chair the Nomination Committee, and
- introduction of an online Board portal to provide a more secure, efficient and flexible method of delivering Board papers and easy access to information for induction and ongoing development.

From 1 June 2008 Sir David Michels as Deputy Chairman will lead the Board's review of its performance. He will also hold meetings with the non-executive directors, without the executive directors present, to monitor and reflect on the effectiveness of the new governance structure and to appraise the performance of the Executive Chairman.

Individual performance

The performance of the executive directors was reviewed individually by the Chief Executive against set objectives. Remuneration is directly linked to these reviews and determined by the Remuneration Committee. Similarly, the Chief Executive's performance was reviewed by the Chairman. The Senior Independent Director reviewed the Chairman's performance against a set of previously agreed objectives. The performance of the non-executive directors was reviewed individually by the Chairman. This year's questionnaire also invited each director to comment on the individual performances of themselves, other directors and the Chairman.

Under the new Board structure from 1 June 2008 the Deputy Chairman will review the performance of the Executive Chairman, taking into account the views of the non-executive directors.

Committee performance

The process for reviewing the effectiveness of the Committees in 2007/08 has been to combine ongoing reviews with a simple questionnaire led by each of the respective chairmen. The Audit and Remuneration Committees undertook a review looking at their methods of operation and processes and combined this with the use of questionnaires which were conducted in March 2008. An executive summary was produced for the Chairman of each Committee which they discussed with their respective Committee members.

Succession planning and senior leadership development

During the year successional planning reviews were held by the Board and the Nomination Committee resulting in key appointments to the Board and senior management. We made important organisational changes, promoting existing talent and bringing in new people, to ensure we have the right skills in key areas of focus over the next three years. Senior leadership development remains a priority.

Corporate governance statement

continued

Board committees

The principal Board committees are the Audit, Remuneration and Nomination Committees. The written terms of reference of each committee can be found on our website

Audit Committee

The Audit Committee comprises four independent, non-executive directors: Jeremy Darroch (Chairman), Martha Lane Fox, Steven Holliday and Sir David Michels. Martha joined the Board and became a member of the Committee on 1 June 2007 to replace Jack Keenan who retired on 10 July 2007.

The Audit Committee assists the Board in fulfilling its oversight responsibilities and its primary role is to monitor the integrity of the financial statements and other information to shareholders, to review the systems of internal control and risk management, to maintain an appropriate relationship with the Company's external auditors, and to review the effectiveness and objectivity of the audit process.

It met four times during the year reviewing a number of internal audits relating to key business processes and the principal risks and uncertainties facing the Group. The Committee received updates on the governance process around business change initiatives and reviewed the Code of Ethics and whistleblowing returns. Private meetings have been held separately with the external auditors and internal audit.

The Board has satisfied itself that at least one member of the Audit Committee has recent and relevant financial experience and is confident that the collective experience of the members enables them to act as an effective Audit Committee. The Committee also has access to the financial expertise of the Group and its auditors and can seek further professional advice at the Company's expense, if required.

The Board has appointed a new Head of Internal Audit and Risk, Claire Combes, who joined the Company on 6 May 2008. Following the departure on 31 July 2007 of the previous Head of Internal Audit, John Federer, the function has been led by the two Audit Managers who have had direct access to the Audit Committee Chairman.

The Committee keeps under review the independence and objectivity of the external auditors, PricewaterhouseCoopers LLP ('PwC'), including the review of any audit fee proposals and non-audit fees. An engagement and fee approvals process is in place which requires prior approval from the Committee for certain engagements. On occasions, the nature of non-audit advice may make it more timely and cost-effective to select PwC, who already have a good understanding of the Group. PwC may also be appointed for consultancy work, but only after rigorous checks, including competitive tender, to confirm they are the best provider. PwC is also subject to professional standards which safeguard the integrity of the auditing role performed on behalf of shareholders. Arrangements have been made, in conjunction with PwC, for audit partner rotation in accordance with the recommendations of the Auditing Practices Board. The lead audit engagement partner, Ranjan Srisandan, has been in place since 2003/04 and is being succeeded by Stuart Watson with effect from

2008/09. As authorised by shareholders at the AGM on 10 July 2007, the Audit Committee determines the level of remuneration for the external auditors on behalf of the Board. Details of this year's fees are given in note 4 to the financial statements.

Remuneration Committee

The Remuneration Committee comprises four independent non-executive directors: Louise Patten (Chairman), Martha Lane Fox, Steven Holliday, and Sir David Michels. Martha joined the Board and became a member of the Committee on 1 June 2007 to replace Jack Keenan who retired on 10 July 2007. It met five times during the year.

The Remuneration Committee's primary role is to recommend to the Board the remuneration strategy and framework, giving due regard to the financial and commercial health of the Company and to ensure that executive directors and senior management are fairly rewarded for their individual contributions to the Company's overall performance.

The remuneration of the non-executive directors is determined by the Chairman and the executive directors. The Remuneration report is set out on pages 48 to 55 as required by the Directors' Remuneration Report Regulations 2002.

Nomination Committee

The Nomination Committee comprises Lord Burns (Chairman), Sir Stuart Rose and all five independent non-executive directors: Jeremy Darroch, Martha Lane Fox, Steven Holliday, Sir David Michels and Louise Patten. Martha joined the Board and became a member of the Committee on 1 June 2007 to replace Jack Keenan who retired on 10 July 2007. From 1 June 2008 Sir David Michels, Deputy Chairman, will chair the Committee to replace Lord Burns who will retire on that date.

The Nomination Committee's primary role is to ensure that appropriate procedures are in place for the nomination, selection, training and evaluation of directors and for successional plans. It reviews the Company's Board structure, size, composition and successional needs, thereby keeping under consideration the balance of membership and the required blend of skills, knowledge and experience of the Board. Appointments are made on merit and against objective criteria to ensure that the Board maintains a balance of skills and experience.

It met twice formally during the year and succession planning sessions were held by the Board and the Nomination Committee to consider Board and senior management changes. Under the Company's Articles of Association, all directors seek election at their first Annual General Meeting following appointment and all directors are required to offer themselves for re-election at least every three years. Under the new Board structure from 1 June 2008 we have announced that Sir Stuart Rose will retire and seek re-election by shareholders on an annual basis, commencing in 2008, rather than on the usual three-year cycle.

On 10 March 2008 we announced the appointment with immediate effect of two new executive directors, Kate Bostock and Steven Esom, as well as changes to the senior management team. The Board was keen to ensure a proper mix of top talent, combining new recruits and existing employees.

Consideration was given when recruiting below Board level as to whether further progression on the Board was possible, as demonstrated by the promotion of two new executive directors and the increased responsibility given to Ian Dyson as Group Finance and Operations Director

On 22 May 2007 we announced the appointment of a new non-executive director, Martha Lane Fox, with effect from 1 June 2007. This followed a search by an external search consultancy commissioned by the Nomination Committee. The candidates were shortlisted by the Chairman and the Chief Executive and the preferred candidate then seen by a wider group of directors. A search led by Sir David Michels on behalf of the Committee is currently under way for a new non-executive director which is being conducted through an external search consultancy.

Attendance

The following table sets out the number of meetings of the Board and its governance committees during the year and individual attendance by Board and committee members at those meetings. Directors who were unable to attend Board or committee meetings reviewed the relevant papers and provided comments prior to the meeting to the Chairman, or Committee Chairman, as appropriate.

Name of Director	Group Board		Audit Committee		Remuneration Committee		Nomination Committee	
	A	B	A	B	A	B	A	B
Lord Burns, Chairman	9	9	–	–	–	–	2	2
Sir Stuart Rose, Chief Executive	9	9	–	–	–	–	2	2
Executive Directors								
Kate Bostock (appointed 10 March 2008)	1	1	–	–	–	–	–	–
Ian Dyson	9	9	–	–	–	–	–	–
Steven Esom (appointed 10 March 2008)	1	1	–	–	–	–	–	–
Steven Sharp	9	9	–	–	–	–	–	–
Non-Executive Directors								
Jeremy Darroch	9	9	4	4	–	–	2	2
Martha Lane Fox (appointed 1 June 2007) ¹	7	6	3	2	3	2	1	–
Steven Holliday ²	9	8	4	3	5	4	2	2
Jack Keenan (retired 11 July 2007)	3	3	1	1	2	2	1	1
Sir David Michels ³	9	6	4	2	5	3	2	2
Louise Patten	9	9	–	–	5	5	2	2

A = Maximum number of meetings the director could have attended

B = Number of meetings the director actually attended

¹ Martha Lane Fox was unable to attend meetings of the Board on 8 February 2008, the Audit and Remuneration Committees on 27 February 2008 and the Nomination Committee on 29 February 2008 as she was in hospital.

² Steven Holliday was unable to attend meetings of the Audit and Remuneration Committees on 15 May 2007 and the Board on 5 November 2007 due to overseas commitments with National Grid plc.

³ Sir David Michels was unable to attend meetings of the Board on 9 and 21 May and 5 November 2007, the Audit Committee on 15 May and 31 October 2007 and the Remuneration Committee on 15 and 21 May 2007 due to overseas business commitments already planned prior to his appointment to the M&S Board.

Accountability and audit

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

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

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

Corporate governance statement

continued

Risk assessment

Every six months the Board reviews the Group Risk Profile – the tool that drives risk assessment and action planning. This is supported by an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. As an integral part of planning and review, managers from each business area and major projects

- identify the risks to their plans,
- evaluate the risks using likelihood and impact, and
- document the actions being taken to manage those risks

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

Principal risks and uncertainties

There are risks and uncertainties which could impact the Group's long-term performance. The risk assessment process is designed to identify, manage and mitigate business risk. The table below gives examples of activities across Group functions to mitigate against risks and uncertainties identified. The Board considers that these are the most significant risks to achieving business goals. The risks listed do not comprise all those associated with Marks & Spencer and are not set out in any order of priority. Additional risks and uncertainties not presently known to management, or currently deemed to be less material, may also have an adverse effect on the business.

Risk	Impact	Examples of mitigating activities
PRODUCT We aim to provide a wide choice of great value, high quality clothing, food and home products, which are all sourced and made responsibly		
Clothing		
We fail to maintain clothing market share through growth of space and focus on product in the face of increased competition in tougher trading conditions	Adverse effect on financial results	<ul style="list-style-type: none"> • New and better product, exploring areas of opportunity • Tracking of customer perceptions of product • A supply base that enables future growth with emphasis on best value and speed to market • New and better space offering to make clothing more accessible to our customers • Store specific cataloguing and effective stock management to put the right stock in the right stores for our customers • Plan A initiatives, eg ethical sourcing
	Lost market share and customer loyalty	
See pages 11 to 15		
Food		
We fail to deliver profitable sales growth while maintaining an innovation gap over competitors	Adverse effect on financial results	<ul style="list-style-type: none"> • Continual product and technical innovation to maintain competitive advantage • Continued emphasis on fresh food credentials • Independent quality assessment of key food lines • Tracking of customer perceptions of product • A supply base that enables future growth and further strengthens our food credentials • Food more accessible to our customers through new owned and franchised stores • Plan A initiatives, eg differentiated raw materials
	Lost market share and customer loyalty	
See pages 17 to 19		

Principal risks and uncertainties continued

Risk	Impact	Examples of mitigating activities
PEOPLE As we continue to grow our business and invest for the future, it's important we keep strengthening our team at every level from shop floor through to management		
We fail to attract, develop and retain talent with the correct skills and capability for succession	Inability to develop and execute business plans Competitive disadvantage	<ul style="list-style-type: none"> • New senior management structure in place • A focus on senior leadership development and succession • Competitive reward packages • Buying Academies in head office and coaches in stores • Graduate recruitment and development • Employee communication • Tracking of employee satisfaction surveys • Tracking of customer perceptions of service
See pages 6 and 20 and 21		
M&S DIRECT We are further developing our M&S Direct business as an important part of our commitment to becoming a multi-channel retailer		
We fail to deliver sales growth by failing to meet customer expectations	Adverse effect on financial results Lost market share and customer loyalty	<ul style="list-style-type: none"> • Capability to grow sales via new products and new customers • A focus on improved order fulfilment and customer service
See pages 26 and 27		
INTERNATIONAL We have ambitious plans to grow our International business through expanding our franchise operation, entering into partnerships and developing wholly-owned businesses in emerging economies		
We fail to grow our International business successfully through franchise operations, partnerships or wholly-owned businesses	Adverse effect on financial results Damage to brand	<ul style="list-style-type: none"> • A focus on appropriate resource required to integrate new ventures • New operational and financial processes in place to support growth of International businesses • Strong relationships forged with key stakeholders
See pages 28 and 29		
PLAN A We launched our five-year 'eco plan' in January 2007 to address challenges across five areas climate change, waste, sustainable raw materials, fair partner and health		
We fail to deliver, measure or communicate performance against our Plan A commitments	Lost stakeholder trust and confidence Damage to brand	<ul style="list-style-type: none"> • Governance in place to achieve our commitments, including a new Director of Plan A • Performance reporting further developed • Plan A integrated into day-to-day operation including Plan A Champions throughout head office and stores • Open dialogue with stakeholders developing our mutual understanding of the challenges we face
See pages 30 and 31		

Corporate governance statement

continued

Internal control

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

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

These include

Plans and policies

- communication of the Group's strategy, objectives and targets,
- annual operating and capital plans and future projections,
- operating policies and procedures,
- clearly defined capital investment control guidelines,
- review of treasury policies by the Board, and
- review of social, environmental and ethical matters by the How we do business Committee.

Competent people

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

Monitor and control

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

Regulatory update

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

Assurance

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

- assessment of risk by reviewing evidence of risk assessment activity and a report from internal audit on the process undertaken,
- systems of internal control, primarily through approving the internal audit plan and reviewing its findings, reviews of the Annual and Interim financial statements and a review of the nature, scope and reports of the external audit,
- action plans taken, or to be taken, to remedy any significant failings or weaknesses identified, and
- action plans in place to manage significant risks.

The Audit Committee has completed its review of the effectiveness of the Group's systems of internal control during the year, which are in compliance with the Turnbull Guidance 2005. It confirms the necessary action plans to remedy identified weaknesses in internal control are in place and have been throughout the year.

Internal audit's work is focused on areas of priority as identified by the Group Risk Profile and in accordance with an annual audit plan approved each year by the Audit Committee and by the Board. The Board receives a full report from internal audit each year on the department's work and findings and regular interim updates on specific issues. The Audit Committee monitors and assesses the role and effectiveness of the internal audit function on behalf of the Board.

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

Relations with shareholders

Communication

We are committed to ongoing engagement with shareholders and have a well-established cycle of communication based on the Group's financial reporting calendar. This includes our preliminary results in May, Annual report in June, half year results in November and Interim management statements in January and July. Our website provides up-to-date information including simultaneous webcasts of our financial results and AGM presentations, regulatory announcements, Annual reports, corporate governance and share price information and answers to frequently asked questions. Following shareholder approval in July 2007, the website is now our principal means of communicating with investors.

Institutional investors

Our investor relations department is the focal point for contact with our institutional investors and is in regular contact with them as well as with analysts and brokers during the year. Our Chairman, Chief Executive and Group Finance and Operations Director play key roles in our relationship with major shareholders and the presentations of full and half year results are attended by all the executive directors. The Senior Independent Director is also available for shareholders as required. An investor relations summary is produced for each Board meeting and each year the Board receives feedback from independent advisers on institutional investor views of management and Company performance, based on the results of their extensive survey. From 1 June 2008 the Deputy Chairman will maintain contact with principal investors and representative bodies on a regular basis, keeping the Board informed.

Private investors

Private investors own a high percentage of our shares compared to most other large UK companies. The Board is also interested to know their views and we make a special effort to ensure communications and policies are appropriate to their needs. They can contact us in writing, by email at chairman@marks-and-spencer.com, or by telephone on 0845 609 0810 for shareholder queries and 0845 302 1234 for customer queries.

In January 2008 we consulted with shareholders on electronic communication – nearly 40,000 shareholders confirmed that they wished to continue to receive hard copy documents, such as the Annual report. The remainder will be notified when the Annual report is available on our website. However, all shareholders will continue to receive an AGM Notice of Meeting, together with key financial and governance information to enable them to vote.

Postage-paid topics cards are sent with the AGM Notice of Meeting giving shareholders further opportunity to make their views known to us. The three most frequently raised topics are addressed at the meeting and a summary of all comments is given to the Board and directors of each business unit.

Our registrars, Equiniti, continue to enhance their services for shareholders through their website at shareview.co.uk. This offers a number of capabilities ranging from electing to receive communications electronically to checking shareholdings and dividend information online.

Many shareholders are also customers and each year we send them Spend and Save vouchers to use in our stores. These are very popular, and in spring 2008 the offer was extended to technology products and online shopping.

Annual General Meeting

The AGM is an important event in our corporate calendar and is well attended by shareholders. Prior to the meeting an exhibition is hosted by our senior retail and business managers. The meeting commences with a business presentation and then the Chairman, Chief Executive and other members of the Board answer questions raised by shareholders. All directors are present, including the Chairman of the Audit, Remuneration and Nomination Committees. Shareholders are then invited to vote on the resolutions contained in the Notice of Meeting, which is sent to them at least 20 working days beforehand. The business presentation, voting results and a summary of the questions raised and answers given at the meeting are made available on our website.

In 2007 89.6% of the proxy votes received were lodged through the CREST system. We encourage private investors to register their vote before the meeting on the website at sharevote.co.uk or by proxy card.

Since 2004 voting at the meeting has been conducted by poll, using the electronic Votenow system, rather than on a show of hands. This gives a more democratic result as all shares represented at the meeting and those lodged before the meeting are included on a one share, one vote basis. Our registrars record all proxy votes received up to 48 hours prior to our AGM and report the votes 'For', 'Against' or 'Vote withheld' to the Chairman prior to the meeting. These votes are included in the indicative poll result screened at the meeting. The final results are announced via the London Stock Exchange. In 2007 votes cast represented 53.5% of the ordinary share capital. All resolutions were passed with votes 'For' resolutions ranging from 94.7% to 99.9%.

The next AGM will be held on Wednesday 9 July 2008 at the Royal Festival Hall in London. In addition to routine resolutions, shareholders will be asked to vote on the adoption of new Articles of Association enabling us to benefit from the recent changes brought about by the Companies Act 2006.

Compliance with the Combined Code

The Company complies with all the provisions of the Code with the following exceptions:

- throughout the year ended 29 March 2008 the Board did not fully consult major shareholders in advance of our announcement on 10 March that our Chief Executive would become Chairman from 1 June 2008 (A 2.2), and
- from 1 June 2008 the role of Chairman and Chief Executive will be exercised by the same individual (A 2.1) and our Chief Executive will become Chairman (A 2.2).

Our reasons for departure from the Code are set out on page 39.

Governance of the Group's pension schemes

The Group operates a defined benefit scheme for all employees with an appointment date prior to 1 April 2002 and a defined contribution scheme open to those joining the Company on or after 1 April 2002. More information is given in note 11 on pages 70 to 72.

The Board of the Pension Trust ('Trustee Board') manages the assets of the pension scheme which are held under trust separately from those of the Group. The Board comprises Tony Watson as independent Chairman and Law Debenture Trust as independent Trustee, together with five company representatives and five member representatives.

The Trustee Board has reviewed the external auditor appointment and appointed KPMG LLP in place of PricewaterhouseCoopers LLP with effect from February 2008.

The Trustee Board has also carried out a review of its own performance through questionnaire responses, one-to-one discussions and collective agreement of areas of focus for future development.

Remuneration report

This Remuneration report has been prepared on behalf of the Board by the Remuneration Committee. In all its activities, the Remuneration Committee has adopted the principles of good governance as set out in the Combined Code and complies with the Listing Rules of the Financial Services Authority, the relevant schedules of the Companies Act and the Directors' Remuneration Report Regulations 2002. These regulations require the Company's auditors to report on the 'Audited information' in the report and to state that this section has been properly prepared in accordance with the regulations. For this reason the report is divided into audited and unaudited information. The Remuneration report is subject to shareholder approval at the Annual General Meeting (AGM) on 9 July 2008.

Part 1: Unaudited information

Remuneration Committee

Who makes up the Remuneration Committee?

During 2007/08, the Committee comprised the following non-executive directors:

- Louise Patten (Committee Chairman),
- Martha Lane Fox (appointed on 1 June 2007),
- Steven Holliday,
- Sir David Michels, and
- Jack Keenan (retired on 10 July 2007)

There were five meetings of the Committee during the year under review and attendance at the meetings is detailed in the Corporate governance statement on page 43.

What is the remit of the Remuneration Committee?

The Committee has a remit covering the total remuneration of the executive directors of the Company, ensuring that the most talented individuals are recruited, motivated to deliver results and retained. The remit includes the following:

- setting the senior remuneration strategy and framework for the top levels in the organisation,
- ensuring that executive directors and senior managers are fairly rewarded for their individual performance and contribution to the overall Company results,

- reviewing and approving the remuneration and terms and conditions of employment, including any terminations, for executive directors and senior managers,
- approving the design and targets for any annual incentive schemes that include the executive directors and senior managers,
- agreeing the design and targets, where applicable, of all share incentive plans for approval by shareholders, and
- assessing the appropriateness and subsequently the achievement of performance targets related to any share incentive plan.

The Committee takes into account the financial and commercial health of the organisation when considering its approach to total remuneration. The Committee has appointed Hewitt New Bridge Street as external advisors and invites internal support from the Company Chairman, Chief Executive, Group Secretary and Head of Senior Remuneration. The Chairman and Chief Executive are not present for any discussions that relate directly to their own pay and benefit awards.

The Committee regularly reviews external data produced through a number of surveys and bespoke benchmarking data, including those published by Hewitt New Bridge Street, Monks PwC, Towers Perrin and Watson Wyatt.

What is our remuneration framework?

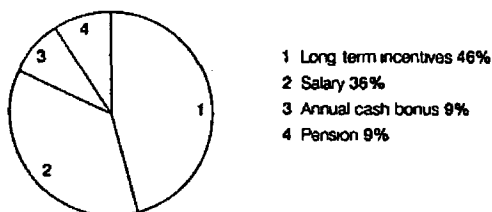
The remuneration framework is simple and transparent, aligning the reward of our executive directors and senior managers to that of shareholders through a package highly geared towards share incentive plans. The key components are:

- salary and benefits,
- Annual Bonus Scheme with a compulsory deferred share element, and
- Performance Share Plan (PSP)

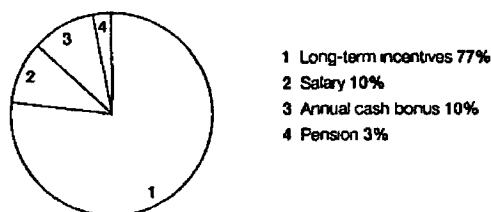
The following charts show the balance of the package split between pay at risk and fixed pay for on-target and maximum performance. The Committee considers that the balance of fixed and variable pay is appropriate to the external market.

Expected value of future annual remuneration package for executive directors

'On-target' performance



'Maximum' performance



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

What are the pay and benefits received by the Board? Chairman's remuneration

The Chief Executive and other members of the Board determine the Chairman's salary. It reflects the level of commitment and responsibility of the role. The fee has not increased since 1 April 2007 (£450,000, as reported in last year's Remuneration report). The Chairman used approximately 25% of his net fees to purchase shares in the Company up to and including March 2008.

The Chairman does not receive any other benefits except employee product discount and the provision of a driver and fleet vehicle.

Non-executive directors' remuneration

The fees for non-executive directors are determined by the Chairman and executive directors and are paid in cash. The levels are set to ensure the Company attracts individuals with the necessary key skills and experience, recognising the responsibility and time commitment required to complete the roles. The fees are not performance related and are not pensionable. The fees comprise:

- Basic annual fee £55,000
- Committee Chairman £12,000*
- Committee membership £6,000*

Audit and Remuneration Committees only

The emoluments table on page 53 reflects the fees paid during the year to each non-executive director. There are no other benefits except employee product discount.

Executive directors' remuneration

Salaries and benefits are determined by the Remuneration Committee. Basic salary is normally reviewed annually and any increase awarded from 1 January. The Committee takes into account a number of factors when reviewing these, including:

- salary levels in comparably-sized FTSE 100 companies and major retailers,
- economic climate, market conditions and Company performance,
- the level of pay awards in the rest of the business, and
- the role and responsibility of the individual directors.

As part of the annual review process, in January 2008, Sir Stuart Rose, Ian Dyson and Steven Sharp received an increase based on the above factors. No further increases have been made to Sir Stuart Rose or Steven Sharp as a result of the Board changes announced in March 2008. However, Ian Dyson received an additional increase due to his expanded responsibilities as Group Finance and Operations Director, effective 10 March 2008.

Kate Bostock and Steven Esom were both appointed to the Board on 10 March 2008 and their current salaries are shown together with all other executive directors in the Contract terms table on page 51.

All the executive directors receive a 25% salary supplement in lieu of pension. Life assurance for executive directors who are not in the Group's Pension Schemes is provided through a separate policy and the value of this benefit is included in the emoluments table, under Cash allowance and benefits on page 53.

Other benefits include a car or car allowance and driver and are shown as part of the Cash allowance and benefits in the emoluments table. Employee product discount is also received but no specific value is placed on this all-employee benefit.

What are the current short-term and long-term incentive schemes?

Annual Bonus Scheme – short-term incentive

Deferred Share Bonus Plan – long-term incentive

The Annual Bonus Scheme is reviewed each year and designed to drive profitability and sales across the whole organisation. The bonus potential for executive directors is 60% of salary for on-target performance and 250% of salary for maximum performance. There is a compulsory deferral of any bonus paid into shares for all senior managers. Further details of the Deferred Share Bonus Plan can be found in note 12 to the financial statements on page 75.

Bonus scheme outcome of 2007/08

The targets set for 2007/08 were extremely challenging in a very difficult trading year for retailers. As a result, the very stretching Corporate Profit Before Tax (PBT) target set at the start of the year was not reached and therefore the executive directors will not receive any bonus payment under this scheme in 2008. Some senior managers and other employees in Head Office and Retail will receive a bonus as they have delivered local sales and profit targets in accordance with the scheme rules.

Bonus scheme for 2008/09

The scheme remains in principle unchanged, with bonus potentials still at 60% to 250% of salary for executive directors. Sir Stuart Rose, Ian Dyson and Steven Sharp will continue to be measured entirely on PBT targets. Kate Bostock and Steven Esom will have bonus targets based 50% on PBT, with the remaining 50% based on the achievement of profit and sales in their respective business areas i.e. clothing and food.

Performance Share Plan (PSP) – Long-term incentive

This remains the primary long-term incentive for the 'Top 100' managers in the organisation. The plan normally allows for awards up to 200% of salary, although up to 400% of salary may be awarded to recognise exceptional performance or to address key retention issues.

Remuneration report

continued

The performance targets are based on adjusted earnings per share (EPS) over a three-year period. EPS has shown substantial growth over the time since the first grants were made in July 2005. The first awards under this plan will vest in full in July 2008 as the Company has significantly outperformed the challenging EPS targets that were set.

The Committee has reviewed the use of alternative performance measures but considers that EPS is still the most effective measure of management performance, in addition to being simple to understand and a transparent measure of the Company's success and shareholder return.

In 2007, four awards were made in excess of 200% of salary, recognising exceptional performance. The Committee is likely to award a very small number over 200% in 2008 to ensure retention of key individuals.

The targets for 2008 awards have been set by the Remuneration Committee following consultation with our 10 largest investors, in addition to the ABI and RREV. The principle of splitting the performance targets as adopted last year will continue, with any element of an award over 200% having a more stretching target. While the Company's financial performance continued to improve in 2007/08, and we are confident in its long-term growth prospects, the short-term economic outlook means that it is likely to be much more difficult to achieve such high growth in the next few years. To this end, the Committee considers that the EPS ranges set for the 2008 awards are at least as challenging as the previous EPS ranges were when they were set. Before any 2008 PSP awards in excess of 200% of salary vest, the Committee will first satisfy itself that it is reasonable to approve vesting of the awards, taking into account the Company's actual performance over the three-year performance period as well as EPS performance. The targets for all awards are

Award	Average Annual EPS Growth in excess of Inflation (RPI)		Adjusted EPS for start of scheme ¹
	20% vesting	100% vesting	
2005	8%	15%	22.2p
2006	5%	12%	31.4p
2007 ²	4%	10%	40.4p
2007 ³	4%	12%	40.4p
2008 ²	3%	6%	43.6p
2008 ³	3%	8%	43.6p

¹ The base EPS figure for 2005 Awards was 23.5p, which was the adjusted EPS figure for 2004/05 on a proforma basis. The figure has been restated to 22.2p as the Group is now reporting under IFRS. Full details of EPS are described in note 8 to the financial statements on page 68 of the Annual report.

² Awards up to 200% of salary.

³ Awards between 200% and 400% of salary.

Executive Share Option Scheme – Long-term incentive

No grants have been awarded under the Executive Share Option Scheme for the year under review. Whilst the Company can still make awards under the scheme adopted at the 2005 AGM, there is no intention currently to use the scheme on a regular basis. The Committee will review the use of the scheme and may grant awards if it is appropriate to do so.

The final outstanding options will vest in full in June 2008 having achieved their EPS targets. The targets were based on adjusted EPS growth measured from the date of grant to the most recent financial year end as follows:

- RPI plus an average of 3% per annum for 50% of each grant, and
- RPI plus an average of 4% per annum for the remaining 50% of each grant.

Executive directors (excluding Steven Esom) have options granted in 2004 under the 2002 scheme which met their targets in 2007 and are exercisable in full as shown in the table on page 55.

All-Employee Share Schemes – Long-term incentive

The Company has offered a Save As You Earn (SAYE) scheme called Sharesave since 1981. The scheme was renewed by shareholders at the 2007 AGM for a further 10 years. Executive directors can also participate in this scheme. Details of participation by executive directors in Sharesave are given in part 2 of this report.

The scheme is subject to HMRC rules which limit the maximum amount saved to £250 per month. When the savings contract is started, options are granted to acquire the number of shares that the total savings will buy when the contract matures, at a discounted price set at the start of the scheme. Options cannot normally be exercised until a minimum of three years has elapsed.

What are the current service contracts and terms of employment?

Chairman

Lord Burns was appointed Chairman on 11 July 2006, and will retire from the Board on 31 May 2008. His service agreement requires 12 months' notice from the Company. The agreement contains a phased payment clause in line with executive directors' contracts.

Deputy Chairman

Sir David Michels is appointed Deputy Chairman with effect from 1 June 2008, and will continue in his role as Senior Independent Director. On appointment to his new role, Sir David will have an agreement for service which requires six months' notice by either party (currently three months).

Non-executive directors

The non-executive directors have agreements with the Company for an initial three-year term, which are terminable on three months' notice by either party. Jack Keenan retired from the Board on 10 July 2007. Martha Lane Fox joined the Board on 1 June 2007.

Executive directors

Sir Stuart Rose is appointed Executive Chairman with effect from 1 June 2008.

All senior managers, including executive directors, have service contracts. These contracts can be terminated by the Company giving 12 months' notice and by the employee giving six months' notice. Sir Stuart Rose will remain on the same contract terms when he is appointed Executive Chairman.

The Company retains the right to terminate the contract of any executive director summarily, in accordance with the terms of their service agreement, on payment of a sum equivalent to the contractual notice entitlement of 12 months' salary and specified benefits. In the case of all current executive directors, the Company reserves the right on termination to make phased payments which are paid in monthly instalments and subject to mitigation. Entitlement to participate in share schemes ceases on termination.

Contract terms and current annual salaries/fees for all members of the Board

Name	Date of appointment	Notice period/unexpired term	Basic salary/fee ¹ £000	Committee member fee £000	Committee chair/SID fee £000	Current annual salary/fee £000
Chairman						
Lord Burns	01/10/05	12 mths/6 mths	450	–	–	450
Chief Executive						
Sir Stuart Rose	31/05/04	12 mths/6 mths	1,130	–	–	1,130
Executive directors						
Kate Bostock	10/03/08	12 mths/6 mths	500	–	–	500
Ian Dyson	27/06/05	12 mths/6 mths	675	–	–	675
Steven Esom	10/03/08	12 mths/6 mths	535	–	–	535
Steven Sharp	08/11/05	12 mths/6 mths	565	–	–	565
Non-executive directors						
Jeremy Darroch	01/02/06	3 mths/3 mths	55	6	12	73
Martha Lane Fox	01/06/07	3 mths/3 mths	55	12	–	67
Steven Holliday	15/07/04	3 mths/3 mths	55	12	–	67
Sir David Michels ²	01/03/06	3 mths/3 mths	55	12	12	79
Louise Patten	01/02/06	3 mths/3 mths	55	6	12	73

¹ From 1 January 2008 for Sir Stuart Rose and Steven Sharp and 10 March 2008 for Kate Bostock, Ian Dyson and Steven Esom.

² Sir David Michels' basic fee will increase to £245,000 per annum on 1 June 2008 on his appointment to Deputy Chairman. This fee is inclusive of all committee memberships and his continuing role as Senior Independent Director. In addition, the notice period for his agreement will increase to six months for both parties.

What is the shareholding policy for executive directors?

The current shareholding policy for executive directors was introduced from 1 June 2002. All executive directors are required to hold a defined percentage of salary (200% for Chief Executive and 100% for all other executive directors) within a five-year period from their date of appointment. The relevant salary is at date of appointment and the share market value is measured at the current date. Currently, all executive directors have either met, or are on target to meet, their required shareholding.

Remuneration report

continued

What are the directors' interests in the Company?

The beneficial interests of the directors and connected persons in the shares of the Company are shown below. Options granted under the SAYE scheme and the Executive Share Options Scheme and shares awarded under the Deferred Share Bonus Plan and Performance Share Plan are shown in Part 2 of this report. Further information regarding employee share option schemes is given in note 12 to the financial statements starting on page 75 of the Annual report.

There have been no other changes in the directors' interests in shares or options granted by the Company and its subsidiaries between the end of the financial year and 6 May 2008, one month prior to the Notice of the Annual General Meeting, other than that noted below in respect of Lord Burns. No director had an interest in any of the Company's subsidiaries at the beginning or end of the year.

Name	Ordinary shares as at 29 March 2008	Ordinary shares as at 1 April 2007 or at date of appointment
Kate Bostock	71,086	71,086
Lord Burns ¹	46,951	12,275
Jeremy Darroch	2,000	2,000
Ian Dyson	100,000	60,000
Steven Esom	24,360	24,360
Martha Lane Fox	15,000	—
Steven Holliday	2,500	2,500
Sir David Michels	28,750	4,000
Louise Patten	8,000	8,000
Sir Stuart Rose	750,416	500,416
Steven Sharp	83,643	28,473

¹ Lord Burns bought 3,856 shares on 1 April 2008 under the terms of his appointment, being the purchase of shares on a quarterly basis using approximately 25% of his net fee from the Company, increasing his shareholding to 50,807 ordinary shares.

What are the executive directors' external appointments?

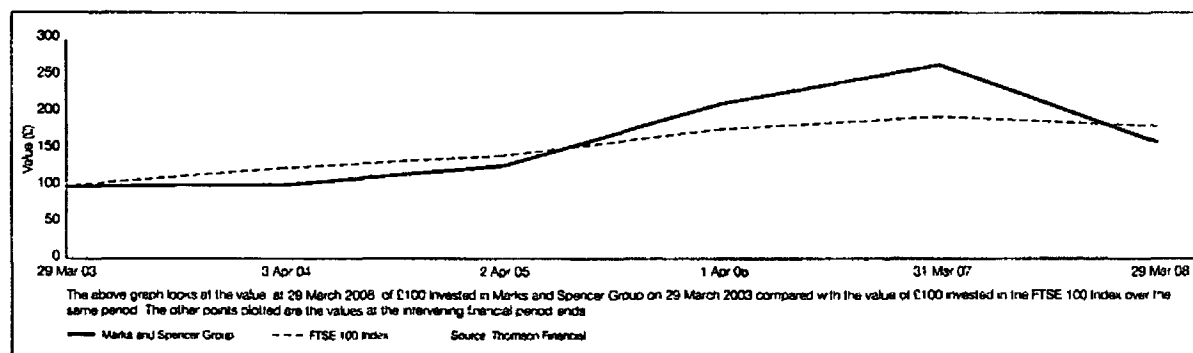
The Company recognises that executive directors may be invited to become non-executive directors of other companies and that such appointments can broaden their knowledge and experience, to the benefit of M&S. The individual director retains the fee. Below are the details of the executive directors' external appointments.

	Fee	Company
Steven Esom	£49,500	Carphone Warehouse Group plc
Sir Stuart Rose	£55,000	Land Securities Group plc
Steven Sharp	£21,771	Adnams plc

Performance graph

This graph illustrates the performance of the Company against the FTSE 100 over the past five years. The FTSE 100 has been chosen as it is a recognised broad equity market index of which the Company has been a member throughout the period.

Performance, as required by legislation, is measured by Total Shareholder Return which is share price growth plus any dividends paid.



Part 2: Audited information

1 Directors' emoluments

	Salary/ fee £000	Cash allowance and benefits ⁶ £000	Bonus £000	Total 2008 £000	Total 2007 £000
Chairman					
Lord Burns	450	3	–	453	339
Chief Executive					
Sir Stuart Rose ¹	1,070	305	–	1,375	2,302
Executive directors					
Kate Bostock ²	32	7	–	39	–
Ian Dyson ³	542	156	–	698	1,151
Steven Esom ⁴	34	10	250	294	–
Steven Sharp ⁵	535	166	–	701	1,165
Non-executive directors					
Jeremy Darroch	73	–	–	73	61
Martha Lane Fox	56	–	–	56	–
Steven Holliday	67	–	–	67	60
Sir David Michels ⁷	79	–	–	79	68
Louise Patten	73	–	–	73	58
Directors retiring from the Board during the year					
Jack Keenan ⁸	22	–	–	22	68
Former directors^{9, 10}					
	–	–	–	262	251
Total	3,033	647	250	4,192	5,523

1 Sir Stuart Rose received a salary increase from £1 050 000 to £1 130 000 effective from 1 January 2008. No bonus was earned in 2007/08.

2 Kate Bostock was promoted to the Board on 10 March 2008 at a salary of £500 000. No bonus was earned as an executive director in 2007/08 under the Annual Bonus Scheme. £280 000 was earned in 2007/08 prior to her appointment to the Board as part of a three year cash bonus retention arrangement. If earned, the remaining two instalments of this bonus arrangement will be paid in 2008/09 and 2009/10. Her Cash allowance and benefits include a 25% supplement on her salary earned above the Pension Scheme cap as she was a member of the Retirement Plan during the year. In addition, the Company's contribution into the Retirement Plan for 2007/08 for the period when she was an executive director was £1 153.

3 Ian Dyson received a salary increase from £525 000 to £565 000 effective from 1 January 2008. On 10 March 2008 his salary was increased to £675 000 to reflect his increased responsibilities as Group Finance and Operations Director. No bonus was earned in 2007/08.

4 Steven Esom was promoted to the Board on 10 March 2008 at a salary of £535 000. No bonus was earned as an executive director in 2007/08 under the Annual Bonus Scheme. A one-off bonus of £500 000 was earned in 2007/08 as part of his contractual agreement on recruitment, of which 50% is deferred into shares for three years. These shares will be granted on 9 June 2008.

5 Steven Sharp received a salary increase from £525 000 to £565 000 effective from 1 January 2008. No bonus was earned in 2007/08.

6 The elements included in the Cash allowance and benefits column of the table are described in detail in the Executive directors' remuneration section on page 49 and have been audited.

7 In addition to the fees disclosed in the above table, the Company meets a due proportion of Sir David Michels' general office and administration costs that relate to his Marks and Spencer Board duties. In the year under review, this amounted to £10 000. This arrangement will cease on his appointment to Deputy Chairman on 1 June 2008.

8 Jack Keenan retired from the Board on 10 July 2007.

9 The total for 2006/07 included the cost of supplying a driver and fleet vehicle to ex-Chairman Paul Myners. For 2007/08 the costs incurred by the Company were nil.

10 The £262 000 in 2008 (£251 000 in 2006) relates to payments to former directors under the Early Retirement Plan. Under this plan, the Remuneration Committee could, at its discretion, offer an unfunded Early Retirement Pension, separate from the Company pension, which was payable from the date of retirement to age 60. With effect from 31 March 2000, the Early Retirement Plan was withdrawn but payments continue for awards made before this date.

The former directors are James Banfield who received £82 148 (£78 686 in 2007) payable until 22 April 2009 and Derek Hayes who received £76 422 (£73 202 in 2007) payable until 19 November 2008.

The pension scheme entitlement for Clinton Silver is supplemented by an additional unfunded pension paid by the Company which, for 2008, was £103 233 (£98 873 in 2007).

About us

Key performance
indicators

Business review

Financial review

Governance

Financial statements

Shareholder
information

Remuneration report

continued

2 Directors' interests in long-term incentive schemes

Directors' Share Schemes

	Date of award	Maximum shares receivable at 31 March 2007 or date of appointment	Shares awarded during the year	Shares vested during the year	Maximum shares receivable at 29 March 2008	Market value on date of award (p)	Earliest date of vesting
Chief Executive							
Sir Stuart Rose							
Performance Share Plan ¹	25/07/05	473,868	-	-	473,868	358.75	25/07/08
	19/07/06	663,755	-	-	663,755	572.5	19/07/09
	05/06/07	-	594,395	-	594,395	706.6	05/06/10
Deferred Share Bonus Plan ²	05/06/06	35,125	-	-	35,125	550.0	05/06/09
	05/06/07	-	222,898	-	222,898	706.6	05/06/10
Total		1,172,748	817,293	-	1,990,041		
Executive directors							
Kate Bostock							
Performance Share Plan ¹	25/07/05	117,073	-	-	117,073	358.75	25/07/08
	19/07/06	157,205	-	-	157,205	572.5	19/07/09
	05/06/07	169,827	-	-	169,827	706.6	05/06/10
Deferred Share Bonus Plan ²	05/06/06	25,404	-	-	25,404	550.0	05/06/09
	05/06/07	28,985	-	-	28,985	706.6	05/06/10
Total		498,494	-	-	498,494		
Ian Dyson							
Performance Share Plan ¹	25/07/05	234,146	-	-	234,146	358.75	25/07/08
	19/07/06	331,878	-	-	331,878	572.5	19/07/09
	05/06/07	-	297,197	-	297,197	706.6	05/06/10
Deferred Share Bonus Plan ²	05/06/06	48,579	-	-	48,579	550.0	05/06/09
	05/06/07	-	111,449	-	111,449	706.6	05/06/10
Total		614,603	408,646	-	1,023,249		
Steven Esom							
Performance Share Plan ¹	05/06/07	141,522	-	-	141,522	706.6	05/06/10
Restricted Share Plan ³	05/06/07	70,761	-	-	70,761	706.6	05/06/10
Total		212,283	-	-	212,283		
Steven Sharp							
Performance Share Plan ¹	25/07/05	234,146	-	-	234,146	358.75	25/07/08
	19/07/06	331,878	-	-	331,878	572.5	19/07/09
	05/06/07	-	297,197	-	297,197	706.6	05/06/10
Deferred Share Bonus Plan ²	05/06/06	64,772	-	-	64,772	550.0	05/06/09
	05/06/07	-	111,449	-	111,449	706.6	05/06/10
Restricted Share Plan ³	24/06/05	90,000	-	90,000	-	352.0	24/07/07
Total		720,796	408,646	90,000	1,039,442		

1 The number of performance shares is the maximum (100%) of the award that could be receivable by the director if the EPS performance conditions are fully met as outlined on page 50

2 Full details of the Deferred Share Bonus Plan are set out in note 12 to the financial statements on page 75

3 Steven Sharp and Steven Esom were awarded these shares before they were appointed executive directors. Steven Sharp's shares vested on 24 July 2007 at a market price of 642.5p. Full details of the Restricted Share Plan are set out in note 12 to the financial statements on page 75

There have been no lapses for any of the above plans during this financial year

2 Directors' interests in long-term incentive schemes continued

Directors' Share Option Schemes

	Date of grant	Maximum options receivable at 31 March 2007 or date of appointment	Options granted during the year	Options exercised/lapsed during the year	Maximum options receivable at 29 March 2008	Option price (p)	Option period
Chief Executive							
Sir Stuart Rose							
Executive Share Option Scheme ¹	20/07/04	979,825	-	-	979,825	347.0	20/07/07-19/07/14
SAYE	25/11/05	4,613	-	-	4,613	349.0	01/01/11-30/06/11
Total		984,438	-	-	984,438		
Executive directors							
Kate Bostock							
Executive Share Option Scheme ¹	24/11/04	249,627	-	-	249,627	336.5	24/11/07-23/11/14
SAYE	25/11/05	2,679	-	-	2,679	349.0	01/01/09-30/06/09
Total		252,306	-	-	252,306		
Ian Dyson							
SAYE	25/11/05	4,613	-	-	4,613	349.0	01/01/11-30/06/11
Total		4,613	-	-	4,613		
Steven Esom							
SAYE	23/11/07	1,856	-	-	1,856	517.0	01/01/11-30/06/11
Total		1,856	-	-	1,856		
Steven Sharp							
Executive Share Option Scheme ¹	20/07/04	302,593	-	-	302,593	347.0	20/07/07-19/07/14
	24/11/04	104,010	-	-	104,010	336.5	24/11/07-23/11/14
SAYE	25/11/05	2,679	-	-	2,679	349.0	01/01/09-30/06/09
Total		409,282	-	-	409,282		

¹ The Executive Share Options have all been held for three years and can be exercised under the scheme rules, the option price is below the market value on 29 March 2008 for all options. The performance criteria attached to the Executive Share Options Scheme is described on page 50.

There have been no exercises or lapses for any of the above schemes during this financial year.

The market price of the shares at the end of the financial year was 396.25p, the highest and lowest share prices during the financial year were 749.0p and 356.25p respectively.

For both the Directors' interests in long-term incentive schemes tables, the explanation of the performance criteria attached to the Performance Share Plan and the Executive Share Option Scheme on page 50 have been audited.

Approved by the Board

Louise Patten, Chairman of the Remuneration Committee

London

19 May 2008

Louise Patten

Auditors' report

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 Group plc for the year ended 29 March 2008 which comprise the Consolidated and Company income statements, the Consolidated and Company balance sheets, the Consolidated and Company cash flow statements, the Consolidated statement of recognised income and expense, the Company statement of changes in shareholders' equity and the related group and parent company notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Remuneration report that is described as having been audited.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual report, the Remuneration 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 and the part of the Remuneration report to be audited 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 and the part of the Remuneration report to be audited 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 presented in Key performance indicators and Business review that is cross referred from the Business review 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 review whether the Corporate governance statement reflects the Company's compliance with the nine provisions of the Combined Code (2006) specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual report and consider whether it is consistent with the audited financial statements. The other information comprises only the Key performance indicators, the Business review, the Financial review, the Corporate governance statement, the unaudited part of the Remuneration report, the Group financial record and the Shareholder information. We 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

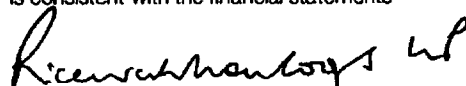
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Remuneration report to be audited. It also includes an assessment of the significant estimates and judgments 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 and the part of the Remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration report to be audited.

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 29 March 2008 and of the Group's and the Parent Company's profit and cash flows for the year then ended,
- the financial statements and the part of the Remuneration report to be audited 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
Chartered Accountants and Registered Auditors
London
19 May 2008

Consolidated income statement

	Notes	52 weeks ended 29 March 2008 £m	52 weeks ended 31 March 2007 £m
Revenue – continuing operations	2 3	9,022 0	8,588 1
Operating profit – continuing operations	2 3	1,211 3	1,045 9
Finance income	5	64 4	33 8
Finance costs	5	(146 6)	(143 0)
Analysed between			
Before exceptional finance costs	5	(146 6)	(112 6)
Exceptional finance costs		–	(30 4)
Profit on ordinary activities before taxation – continuing operations	4	1,129 1	936 7
Analysed between			
Before property disposals and exceptional items		1,007 1	965 2
Profit on property disposals	3	27 0	1 9
Exceptional pension credit	2 11	95 0	–
Exceptional finance costs	5	–	(30 4)
Income tax expense	6	(308 1)	(277 5)
Profit on ordinary activities after taxation – continuing operations		821 0	659 2
Profit from discontinued operation	7	–	0 7
Profit for the year		821 0	659 9
Attributable to			
Equity shareholders of the Company		821 7	659 9
Minority interests		(0 7)	–
		821 0	659 9
Basic earnings per share	8A	49 2p	39 1p
Diluted earnings per share	8B	48 7p	38 5p
Basic earnings per share from continuing operations	8A	49 2p	39 1p
Diluted earnings per share from continuing operations	8B	48 7p	38 5p
Non-GAAP measure			
Adjusted profit before taxation (£m)	1	1,007 1	965 2
Adjusted basic earnings per share from continuing operations	8A	43 6p	40 4p
Adjusted diluted earnings per share from continuing operations	8B	43 2p	39 8p

Consolidated statement of recognised income and expense

	52 weeks ended 29 March 2008 £m	52 weeks ended 31 March 2007 £m
Profit for the year	821 0	659 9
Foreign currency translation differences	21 3	(14 0)
Actuarial gains/(losses) on retirement benefit asset/deficit	605 4	(8 6)
Cash flow and net investment hedges		
– losses deferred in equity	(33 5)	(7 4)
– recycled and reported in net profit	1 3	10 7
– amount recognised in inventories	2 4	2 1
Tax on items taken directly to equity	(185 7)	24 5
Net gains not recognised in the income statement	411 2	7 3
Total recognised income and expense for the year	1,232 2	667 2
Attributable to		
Equity shareholders of the Company	1,232 9	667 2
Minority interests	(0 7)	–
	1,232 2	667 2

About us

Key performance
indicators

Business review

Financial review

Governance

Financial statements

Shareholder
information

Consolidated balance sheet

	Notes	As at 29 March 2008 £m	As at 31 March 2007 £m
Assets			
Non-current assets			
Intangible assets	13	305 5	194 1
Property, plant and equipment	14	4,704 0	4,044 5
Investment property	15	25 0	25 1
Investment in joint venture	16	9 6	9 3
Other financial assets	17	3 0	3 0
Retirement benefit asset	11	504 0	–
Trade and other receivables	18	410 0	247 0
Derivative financial instruments	22	18 2	–
Deferred tax assets	24	–	11 6
		5,979 3	4,534 6
Current assets			
Inventories		488 9	416 3
Other financial assets	17	48 8	50 9
Trade and other receivables	18	307 6	196 7
Derivative financial instruments	22	18 4	2 4
Cash and cash equivalents	19	318 0	180 1
		1,181 7	846 4
Total assets		7,161 0	5,381 0
Liabilities			
Current liabilities			
Trade and other payables	20	976 6	1,043 9
Derivative financial instruments	22	35 1	8 3
Borrowings and other financial liabilities	21	878 6	461 0
Partnership liability to the Marks & Spencer UK Pension Scheme	21	50 0	–
Current tax liabilities		37 5	87 3
Provisions	23	11 1	5 7
		1,988 9	1,606 2
Non-current liabilities			
Borrowings and other financial liabilities	21	1,936 5	1,234 5
Partnership liability to the Marks & Spencer UK Pension Scheme	21	673 2	496 9
Retirement benefit deficit	11	20 5	283 3
Trade and other payables	20	191 2	87 6
Derivative financial instruments	22	–	0 2
Provisions	23	14 6	16 8
Deferred tax liabilities	24	372 1	7 3
		3,208 1	2,126 6
Total liabilities		5,197 0	3,732 8
Net assets		1,964 0	1,648 2
Equity			
Called-up share capital – equity	26 27	396 6	424 9
Share premium account	27	231 4	202 9
Capital redemption reserve	27	2,199 9	2,168 5
Hedging reserve	27	(36 9)	(4 4)
Other reserve	27	(6,542 2)	(6,542 2)
Retained earnings	27	5,707 9	5,397 1
Total shareholders' equity		1,956 7	1,646 8
Minority interests in equity		7 3	1 4
Total equity		1,964 0	1,648 2

The financial statements were approved by the Board and authorised for issue on 19 May 2008. The financial statements also comprise the notes on pages 60 to 91.

Sir Stuart Rose, Chief Executive
Ian Dyson, Group Finance and Operations Director




Consolidated cash flow information

	Notes	52 weeks ended 29 March 2008 £m	52 weeks ended 31 March 2007 £m
Consolidated cash flow statement			
Cash flows from operating activities			
Cash generated from operations			
– continuing	29A	1,236 0	1,442 6
– discontinued	29B	–	0 7
Tax paid		(166 2)	(150 8)
Net cash inflow from operating activities		1,069 8	1,292 5
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	25	(46 4)	–
Disposal of subsidiary, net of cash disposed		–	48 8
Capital expenditure and financial investment	29C	(924 6)	(712 8)
Interest received		4 8	13 2
Net cash outflow from investing activities		(966 2)	(650 8)
Cash flows from financing activities			
Interest paid		(88 9)	(123 4)
Exceptional interest paid		–	(21 6)
Other debt financing	29D	954 5	(479 2)
Equity dividends paid		(343 6)	(260 6)
Other equity financing	29E	(556 2)	9 2
Net cash outflow from financing activities		(34 2)	(875 6)
Net cash inflow/(outflow) from activities		69 4	(233 9)
Effects of exchange rate changes		1 5	(1 5)
Opening net cash		47 0	282 4
Closing net cash	30A	117 9	47 0

		52 weeks ended 29 March 2008 £m	52 weeks ended 31 March 2007 £m
Reconciliation of net cash flow to movement in net debt			
Opening net debt		(1,949 5)	(1,729 3)
Net cash inflow/(outflow) from activities		69 4	(233 9)
(Decrease)/increase in current financial assets		(2 8)	2 6
(Increase)/decrease in debt financing		(954 5)	479 2
Debt financing net of liquid resources disposed with subsidiary		–	(16 8)
Debt financing net of liquid resources acquired with subsidiaries		(29 6)	–
Fair value movement on derivatives		–	67 0
Partnership liability to the Marks & Spencer UK Pension Scheme (non-cash)		(199 0)	(495 6)
Exchange and other non-cash movements		(28 9)	(22 7)
Movement in net debt		(1,145 4)	(220 2)
Closing net debt		(3,094 9)	(1,949 5)

About us

Key performance
indicators

Business review

Financial review

Governance

Financial statements

Shareholder
information

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 and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS

The following IFRS, International Financial Reporting Interpretations Committee (IFRIC) interpretations and amendments have been adopted in the financial statements

IFRS 7 – 'Financial Instruments: Disclosures' and the complementary amendment to IAS 1 – 'Presentation of Financial Statements – Capital Disclosures' were issued in August 2005 and have introduced revised and additional disclosures. This implementation has had no impact on the results or net assets of the Group.

IFRIC 11 – 'IFRS 2 – Group and Treasury Share Transactions' was issued in November 2006. It clarifies the guidance for applying share-based payment arrangements to the separate financial statements of each group company. It is required to be implemented by the Group from 30 March 2008. It has had no material impact on the results or net assets of the Group but has led to a prior year adjustment in the Company's financial statements.

IFRIC 14 – 'The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' was issued in July 2007. It limits the recognition of a defined benefit asset when minimum funding requirements exist within a plan. It was implemented by the Group from 1 April 2007 and had no material impact on the results or net assets of the Group.

The following IFRS, IFRIC interpretations and amendments have been issued by the International Accounting Standards Board during the year but are not yet effective and have not been early adopted by the Group.

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 is required to be implemented by the Group from 30 March 2008 and will have no material impact on the results or net assets of the Group.

IFRS 3 (Revised) – 'Business Combinations' was issued in January 2008. It addresses the guidance for applying the acquisition method of accounting. It is required to be implemented prospectively by the Group from 4 April 2010.

IAS 1 (Revised) – 'Presentation of Financial Statements' was issued in January 2008. It affects the presentation of owner changes in equity and of comprehensive income. It does not change the recognition, measurement or disclosure of specific transactions and other events required by other IFRS. It is required to be implemented by the Group from 29 March 2009.

Amendment to IAS 27 (Revised) – 'Consolidated and Separate Financial Statements' was issued in January 2008. The amendments relate primarily to accounting for non-controlling interests and the loss of control of a subsidiary. It is required to be implemented by the Group from 4 April 2010.

Marks and Spencer Scottish Limited Partnership has taken exemption under paragraph 7 of the Partnership and Unlimited Companies (Accounts) Regulations 1993 (SI 1993/1820) from the requirement to prepare and deliver accounts in accordance with the Companies Act.

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 Group 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.

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 largely one-off in nature and create significant volatility in reported earnings and are therefore reported separately in the income statement.

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.

1 Accounting policies continued

Pensions

Funded pension plans are in place for the Group's UK employees and the majority of employees overseas. The assets of these pension plans 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. 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.

Property, plant and equipment

A Land and buildings

The Group's policy is to state property, plant and equipment at cost less accumulated depreciation and 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.

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.

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.

Notes to the financial statements

continued

1 Accounting policies continued

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.

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.

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 are recorded at their nominal amount less an 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 cost, including transaction costs, with the exception of 'fair value through profit and loss'. 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 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 recorded at 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 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 stated at their nominal value.

G Equity instruments

Equity instruments issued by the Company are recorded at the proceeds 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),

1 Accounting policies continued

- 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 re-measuring 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

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

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

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 on page 61. The selection of these residual values and estimated lives requires the exercise of management judgement

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 11 for further details

Notes to the financial statements

continued

1 Accounting policies continued

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 provisions 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 and earnings per share measures provide additional useful information for shareholders on the underlying performance of the business. These measures are consistent with how 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 largely 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

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, Hong Kong, Taiwan, Greece, a number of other Balkan states, Switzerland, the Czech Republic, Slovakia, Latvia and Lithuania, 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	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
UK Retail								
Before property disposals and exceptional items	8,309.1	7,977.5	972.9	956.5				
Profit on property disposals	–	–	28.0	0.2				
Exceptional pension credit ¹	–	–	95.0	–				
	8,309.1	7,977.5	1,095.9	956.7	6,514.4	4,988.4	(1,928.0)	(1,811.4)
International Retail								
Owned stores ²	426.7	369.5	44.5	45.4				
Franchised stores	286.2	241.1	71.9	42.1				
Before property disposals	712.9	610.6	116.4	87.5				
(Loss)/profit on property disposals	–	–	(1.0)	1.7				
	712.9	610.6	115.4	89.2	397.1	295.7	(77.7)	(61.7)
Total	9,022.0	8,588.1	1,211.3	1,045.9	6,911.5	5,284.1	(2,005.7)	(1,873.1)
Total non-operating assets/(liabilities) ³					249.5	96.9	(3,191.3)	(1,859.7)
Total assets/(liabilities)					7,161.0	5,381.0	(5,197.0)	(3,732.8)

¹ The exceptional pension credit has arisen due to changes in the UK defined benefit plan relating to how members' benefits build up from 1 October 2007. To the extent that members have chosen the option to limit their future pensionable salary increases to inflation there is a past service credit to reflect the impact of adjusting their projected final pensionable salaries.

² Owned stores consist of the Marks & Spencer owned businesses in the Republic of Ireland, Hong Kong, Taiwan 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 (see note 25).

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

Revenue originates in the following geographical segments: United Kingdom £8,595.3m (last year £8,218.6m) and International £426.7m (last year £369.5m). The value of goods exported from the UK, including shipments to international subsidiaries, amounted to £499.7m (last year £438.0m).

Included within UK Retail is an operating profit of £28.3m (last year £19.5m) in respect of fees received from HSBC in relation to M&S Money.

2 Segmental information continued**Other segment items**

	2008			2007		
	United Kingdom £m	International £m	Total £m	United Kingdom £m	International £m	Total £m
Revenue						
General merchandise	4,059.3	491.7	4,551.0	4,002.8	423.9	4,426.7
Food	4,249.8	221.2	4,471.0	3,974.7	186.7	4,161.4
	8,309.1	712.9	9,022.0	7,977.5	610.6	8,588.1
Expenditure on intangible assets excluding goodwill (see note 13)	83.7	-	83.7	46.5	-	46.5
Expenditure on property, plant and equipment (see note 14)	919.9	50.9	970.8	718.9	27.0	745.9
Amortisation (see note 13)	21.3	-	21.3	14.2	-	14.2
Depreciation (see note 7, 14)	281.7	14.6	296.3	258.4	10.1	268.5

3 Expense analysis

	2008 £m	2007 £m
Revenue	9,022.0	8,588.1
Cost of sales	(5,535.2)	(5,246.9)
Gross profit	3,486.8	3,341.2
Selling and marketing expenses	(1,912.7)	(1,779.2)
Administrative expenses	(534.5)	(584.1)
Other operating income	49.7	66.1
Profit on property disposals	27.0	1.9
Exceptional pension credit (see note 2.11)	95.0	-
Operating profit	1,211.3	1,045.9

The cost of sales above represents cost of 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

	2008			2007		
	Selling and marketing expenses £m	Administrative expenses £m	Total £m	Selling and marketing expenses £m	Administrative expenses £m	Total £m
Employee costs (see note 10A)	920.4	230.1	1,150.5	928.8	245.3	1,174.1
Occupancy costs	366.9	64.8	431.7	310.5	62.4	372.9
Repairs, renewals and maintenance of property	79.0	19.8	98.8	55.4	19.1	74.5
Depreciation and amortisation	285.9	31.7	317.6	264.4	18.3	282.7
Other costs	260.5	188.1	448.6	220.1	239.0	459.1
Operating expenses	1,912.7	534.5	2,447.2	1,779.2	584.1	2,363.3

Notes to the financial statements

continued

4 Profit before taxation

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

	2008 £m	2007 £m
Net foreign exchange gains	(8 0)	(3 7)
Depreciation of property, plant, and equipment		
– owned assets	290 4	266 8
– under finance leases	5 9	1 7
Amortisation of intangibles	21 3	14 2
Profit on property disposals	(27 0)	(1 9)
Operating lease rentals payable		
– property	167 5	143 4
– fixtures, fittings and equipment	8 4	7 2
Exceptional pension credit (see note 2, 11)	(95 0)	–
Exceptional finance costs (see note 5)	–	30 4

Included in administrative expenses is the auditors' remuneration, including expenses for audit and non-audit services, as follows

	2008 £m	2007 £m
Statutory audit services		
Annual audit of the Company and the consolidated accounts	0 3	0 3
Audit of subsidiary companies	0 8	0 8
	1 1	1 1
Non-audit-related services		
Other services pursuant to legislation	0 3	0 1
Tax advisory services	0 4	0 2
Other services	0 1	0 2
	0 8	0 5

In addition to the above, fees in respect of the annual audit of the Marks & Spencer UK Pension Scheme were £nil (last year £0 1m)

5 Finance income/costs

	2008 £m	2007 £m
Finance income		
Bank and other interest receivable	5 5	13 0
Pension finance income (net) (see note 11E)	58 9	20 8
Finance income	64 4	33 8
Finance costs		
Interest on bank borrowings	1 6	4 1
Amortisation of issue costs of bank loans	0 3	1 5
Interest payable on syndicated bank facility	30 0	6 8
Interest payable on medium term notes	84 0	77 5
Interest payable on securitised loan notes	–	19 0
Interest payable on finance leases	3 4	2 2
Dividend on non-equity B shares	–	0 2
Unwinding of discount on partnership liability to the Marks & Spencer UK Pension Scheme	27 3	1 3
Before exceptional finance costs	146 6	112 6
Exceptional finance costs ¹	–	30 4
Finance costs	146 6	143 0
Net finance costs	82 2	109 2

¹ Last year exceptional finance costs represented the unamortised transaction costs – a one-off make-whole premium and the cancellation of the swaps arising on the redemption of £317 2m of secured bonds. These bonds were redeemed in order to release properties for use in the limited partnership with the Marks & Spencer UK Pension Scheme.

6 Income tax expense**A Taxation charge**

	2008 £m	2007 £m
Current tax		
UK corporation tax at 30% (last year 30%)		
– current year	123 0	172 4
– current year tax on exceptional finance costs	–	(6 5)
– prior years	(13 1)	6 1
	109 9	172 0
Overseas current taxation	7 5	7 5
Total current taxation	117 4	179 5
Deferred tax (see note 24)		
– current year	184 0	108 2
– prior years	6 7	(10 2)
Total deferred taxation	190 7	98 0
Total income tax expense	308 1	277 5

B Taxation reconciliation

	2008 £m	2007 £m
Profit before tax	1,129 1	936 7
Taxation at the standard UK corporation tax rate of 30% (last year 30%)	338 7	281 0
Depreciation, charges and other amounts on non-qualifying fixed assets	0 6	5 4
Other income and expenses not taxable or deductible	(1 3)	(1 0)
Tax on exceptional finance costs not deductible	–	2 6
Overseas profits taxed at lower rates	(6 8)	(6 4)
Impact of change in UK corporation tax rate	(16 7)	–
Adjustments to tax charge in respect of prior periods	(6 4)	(4 1)
Total income tax expense	308 1	277 5

The post-exceptional effective tax rate was 27.3% (last year 29.6%) and the pre-exceptional effective tax rate was 27.0% (last year 29.4%). The change in the standard UK corporation tax rate to 28% from April 2008 has resulted in a deferred tax credit of £16.7m, reducing the total effective tax rate by 1.5%.

7 Discontinued operation

On 28 April 2006, the Group disposed of Kings Super Markets Inc to a US investor group for US\$61.5m excluding cash in the business at the date of disposal. Depreciation of £0.3m incurred last year in the period before disposal has been excluded from the segmental disclosures in note 2.

Notes to the financial statements

continued

8 Earnings per share

The calculation of earnings per ordinary share is based on earnings after tax and the weighted average number of ordinary shares in issue during the year

The adjusted earnings per share figures have also been calculated based on earnings excluding the effect of property disposals and exceptional items. These have been calculated to allow the shareholders to gain an understanding of the underlying trading performance of the Group

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has only one class of dilutive potential ordinary shares being those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year

Details of the adjusted earnings per share are set out below

	2008 £m	2007 £m
Earnings after tax	821.7	659.9
Profit from discontinued operation	–	(0.7)
Earnings after tax – continuing	821.7	659.2
Property disposals (net of tax)	(27.0)	(1.4)
Exceptional pension credit (net of tax)	(66.5)	–
Exceptional finance costs (net of tax)	–	23.9
Adjusted earnings after tax – continuing	728.2	681.7
	million	million
Weighted average number of ordinary shares in issue	1,671.3	1,688.6
Potentially dilutive share options under Group's share option schemes	16.0	26.3
Weighted average number of diluted ordinary shares	1,687.3	1,714.9
A Basic earnings per share	pence	pence
Basic earnings per share	49.2	39.1
Profit from discontinued operation per share	–	–
Basic earnings per share – continuing	49.2	39.1
Property disposals per share	(1.6)	(0.1)
Exceptional pension credit per share	(4.0)	–
Exceptional finance costs per share	–	1.4
Adjusted basic earnings per share – continuing	43.6	40.4
B Diluted earnings per share	pence	pence
Diluted earnings per share	48.7	38.5
Profit from discontinued operation per share	–	–
Diluted earnings per share – continuing	48.7	38.5
Property disposals per share	(1.6)	(0.1)
Exceptional pension credit per share	(3.9)	–
Exceptional finance costs per share	–	1.4
Adjusted diluted earnings per share – continuing	43.2	39.8

9 Dividends

	2008 per share	2007 per share	2008 £m	2007 £m
Dividends on equity ordinary shares				
Paid final dividend	12 0p	9 2p	203 5	154 6
Paid interim dividend	8 3p	6 3p	140 1	106 0
	20 3p	15 5p	343 6	260 6

In addition, the directors have proposed a final dividend in respect of the year ended 29 March 2008 of 14 2p per share amounting to a dividend of £217.9m. It will be paid on 11 July 2008 to shareholders who are on the Register of Members on 30 May 2008. In line with the requirements of IAS 10 – 'Events after the Balance Sheet Date', this dividend has not been recognised within these results.

10 Employees**A Aggregate remuneration**

The aggregate remuneration and associated costs of Group employees were

	2008 Total £m	2007 Total £m
Wages and salaries	930 8	931 3
Social security costs	62 3	75 7
Other pension costs	103 1	111 9
Share-based payments	29 0	27 3
Employee welfare and other personnel costs	35 7	32 5
Ex-gratia costs	10 5	5 1
Capitalised staff costs	(20 9)	(9 7)
Aggregate remuneration	1,150 5	1,174 1

Details of key management compensation are given in note 32D.

B Average number of employees

	2008	2007
UK stores		
– management and supervisory categories	5,267	5,235
– other	62,820	64,074
UK head office		
– management and supervisory categories	2,599	2,396
– other	927	850
Overseas	3,776	3,316
Total average number of employees	75,389	75,871

If the number of hours worked was converted on the basis of a normal working week, the equivalent average number of full-time employees for continuing operations would have been 52,276 (last year 52,670).

C Directors' emoluments

Emoluments of directors of the Company are summarised below. Further details are given in the Remuneration report on pages 48 to 55.

	2008 £000	2007 £000
Aggregate emoluments	3,930	5,369

The emoluments exclude payments to former directors of £262,000 (last year £307,000).

Notes to the financial statements

continued

11 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. Further details of the pension scheme can be found on page 34.

The defined benefit section operates on a final salary basis and at the year end had some 24,000 active members (last year 27,000), 58,000 deferred members (last year 57,000) and 39,000 pensioners (last year 37,000). At the year end, the defined contribution section had some 8,000 active members (last year 7,000) 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 of £44.2m, excluding the exceptional pension credit, (last year £91.1m) £28.0m (last year £78.0m) relates to the UK defined benefit section, £11.7m (last year £8.6m) to the UK defined contribution section and £4.5m (last year £4.5m) to other retirement benefit schemes.

A Pensions and other post-retirement liabilities

	2008 £m	2007 £m
Total market value of assets	5,045.5	5,227.5
Present value of scheme liabilities	(4,542.3)	(5,487.0)
Net funded pension plan asset/(deficit)	503.2	(259.5)
Unfunded retirement benefits	(1.3)	(1.2)
Post-retirement healthcare	(18.4)	(22.6)
Net retirement benefit asset/(deficit)	483.5	(283.3)
Analysed on the balance sheet as		
Retirement benefit asset	504.0	–
Retirement benefit deficit	(20.5)	(283.3)
	483.5	(283.3)

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' and IFRIC 14 – 'The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' in order to assess the liabilities of the schemes.

	2008 %	2007 %
Rate of increase in salaries	3.1 to 4.5	3.7
Rate of increase in pensions in payment for service		
– pre-April 1997	2.8	2.6
– between April 1997 and July 2005	3.5	3.0
– post-July 2005	2.4	2.3
Discount rate	6.8	5.3
Inflation rate	3.5	3.0
Long-term healthcare cost increases	8.5	8.0

The amount of the surplus varies if the main financial assumptions change, particularly the discount rate. If the discount rate increased/decreased by 0.1% the IAS 19 surplus would increase/decrease by c. £100m.

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 year. 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:

	2008 years	2007 years
Current pensioners (at age 65) – males	21.0	21.0
– females	23.5	23.5
Future pensioners (at age 65) – males	21.9	21.9
– females	24.3	24.3

11 Retirement benefits continued**D Analysis of assets and expected rates of return**

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

	2008 £m	2007 £m	2008 %	2007 %
Property partnership interest	506.6	495.3	10	9
UK equities	792.1	826.0	16	16
Overseas equities	1,116.6	1,385.3	22	27
Government bonds	465.4	363.0	9	7
Corporate bonds	2,058.5	2,153.0	41	41
Cash and other	106.3	4.9	2	–
	5,045.5	5,227.5	100	100

The expected long-term rates of return are

	2008 %	2007 %
Property partnership interest	6.0	5.5
UK equities	8.3	8.4
Overseas equities	8.3	8.4
Government bonds	4.6	4.7
Corporate bonds	6.0	5.3
Cash and other	5.0	5.5
Overall expected return	6.7	6.6

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 479,356 (last year 463,964) ordinary shares in the Company through its investment in an Aquila Life UK Equity Index Fund.

E Analysis of amount charged against profits

	2008 £m	2007 £m
Operating cost		
Current service cost ¹	106.1	113.9
Curtailment gain	(3.0)	(2.0)
Exceptional pension credit	(95.0)	–
	8.1	111.9
Finance cost		
Expected return on plan assets	(342.7)	(282.0)
Interest on scheme liabilities	283.8	261.2
Net finance income	(58.9)	(20.8)
Total	(50.8)	91.1

¹ Includes £11.7m (last year £8.6m) in relation to defined contribution plans.

Notes to the financial statements

continued

11 Retirement benefits continued

F Scheme assets

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

	2008 £m	2007 £m
Fair value of scheme assets at start of year	5,227.5	4,606.2
Expected return on scheme assets ¹	342.7	282.0
Employer contributions ^{2,3}	111.1	611.3
Contributions from scheme members	1.0	–
Benefits paid	(220.4)	(191.8)
Actuarial loss	(422.6)	(80.4)
Exchange movement	6.2	0.2
Fair value of scheme assets at end of year	5,045.5	5,227.5

¹ The actual return on scheme assets was a loss of £79.9m (last year gain of £201.6m)

² The contribution for 2006/07 includes the additional contribution of the property partnership interest of £500.1m transferred into the UK defined benefit pension scheme on 14 March 2007 and cash contributions of £57.7m paid in March 2006 plus £40.3m paid in April 2007 to increase contributions from 15.8% to 27.0%

³ This year the Group has agreed to pre fund £200.0m of its annual contribution to the UK defined benefit pension scheme for the next three years by contributing to the Trustee rights to further income of the property backed partnership. Additional properties with a current market value of approximately £400.0m have been put into the partnership to facilitate the transaction. The prepayment is in respect of annual contributions to the UK scheme at the rate of 24.3% of pensionable salaries up to 30 September 2006 and then 23.7% up to the next full actuarial valuation. It is estimated that approximately £76m of the prepayment will relate to the year ended 28 March 2009.

G Retirement benefit obligations

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

	2008 £m	2007 £m
Present value of obligation at start of year	5,510.8	5,401.1
Current service cost	106.1	113.9
Curtailment gain	(3.0)	(2.0)
Exceptional pension credit	(95.0)	–
Interest cost	283.8	261.2
Contributions from scheme members	1.0	–
Benefits paid	(220.4)	(191.8)
Actuarial gain	(1,028.0)	(71.8)
Acquisition of subsidiary	0.4	–
Exchange movement	6.3	0.2
Present value of obligation at end of year	4,562.0	5,510.8
Analysed as		
Present value of pension scheme liabilities	4,542.3	5,487.0
Unfunded pension plans	1.3	1.2
Post-retirement healthcare	18.4	22.6
Present value of obligation at end of year	4,562.0	5,510.8

H Cumulative actuarial gains and losses recognised in equity

	2008 £m	2007 £m
Loss at start of year	(935.6)	(927.0)
Net actuarial gains/(losses) recognised in the year	605.4	(8.6)
Loss at end of year	(330.2)	(935.6)

I History of experience gains and losses

	2008 £m	2007 £m	2006 £m	2005 £m	UK GAAP 2004 £m
Experience adjustments arising on scheme assets	(422.6)	(80.4)	454.3	77.4	401.9
Experience (losses)/gains arising on scheme liabilities	(61.5)	18.8	20.0	(24.0)	(30.3)
Changes in assumptions underlying the present value of scheme liabilities	1,089.5	53.0	(643.6)	(131.5)	(157.8)
Actuarial gains/(losses) recognised in equity	605.4	(8.6)	(169.3)	(78.1)	213.8
Fair value of scheme assets	5,045.5	5,227.5	4,606.2	3,956.8	3,634.2
Present value of scheme liabilities	(4,542.3)	(5,487.0)	(5,381.3)	(4,611.0)	(4,280.1)
Pension scheme asset/(deficit)	503.2	(259.5)	(775.1)	(654.2)	(645.9)

12 Share-based payments

The charge for share-based payments for the year was £29.0m (last year £27.3m). Further details of the option and share schemes that the Group operates are provided in the Remuneration report on pages 48 to 55.

A Save As You Earn Share Option Scheme

Under the terms of the scheme, the Board may offer options to purchase ordinary shares in the Company once in each financial year to those employees who enter into an 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.

	2008		2007	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of the period	33,241,616	327.6p	40,403,625	261.6p
Granted	7,716,437	517.0p	6,569,527	559.0p
Exercised	(10,212,015)	234.8p	(11,814,068)	232.4p
Forfeited	(2,207,700)	450.7p	(1,637,012)	325.5p
Expired	(93,578)	235.2p	(280,456)	258.0p
Outstanding at end of the period	28,444,760	403.1p	33,241,616	327.6p
Exercisable at end of period	948,372	262.9p	726,615	243.4p

For SAYE share options exercised during the period, the weighted average share price at the date of exercise was 535.2p (last year 698.8p).

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

	2008		2007	
	3-year plan	5-year plan	3-year plan	5-year plan
Grant date	Nov 07	Nov 07	Nov 06	Nov 06
Share price at grant date	646p	646p	698p	698p
Exercise price	517p	517p	559p	559p
Option life in years	3 years	5 years	3 years	5 years
Risk-free rate	4.6%	4.6%	5.4%	5.3%
Expected volatility	21.6%	25.2%	21.5%	27.5%
Expected dividend yield	2.7%	2.7%	2.2%	2.2%
Fair value of option	167.5p	201.8p	200.6p	247.8p

Volatility has been estimated by taking the historic volatility in the Company's 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:

Options granted	Number of options		Weighted average remaining contractual life (years)		Option price
	2008	2007	2008	2007	
January 2000	-	161,410	-	0.3	223p
January 2001	338,682	3,948,712	0.3	1.3	156p
January 2002	-	227,479	-	0.3	250p
January 2003	371,017	3,495,809	0.3	1.3	283p
January 2004	4,078,721	4,484,581	1.3	2.2	228p
January 2005	3,703,910	6,834,424	2.1	2.3	280p
January 2006	7,164,101	7,713,616	2.1	3.1	349p
January 2007	5,434,588	6,375,585	3.0	4.0	559p
January 2008	7,353,741	-	4.0	-	517p
	28,444,760	33,241,616	2.6	2.5	328p

Notes to the financial statements

continued

12 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 the Company 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 50.

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 10 years from grant date.

	2008		2007	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of the period	12,017,117	341 2p	18,135,466	333 5p
Exercised	(2,235,209)	341 0p	(5,522,018)	316 6p
Forfeited	(152,698)	348 6p	(589,781)	334 8p
Expired	(5,692)	527 0p	(6,550)	458 0p
Outstanding at end of the period	9,623,518	341 0p	12,017,117	341 2p
Exercisable at end of the period	8,444,937	339 4p	3,537,471	328 4p

For executive share options exercised during the period, the weighted average share price at the date of exercise was 645 5p (last year 632 3p).

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:

Options granted	Number of options		Weighted average remaining contractual life (years)		Option price
	2008	2007	2008	2007	
1984 Scheme					
June 1997	-	5,692	-	0.2	527p
1997 Scheme					
June 1998	161,863	247,778	0.2	1.2	557p
November 1998	7,425	7,425	0.6	1.6	404p
June 1999	98,880	127,521	1.2	2.2	358p
2000 Scheme					
September 2000	232	3,445	2.5	3.4	215p
June 2001	135,989	196,303	3.3	4.2	256p
December 2001	71,658	74,161	3.7	4.7	350p
2002 Scheme					
June 2002	659,465	760,394	4.2	5.2	350p
November 2002	47,150	66,980	4.7	5.6	353p
June 2003	1,502,053	1,975,461	5.2	6.2	297p
November 2003	36,109	77,078	5.7	6.6	270p
February 2004	33,111	33,111	5.8	6.8	270p
July 2004	4,831,318	6,236,497	6.3	7.3	347p
November 2004	859,684	868,599	6.7	7.6	337p
June 2005	1,178,581	1,336,672	7.2	8.2	352p
	9,623,518	12,017,117	5.9	6.8	335p

12 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 49. Awards under this scheme have been made in each year since 2005.

During the year, 3,414,413 shares (last year 3,511,040) were awarded under the plan. The weighted average fair value of the shares awarded was 704 Op (last year 572 9p).

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 bonus 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, 2,182,379 shares were awarded under the plan in relation to the 2006/07 annual bonus. The fair value of the shares awarded was 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, 328,165 shares (last year 38,622) have been awarded under the plan. The weighted average fair value of the shares awarded was 604 6p (last year 578 0p).

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 will vest 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 the Company. 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.

During the year, 26,603 (last year 41,086) matching shares have been awarded under the Share Matching Deal Plan, at a fair value of 609 3p (last year 596 4p).

H Marks and Spencer Employee Benefit Trust

The Marks and Spencer Employee Benefit Trust (the Trust) holds 8,795,896 (last year 4,767,449) shares with a book value of £60.0m (last year £28.1m) and a market value of £34.9m (last year £32.3m). These shares were acquired by the Trust in the market. In addition, the Trust has entered into a call option to purchase up to 8.1 million of the Company's shares. The Trust used funds provided by Marks and Spencer plc to meet the Group's obligations. Awards are granted to employees at the discretion of Marks and Spencer plc and shares are awarded to employees by the Trust in accordance with the wishes of Marks and Spencer plc under senior executive share schemes, 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.

About us

Key performance
indicators

Business review

Financial review

Governance

Financial statements

Shareholder
information

Notes to the financial statements

continued

13 Intangible assets

	Goodwill £m	Brands £m	Computer software £m	Computer software under development £m	Total £m
At 2 April 2006					
Cost or valuation	69.5	80.0	42.3	6.7	198.5
Accumulated amortisation	-	(8.0)	(27.0)	-	(35.0)
Net book value	69.5	72.0	15.3	6.7	163.5
Year ended 31 March 2007					
Opening net book value	69.5	72.0	15.3	6.7	163.5
Additions	-	-	0.3	46.2	46.5
Transfers	-	-	25.9	(25.9)	-
Disposals	-	-	(0.1)	(1.6)	(1.7)
Amortisation charge	-	(5.3)	(8.9)	-	(14.2)
Closing net book value	69.5	66.7	32.5	25.4	194.1
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

Goodwill of £69.5m relates to the acquisition of per una, which was acquired in October 2004. £34.3m of goodwill relates to the acquisition of Marks and Spencer Mannopoulos B.V. in February 2008 and a further £14.1m of goodwill was recognised in March 2008 on the acquisition of COMS as. 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 2.0%, which does not exceed the long-term average growth rate for the Group's retail businesses. Management estimates the discount rate using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to retail businesses. A pre-tax discount rate of 9.5% has been used.

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

14 Property, plant and equipment

	Land and buildings £m	Fixtures fittings and equipment £m	Assets in the course of construction £m	Total £m
At 2 April 2006				
Cost	2,392 2	3,287 1	40 5	5,719 8
Accumulated depreciation	(82 2)	(2 061 8)	–	(2,144 0)
Net book value	2,310 0	1,225 3	40 5	3,575 8
Year ended 31 March 2007				
Opening net book value	2,310 0	1,225 3	40 5	3,575 8
Exchange difference	(2 7)	(1 6)	(0 2)	(4 5)
Additions	63 9	578 7	103 3	745 9
Reclassification from investment property (see note 15)	13 2	–	–	13 2
Transfers	8 8	27 3	(36 1)	–
Disposals	(6 4)	(10 7)	–	(17 1)
Depreciation charge	(13 9)	(254 9)	–	(268 8)
Closing net book value	2,372 9	1,564 1	107 5	4,044 5
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

The net book value includes land and buildings of £42.2m (last year £43.7m) and equipment of £35.6m (last year £16.4m) where the Group is a lessee under a finance lease

About us

Key performance
indicators

Business review

Financial review

Governance

Financial statements

Shareholder
information

Notes to the financial statements

continued

15 Investment property

	2008 £m	2007 £m
Cost		
At start of year	25.3	38.6
Reclassification to property, plant and equipment	–	(13.3)
At end of year	25.3	25.3
Depreciation		
At start of year	0.2	0.1
Reclassification to property, plant and equipment	–	(0.1)
Depreciation charge	0.1	0.2
At end of year	0.3	0.2
Net book value	25.0	25.1

The investment properties were valued at £31.7m (last year £34.3m) as at 31 March 2008 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. 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.

The Group received rental income of £1.5m (last year £1.7m) in respect of these investment properties.

16 Investment in joint venture

	2008 £m	2007 £m
At start of year	9.3	9.0
Share of profit	0.3	0.3
At end of year	9.6	9.3

The joint venture represents a 50% equity interest in Hedge End Park Limited, a property investment company incorporated in Great Britain. The partner in the joint venture is J Sainsbury plc.

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

	2008 £m	2007 £m
Non-current assets	2.7	2.6
Current assets	7.2	7.1
Current liabilities	(0.3)	(0.4)
Net assets	9.6	9.3

17 Other financial assets

	2008 £m	2007 £m
Non-current		
Unlisted investments	3 0	3 0
Current		
Listed UK securities	43 5	46 2
Unlisted investments	5 3	4 7
	48 8	50 9

18 Trade and other receivables

	2008 £m	2007 £m
Non-current		
Other receivables	13 5	1 4
Prepaid pension contributions (see note 21)	124 0	-
Prepaid leasehold premiums	270 1	242 8
Other prepayments and accrued income	2 4	2 8
	410 0	247 0
Current		
Trade receivables	87 9	69 0
Less: Provision for impairment of receivables	(3 3)	(1 1)
Trade receivables – net	84 6	67 9
Other receivables	32 9	51 9
Prepaid pension contributions (see note 21)	76 0	-
Prepaid leasehold premiums	10 9	7 6
Other prepayments and accrued income	103 2	69 3
	307 6	196 7

Trade receivables that were past due but not impaired amounted to £12.6m (last year £24.1m)

19 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 debtors receivable within 48 hours. The carrying amount of these assets approximates their fair value.

The effective interest rate on short-term bank deposits is 5.4% (last year 4.9%), these deposits have an average maturity of 26 days (last year three days).

20 Trade and other payables

	2008 £m	2007 £m
Current		
Trade payables	226 9	259 7
Other payables	425 5	327 8
Social security and other taxes	56 1	49 6
Pension contributions payable	-	40 3
Accruals and deferred income	268 1	366 5
	976 6	1,043 9
Non-current		
Accruals and deferred income ¹	191 2	87 6

¹ Includes the fair value of the put option £52.2m (last year £nil) exercisable on 4 April 2013 (see note 27) and contingent consideration for the acquisition of COMS a.s. £4.0m (last year £nil) payable by April 2010 (see note 25).

Notes to the financial statements

continued

21 Borrowings and other financial liabilities

	2008 £m	2007 £m
Current		
Bank loans, overdrafts and commercial paper ¹	257.4	159.7
Syndicated bank facility ²	615.0	296.9
Finance lease liabilities	6.2	4.4
	878.6	461.0
Partnership liability to the Marks & Spencer UK Pension Scheme	50.0	—
	928.6	461.0
Non-current		
6.375% £375m medium term notes 2011 ³	382.0	381.3
5.875% £400m medium term notes 2012 ³	421.4	397.5
5.625% £400m medium term notes 2014 ³	398.8	398.5
6.250% US\$500m medium term notes 2017 ⁴	253.0	—
7.125% US\$300m medium term notes 2037 ⁴	151.1	—
6.875% £250m puttable callable reset medium term notes 2037 ^{3, 5}	252.9	—
Finance lease liabilities	77.3	57.2
	1,936.5	1,234.5
Partnership liability to the Marks & Spencer UK Pension Scheme	673.2	496.9
	2,609.7	1,731.4
Total	3,538.3	2,192.4

¹ Bank loans, overdrafts and commercial paper includes a £5.0m (last year £5.0m) loan from the Hedge End Park Limited joint venture (see note 16)

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

During the year the Group issued new bonds totalling £638m in both the US\$ and sterling debt capital markets. On 6 December 2007 the Group issued under rule 144A of the U.S. Securities Act US\$500m of notes out to 2017 and US\$300m of notes out to 2037 at fixed rates of 6.250% and 7.125% respectively. These notes have been swapped back into sterling proceeds and pay fixed sterling rates of 7.034% and 7.238% respectively. These cross currency swaps have been designated as cash flow hedges in relation to the US\$ notes.

In addition on 13 December 2007 the Group issued £250m of puttable callable reset notes at a coupon rate of 6.875%. The Group's right of call within these notes can be assigned which provides a discount of 0.75% per annum until December 2012, giving a net interest rate for the first five years of 6.125%. If called at that date, these notes will continue to exist until December 2037 at an underlying rate of 4.54% plus the applicable credit spread at that time.

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. In addition the Group entered into a £400m credit agreement set to expire on 13 February 2009 with an option to term out for a further year. 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 £155m (last year £155m), all of which are due to be reviewed within a year. At the balance sheet date a sterling equivalent of £615m (last year £297m) was drawn under the committed facilities and a further £29m (last year £19m) was drawn under the uncommitted facilities.

Finance leases

The minimum lease payments under finance leases fall due as shown in the table opposite. It is the Group's policy to lease certain of its properties and equipment under finance leases. The average lease term for equipment is five 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.

21 Borrowings and other financial liabilities continued

Partnership liability to the Marks & Spencer UK Pension Scheme

The partnership liability to the Marks & Spencer UK Pension Scheme of £723.2m (last year £496.9m) relates to the amortising liability in respect of the obligations of the Marks and Spencer Scottish Limited Partnership to the Marks & Spencer UK Pension Scheme

Last year the Group agreed a plan with the Pension Scheme Trustee to address the majority of the deficit by transferring properties with a current market value of £1.1bn into a partnership established by the Group. A limited interest in this partnership was contributed to the pension scheme on 13 March 2007. The Group retains control over these properties, including the flexibility to substitute alternative properties. The properties held in the partnership have been leased back to Marks and Spencer plc. The pension scheme is entitled to a distribution from the profits of the partnership of £50m per annum for 15 years from July 2008. The Group has the right to buy out the Trustee's partnership interest at any point for an amount equal to the net present value of the remaining annual distributions due to the pension scheme.

This year the Group has agreed to pre-fund £200.0m of its annual contribution to the Marks & Spencer UK Pension Scheme for the next three years by increasing the value of the Scheme's interest in the property partnership. To meet this £200.0m contribution of value, the Group has placed additional properties into the partnership with a current market value of approximately £400.0m. These properties have been leased back to Marks and Spencer plc and the fixed annual distribution made out of partnership profits to the pension scheme will be increased by approximately £21.9m for the remaining 14 year period.

Each year the total obligation will reduce as payments are made to the pension scheme by the partnership and an interest charge will be taken to the income statement representing the unwinding of the discounted obligation at an implied average interest rate of 5.7% (last year 5.3%). The fair value of this liability was £706.6m (last year £495.3m).

Maternity of borrowings and other financial liabilities

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

	Bank loans overdrafts and commercial paper £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	(159.7)	(296.9)	(69.9)	(7.1)	–	(533.6)	558.5	(564.6)	(6.1)
Between one and two years	–	–	(69.9)	(8.2)	(50.0)	(128.1)	18.5	(18.6)	(0.1)
Between two and five years	–	–	(584.7)	(11.3)	(200.0)	(796.0)	–	–	–
More than five years	–	–	(868.5)	(196.0)	(500.0)	(1,564.5)	–	–	–
	(159.7)	(296.9)	(1,593.0)	(222.6)	(750.0)	(3,022.2)	577.0	(583.2)	(6.2)
Effect of discounting	–	–	415.7	161.0	253.1	829.8			
At 31 March 2007	(159.7)	(296.9)	(1,177.3)	(61.6)	(496.9)	(2,192.4)			
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	–	–	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)			

This table does not include trade and other payables (see note 20)

Notes to the financial statements

continued

21 Borrowings and other financial liabilities continued

Financial liabilities

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 COMS a s put option

	2008			2007		
	Fixed rate £m	Floating rate £m	Total £m	Fixed rate £m	Floating rate £m	Total £m
Currency						
Sterling	2,665.9	673.0	3,338.9	1,735.8	289.7	2,025.5
Euro	-	192.5	192.5	-	159.5	159.5
Hong Kong dollar	-	6.9	6.9	-	7.4	7.4
	2,665.9	872.4	3,538.3	1,735.8	456.6	2,192.4

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 5.8%) and the weighted average time for which the rate is fixed is 10 years (last year 8.5 years).

Interest rate analysis

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

	2008 %	2007 %
Committed and uncommitted borrowings	5.5	4.8
Medium term notes	6.2	5.9
Finance leases	5.0	4.4
Partnership liability to the Marks & Spencer UK Pension Scheme	5.7	5.3

22 Financial instruments

Treasury policy and financial risk management

The Group operates a centralised Group 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 raise finance for 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 Group's funding strategy is to ensure 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. In addition to the existing borrowings, the Group has a Euro Medium Term Note programme of £3bn, of which £1.5bn (last year £1.2bn) was in issuance as at the balance sheet date. Short-term borrowings are backed by a £1.2bn five-year committed syndicated bank facility, of which £615.0m (last year £296.9m) was drawn down at the balance sheet date. In addition the Group entered into a £400m credit agreement set to expire on 13 February 2009 with an option to term out for a further year.

22 Financial instruments continued

B Interest rate risk

The Group is exposed to interest rate risk in relation to the sterling, US\$, 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 £2,665.8m (last year £1,735.8m) representing the public bond issues and finance leases, and amounting to 75% (last year 79%) of the Group's gross borrowings.

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 in relation to sterling against movements in US\$ 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 £619m (last year £456m) with a weighted average maturity date of seven months (last year six months).

The Group does not use derivatives to hedge balance sheet and profit and loss translation exposures. However, the translation exposures arising on the overseas net assets are hedged with foreign currency debt. As at the balance sheet date, €243m (last year €234m) and HK\$107m (last year HK\$113m) 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 £80m (last year £128m).

Gains and losses in equity on forward foreign exchange contracts as of 31 March 2008 will be released to the income statement at various dates over the following 19 months (last year 14 months) from the balance sheet date.

D Counterparty risk

Counterparty risk exists where the Group can suffer financial loss through default or non-performance by financial institutions. Exposures are managed through the 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 of A+/A1 or better assigned by Moody's and Standard & Poor's respectively. 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 Group has very low retail credit risk due to transactions being principally of a high volume, low value and short maturity.

The Group does not have any material exposures to concentrations of credit risk with any one counterparty.

The maximum exposure to credit risk at the balance sheet date was as follows: trade receivables £85m (last year £68m), other receivables £46m (last year £53m), cash and cash equivalents £318m (last year £180m) and derivatives £37m (last year £2m).

Notes to the financial statements

continued

22 Financial instruments continued

E 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 1% +/- movement in interest rates and a 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, and the COMS a s put option.

	1% decrease in interest rates £m	1% increase in interest rates £m	10% weakening in sterling £m	10% strengthening in sterling £m
At 31 March 2007				
Impact on income statement gain/(loss)	3.2	(3.2)	-	-
Impact on equity gain/(loss)	-	-	(8.0)	6.6
At 29 March 2008				
Impact on income statement gain/(loss)	6.5	(6.5)	-	-
Impact on equity gain/(loss)	4.1	3.3	(15.5)	12.7

Derivative financial instruments

	2008		2007	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Current				
Options – held for trading	12.4	(12.4)	-	-
Forward foreign exchange contracts – cash flow hedges	5.0	(21.8)	1.4	(8.3)
– held for trading	1.0	(0.9)	1.0	-
	18.4	(35.1)	2.4	(8.3)
Non-current				
Cross currency – cash flow hedges	16.9	-	-	-
Forward foreign exchange contracts – cash flow hedges	1.3	-	-	(0.2)
	18.2	-	-	(0.2)

During the year, the Group held a number of cross currency swaps to redesignate fixed rate US\$ debt to fixed rate sterling debt. The attributes of these derivatives matched the characteristics of the underlying debt hedged. 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.

Fair value of financial instruments

With the exception of the Group's fixed rate bond debt and the partnership liability (see note 21), 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 £1,859.2m (last year £1,177.3m), the fair value of this debt was £1,740.7m (last year £1,162.9m).

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.

23 Provisions

	UK restructuring £m	Overseas restructuring £m	Total £m
At 2 April 2006	19.3	9.0	28.3
Provided in the year	2.0	-	2.0
Released in the year	(1.1)	-	(1.1)
Utilised during the year	(6.1)	(0.5)	(6.6)
Exchange differences	-	(0.1)	(0.1)
At 31 March 2007	14.1	8.4	22.5
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

Analysis of total provisions	2008 £m	2007 £m
Current	11.1	5.7
Non-current	14.6	16.8
Total provisions	25.7	22.5

The provision for UK restructuring primarily relates to costs of closing Lifestore, restructuring of the Direct operation and head office restructuring

The provision for overseas restructuring costs primarily relates to future closure costs in respect of discontinued operations in Continental Europe

The non-current provisions relate to closure costs of discontinued operations in Continental Europe, the closure of Lifestore operations and the restructuring of the Direct operation and are expected to be utilised over a period of 10 years

24 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 28% (last year 30%) 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 2 April 2006	(95.0)	(85.0)	251.5	12.4	83.9	(6.1)	77.8
Credited/(charged) to the income statement	4.4	(18.2)	(71.4)	(12.5)	(97.7)	(0.3)	(98.0)
Credited/(charged) to equity	-	-	3.4	22.0	25.4	(0.9)	24.5
At 31 March 2007	(90.6)	(103.2)	183.5	21.9	11.6	(7.3)	4.3
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)

In arriving at the deferred tax on fixed assets, credit has been taken for capital losses with a tax value of £53.0m (last year £57.0m). 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 on them in the foreseeable future. Undistributed profits of overseas subsidiaries amount to £295.1m (last year £226.7m).

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

Notes to the financial statements

continued

25 Acquisitions

	Mannopoulos B V £m	COMS a s £m	Total £m
Book values	9.2	2.6	11.8
Net assets at fair value (100%)	9.2	2.6	11.8
Net assets acquired	4.6	1.3	5.9
Cash consideration	38.1	10.6	48.7
Contingent consideration	–	4.0	4.0
Transaction costs	0.8	0.8	1.6
Total consideration	38.9	15.4	54.3
Goodwill arising on acquisition	34.3	14.1	48.4

Mannopoulos B V

On 28 February 2008, the Group acquired Board control and 50% of the issued share capital of Marks and Spencer Mannopoulos B V for cash consideration of €50.0m and transaction costs of £0.8m. The Mannopoulos group, located in Greece, Bulgaria, Croatia, Romania, Switzerland and Serbia, was previously a franchise partner of the Group and is a retailer of general merchandise and food. The fair values currently established for the acquisition are provisional due to the proximity of the date of acquisition to the Group's reporting date. The acquisition has contributed £4.8m to sales and a £0.4m loss to operating profit in the period since the acquisition. If the acquisition of the Mannopoulos group had been completed on the first day of the financial year, Group sales for the year would have been £9,052m and Group profits attributable to equity holders of the Company would have been £824m.

COMS a s

On 20 March 2008, the Group acquired 51% of the issued share capital of COMS a s for cash consideration of €13.6m and transaction costs of £0.8m. The COMS group, located in the Czech Republic, Latvia, Lithuania and Slovakia, was previously a franchise partner of the Group and is a retailer of general merchandise and food. The fair values currently established for the acquisition are provisional due to the proximity of the date of acquisition to the Group's reporting date. The acquisition has contributed £nil to sales and £nil to operating profit in the period since acquisition. If the acquisition of the COMS group had been completed on the first day of the financial year, Group sales for the year would have been £9,034m and Group profits attributable to equity holders of the Company would have been £822m. The sale and purchase agreement includes call and put options over the remaining 49% of the share capital of COMS a s exercisable in five years time. The fair value of the put option (£52.2m) has been recognised as a liability at 29 March 2008 (note 20 and note 27). On an undiscounted basis this liability has a value of £81.0m.

Goodwill has arisen on the acquisitions of Marks and Spencer Mannopoulos B V and COMS a s due to the opportunities to facilitate a faster rate of growth and greater operating efficiency that do not meet the criteria for recognition as an intangible asset at the date of acquisition.

26 Share capital

	2008		2007	
	Shares	£m	Shares	£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 of year	1,699,773,100	424.9	1,682,437,014	420.6
Shares issued on exercise of share options	12,447,224	3.1	17,336,086	4.3
Shares purchased in buy back	(125,741,901)	(31.4)	–	–
At end of year	1,586,478,423	396.6	1,699,773,100	424.9

Issue of new shares

12,447,224 (last year 17,336,086) ordinary shares having a nominal value of £3.1m (last year £4.3m) were allotted during the year under the terms of the Company's schemes which are described in note 12. The aggregate consideration received was £31.6m (last year £44.9m).

Share buy back

125,741,901 (last year nil) ordinary shares having a nominal value of £31.4m (last year £nil) were bought back and subsequently cancelled during the year in accordance with the authority granted by shareholders at the Annual General Meeting in July 2007. The aggregate consideration paid was £55.9m (last year £nil).

27 Statement of changes in shareholders' equity

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Other reserve ¹ £m	Retained earnings ² £m	Total £m
At 2 April 2006	420.6	162.3	2,113.8	(8.0)	(6,542.2)	5,057.2	1,203.7
Profit for the year attributable to shareholders	-	-	-	-	-	659.9	659.9
Dividends	-	-	-	-	-	(260.6)	(260.6)
Foreign currency translation	-	-	-	-	-	(14.0)	(14.0)
Shares issued on exercise of employee share options	4.3	40.6	-	-	-	-	44.9
Redemption of B shares	-	-	54.7	-	-	(54.7)	-
Purchase of own shares held by employee trust	-	-	-	-	-	(18.4)	(18.4)
Purchase of call option for Company's shares	-	-	-	-	-	(17.3)	(17.3)
Actuarial loss on retirement benefit deficit	-	-	-	-	-	(8.6)	(8.6)
Deferred tax on retirement benefit deficit	-	-	-	-	-	4.0	4.0
Deferred tax on share schemes	-	-	-	-	-	22.3	22.3
Charge for share-based payments	-	-	-	-	-	27.3	27.3
Cash flow and net investment hedges	-	-	-	-	-	-	-
- losses deferred in equity	-	-	-	(7.4)	-	-	(7.4)
- recycled and reported in net profit	-	-	-	10.7	-	-	10.7
- amount recognised in inventories	-	-	-	2.1	-	-	2.1
- tax on fair value gains	-	-	-	(1.8)	-	-	(1.8)
At 31 March 2007	424.9	202.9	2,168.5	(4.4)	(6,542.2)	5,397.1	1,646.8
At 1 April 2007	424.9	202.9	2,168.5	(4.4)	(6,542.2)	5,397.1	1,646.8
Profit for the year attributable to shareholders	-	-	-	-	-	821.7	821.7
Dividends	-	-	-	-	-	(343.6)	(343.6)
Foreign currency translation	-	-	-	-	-	21.3	21.3
Shares issued on exercise of employee share options	3.1	28.5	-	-	-	-	31.6
Shares purchased in buy back	(31.4)	-	31.4	-	-	(555.9)	(555.9)
Purchase of own shares held by employee trust	-	-	-	-	-	(31.9)	(31.9)
Put option for acquisition of minority interest ⁴	-	-	-	-	-	(52.2)	(52.2)
Actuarial gain on retirement benefit asset	-	-	-	-	-	605.4	605.4
Deferred tax on retirement benefit asset	-	-	-	-	-	(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 ⁵	-	-	-	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	396.6	231.4	2,199.9	(36.9)	(6,542.2)	5,707.9	1,956.7

¹ The Other reserve was created as part of the capital restructuring that took place in 2002. It represents the difference between the nominal value of the shares issued prior to the capital reduction by the Company (being the carrying value of the investment in Marks and Spencer plc) and the share capital: share premium and capital redemption reserve of Marks and Spencer plc at the date of the transaction.

² Cumulative goodwill of £nil (last year £nil) arising on the acquisition of subsidiaries has been written off against retained earnings.

³ Includes a cumulative £18.4m gain (last year £2.9m loss) in the currency reserve.

⁴ Fair value of the put option over the 49% minority interest in the share capital of COMS as at 29 March 2008.

⁵ Amounts recycled and reported in net profit have all been recorded in cost of sales.

About us

Key performance
indicators

Business review

Financial review

Governance

Financial statements

Shareholder
information

Notes to the financial statements

continued

28 Contingencies and commitments

A Capital commitments

	2008 £m	2007 £m
Commitments in respect of properties in the course of construction	182.8	265.8

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

	2008 £m	2007 £m
Total future minimum rentals under non-cancellable operating leases expiring		
Not later than one year	17.9	10.6
Later than one year and not later than five years	90.4	57.4
Later than five years and not later than 25 years	2,223.6	1,778.3
Later than 25 years	1,492.4	1,527.6
Total	3,824.3	3,373.9

The total future sublease payments to be received are £70.5m (last year £68.8m)

29 Analysis of cash flows given in the cash flow statement

A Cash flows from operating activities – continuing

	52 weeks ended 29 March 2008 £m	52 weeks ended 31 March 2007 £m
Profit on ordinary activities after taxation	821.0	659.2
Income tax expense	308.1	277.5
Interest payable and similar charges	146.6	143.0
Interest receivable	(64.4)	(33.8)
Operating profit	1,211.3	1,045.9
Increase in inventories	(54.4)	(42.8)
(Increase)/decrease in receivables	(33.5)	12.5
Payments to acquire leasehold properties	(47.6)	(13.5)
(Decrease)/increase in payables	(61.9)	136.6
Exceptional operating cash outflow (see note 29F)	(2.5)	(4.2)
Depreciation and amortisation	317.6	282.7
Share-based payments	29.0	27.3
Profit on property disposals	(27.0)	(1.9)
Exceptional pension credit	(95.0)	–
Cash generated from operations – continuing	1,236.0	1,442.6

B Cash flows from operating activities – discontinued

Last year £0.7m cash was generated from the discontinued operations of Kings Super Markets Inc

29 Analysis of cash flows given in the cash flow statement continued
C Capital expenditure and financial investment

	52 weeks ended 29 March 2008 £m	52 weeks ended 31 March 2007 £m
Purchase of property, plant and equipment	(958 4)	(666 9)
Proceeds from sale of property, plant and equipment	91 6	2 9
Purchase of intangible fixed assets	(60 6)	(46 5)
Sale of non-current financial assets	-	0 3
Sale/(purchase) of current financial assets	2 8	(2 6)
	(924 6)	(712 8)

D Other debt financing

Cash inflow from borrowings	8 7	21 6
Drawdown of syndicated bank facility	317 6	296 4
Redemption of securitised loan notes	-	(319 6)
Redemption of medium term notes	-	(818 2)
Issue of medium term notes	631 7	397 5
Decrease in obligations under finance leases	(3 5)	(2 2)
Redemption of B shares	-	(54 7)
	954 5	(479 2)

E Other equity financing

Shares issued on exercise of employee share options	31 6	44 9
Shares purchased in buy back	(555 9)	-
Purchase of own shares held by employee trust	(31 9)	(18 4)
Purchase of call option for Company's shares	-	(17 3)
	(556 2)	9 2

F Exceptional operating cash flows

UK restructuring costs	(2 2)	(2 8)
Closure of Lifestore	-	(0 7)
Closure of European operations	(0 3)	(0 7)
	(2 5)	(4 2)

Additions to property, plant and equipment during the year amounting to £23 5m (last year £13 6m) were financed by new finance leases

About us

Key performance
indicators

Business review

Financial review

Governance

Financial statements

Shareholder
information

Notes to the financial statements

continued

30 Analysis of net debt

A Reconciliation of movement in net debt

	At 1 April 2007 £m	Cash flow £m	Acquisitions £m	Exchange and other non-cash movements £m	At 29 March 2008 £m
Net cash					
Bank loans (see note 21)	(456 1)	(393 3)	(22 0)	–	(871 4)
Less amounts treated as financing (see below)	323 0	326 3	22 0	–	671 3
	(133 1)	(67 0)	–	–	(200 1)
Cash and cash equivalents (see note 19)	180 1	132 5	3 9	1 5	318 0
Net cash per cash flow statement	47 0	65 5	3 9	1 5	117 9
Current financial assets (see note 17)	50 9	(2 8)	–	0 7	48 8
Debt financing					
Bank loans, overdrafts and commercial paper treated as financing (see above)	(26 6)	(8 7)	(22 0)	–	(57 3)
Syndicated bank facility (see note 21)	(296 4)	(317 6)	–	–	(614 0)
Medium term notes (see note 21)	(1,167 2)	(631 7)	–	(13 3)	(1,812 2)
Finance lease liabilities (see note 21)	(61 6)	3 5	(7 6)	(17 8)	(83 5)
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 21)	(495 6)	–	–	(199 0)	(694 6)
Debt financing	(2,047 4)	(954 5)	(29 6)	(230 1)	(3,261 6)
Net debt	(1,949 5)	(891 8)	(25 7)	(227 9)	(3,094 9)

B Reconciliation of net debt to balance sheet

	2008 £m	2007 £m
Balance sheet and related notes		
Cash and cash equivalents	318 0	180 1
Current financial assets (see note 17)	48 8	50 9
Bank loans, overdrafts and commercial paper (see note 21)	(257 4)	(159 7)
Syndicated bank facility (see note 21)	(615 0)	(296 9)
Medium term notes (see note 21)	(1,859 2)	(1,177 3)
Finance lease liabilities (see note 21)	(83 5)	(61 6)
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 21)	(723 2)	(496 9)
	(3,171 5)	(1,961 4)
Interest payable included within related borrowing	76 6	11 9
Total net debt	(3,094 9)	(1,949 5)

31 Foreign exchange rates

	Weighted average sales rate		Weighted average profit rate		Balance sheet rate	
	2008	2007	2008	2007	2008	2007
Euro	1.40	1.48	1.41	1.47	1.26	1.47
US dollar	2.01	1.88	2.01	1.88	1.99	1.96
Hong Kong dollar	15.62	14.77	15.61	14.77	15.52	15.31

32 Related party transactions**A Subsidiaries**

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 Marks & Spencer Pension Scheme

Details of other transactions and balances held with the Marks & Spencer Pension Scheme are set out in note 11.

D Key management compensation

	2008 £m	2007 £m
Salaries and short-term benefits	8.1	9.6
Post-employment benefits	0.4	0.4
Termination benefits	0.4	—
Share-based payments	12.3	6.7
Total	21.2	16.7

Key management includes the Directors, the Group Secretary and only those members of key management who are members of the Executive Committee. 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.

E 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, who became a director during the year. These transactions amounted to £5.4m during the year (last year £5.2m) with an outstanding trade payable of £0.1m at 29 March 2008 (last year £0.2m). The company was a supplier prior to Kate's employment by the Group.

Company income statement

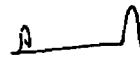
	Notes	52 weeks ended 29 March 2008 £m	52 weeks ended 31 March 2007 £m
Other operating income		0 1	–
Operating profit	C2 C3	0 1	–
Income from shares in Group undertakings		344 0	260 6
Finance costs	C4	–	(0 2)
Profit for the year attributable to shareholders		344 1	260 4

Company balance sheet

	Notes	2008 £m	2007 (restated) £m
Assets			
Non-current assets			
Investments in Group undertakings	C6	9,147 4	9,135 6
Current assets			
Trade and other receivables		0 2	0 1
Total assets		9,147 6	9,135 7
Liabilities			
Current liabilities			
Amounts owed to Group undertakings		2,584 6	2,060 8
Trade and other payables		1 0	0 9
Total liabilities		2,585 6	2,061 7
Net assets		6,562 0	7,074 0
Equity			
Called-up share capital – equity		396 6	424 9
Share premium account	C7	231 4	202 9
Capital redemption reserve	C7	2,199 9	2,168 5
Merger reserve	C7	1,397 3	1,397 3
Retained earnings	C7	2,336 8	2,880 4
Total equity		6,562 0	7,074 0

The financial statements were approved by the Board and authorised for issue on 19 May 2008. The financial statements also comprise the notes on pages 94 and 95.

Sir Stuart Rose, Chief Executive
Ian Dyson, Group Finance and Operations Director

Company statement of changes in shareholders' equity

	52 weeks ended 29 March 2008 £m	52 weeks ended 31 March 2007 £m
Profit attributable to shareholders	344.1	260.4
Dividends	(343.6)	(260.6)
	0.5	(0.2)
Capital contribution for share-based payments	11.8	13.3
Shares purchased in buy back	(555.9)	-
Shares issued on the exercise of employee share options	31.6	44.9
Change in shareholders' equity	(512.0)	58.0
Opening shareholders' equity as previously reported	6,984.5	6,939.8
Prior year adjustment (see note C7)	89.5	76.2
Opening shareholders' equity	7,074.0	7,016.0
Closing shareholders' equity	6,562.0	7,074.0

Company cash flow statement

	52 weeks ended 29 March 2008 £m	52 weeks ended 31 March 2007 £m
Cash flows from operating activities		
Cash generated from operations	0.1	0.9
Net cash inflow from operating activities	0.1	0.9
Cash flows from investing activities		
Dividends received	344.0	260.6
Net cash inflow from investing activities	344.0	260.6
Cash flows from financing activities		
Interest paid	-	(0.2)
Shares purchased in buy back	(555.9)	-
Redemption of non-equity B shares	-	(54.7)
Shares issued on exercise of employee share options	31.6	44.9
Drawdown of intercompany loan	523.8	9.1
Equity dividends paid	(343.6)	(260.6)
Net cash outflow from financing activities	(344.1)	(261.5)
Net cash inflow from activities	-	-
Cash and cash equivalents at beginning and end of year	-	-

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

C2 Employees

The Company had no employees during the current or prior year. Directors received emoluments in respect of their services to the Company during the year of £822,000 (last year £751,000). The Company did not operate any pension schemes during the current or preceding year.

C3 Auditors' remuneration

Auditors' remuneration in respect of the Company's annual audit has been borne by its subsidiary Marks and Spencer plc and has been disclosed on a consolidated basis in the Company's consolidated financial statements as required by section 227A of the Companies Act 1985.

C4 Finance costs

Dividends of £nil (last year £0.2m) were paid in respect of non-equity B shares.

C5 Dividends

	2008 per share	2007 per share	2008 £m	2007 £m
Dividends on equity ordinary shares				
Paid final dividend	12.0p	9.2p	203.5	154.6
Paid interim dividend	8.3p	6.3p	140.1	106.0
	20.3p	15.5p	343.6	260.6

In addition, the directors have proposed a final dividend in respect of the year ended 31 March 2008 of 14.2p per share amounting to a dividend of £217.9m. It will be paid on 11 July 2008 to shareholders who are on the Register of Members on 30 May 2008. In line with the requirements of IAS 10 – 'Events after the Balance Sheet Date', this dividend has not been recognised within these results.

C6 Investments

A Investments in Group undertakings

	2008 £m	2007 £m
Beginning of the year as previously reported	9,046.1	9,046.1
Prior year adjustment (see note C7)	89.5	76.2
Beginning of the year restated	9,135.6	9,122.3
Additional investment in subsidiary	11.8	13.3
End of year	9,147.4	9,135.6

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

B Principal subsidiary undertakings

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

	Principal activity	Country of incorporation and operation	Proportion of voting rights and shares held by	
			Company	A subsidiary
Marks and Spencer plc	Retailing	Great Britain	100%	–
Marks and Spencer International Holdings Limited	Holding Company	Great Britain	–	100%
Marks and Spencer (Nederland) BV	Holding Company	The Netherlands	–	100%
Marks and Spencer Mannopoulos BV	Holding Company	The Netherlands	–	50%
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 Finance plc	Finance	Great Britain	–	100%
Marks and Spencer Chester Limited	Property Investment	Great Britain	–	100%
Marks and Spencer SCM Limited	Procurement	Great Britain	–	100%
Per Una Group Limited	Procurement	Great Britain	–	100%
Marks and Spencer Scottish Limited Partnership	Property Investment	Great Britain	–	– ¹

¹ Marks and Spencer plc is a 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.

C7 Statement of changes in shareholders' equity

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Merger reserve £m	Retained earnings £m	Total £m
At 2 April 2006 as previously reported	420.6	162.3	2,113.8	1,397.3	2,845.8	6,939.8
Prior year adjustment	–	–	–	–	76.2	76.2
At 2 April 2006 restated	420.6	162.3	2,113.8	1,397.3	2,922.0	7,016.0
Profit for the year attributable to shareholders	–	–	–	–	260.4	260.4
Dividends	–	–	–	–	(260.6)	(260.6)
Capital contribution for share-based payments	–	–	–	–	13.3	13.3
Shares issued on exercise of employee share options (see note 12)	4.3	40.6	–	–	–	44.9
Redemption of B shares	–	–	54.7	–	(54.7)	–
At 31 March 2007	424.9	202.9	2,168.5	1,397.3	2,880.4	7,074.0
At 1 April 2007	424.9	202.9	2,168.5	1,397.3	2,880.4	7,074.0
Profit for the year attributable to shareholders	–	–	–	–	344.1	344.1
Dividends	–	–	–	–	(343.6)	(343.6)
Capital contribution for share-based payments	–	–	–	–	11.8	11.8
Shares purchased in buy back	(31.4)	–	31.4	–	(555.9)	(555.9)
Shares issued on exercise of employee share options (see note 12)	3.1	28.5	–	–	–	31.6
At 29 March 2008	396.6	231.4	2,199.9	1,397.3	2,336.8	6,562.0

Prior year adjustment

Following the implementation of IFRIC 11 – 'IFRS 2 – Group and Treasury Share Transactions', the opening balance sheet at 2 April 2006 has been restated to recognise £76.2m of capital contribution to the subsidiary in respect of equity-settled share-based payment transactions.

C8 Related party transactions

During the year, the Company has received dividends from Marks and Spencer plc of £344.0m (last year £260.6m) and has increased its loan from Marks and Spencer plc by £523.8m (last year £9.1m). The outstanding balance was £2,584.6m (last year £2,060.8m). There were no other related party transactions.

Group financial record

The figures for 2005 to 2008 are prepared under IFRS. The figures for 2004 are UK GAAP figures presented in the same format as the 2005 to 2008 figures.

	IFRS 2008 52 weeks £m	IFRS 2007 52 weeks £m	IFRS 2006 52 weeks £m	IFRS 2005 52 weeks £m	UK GAAP 2004 53 weeks £m
Income statement					
Revenue – continuing operations	9,022 0	8,588 1	7,797 7	7,490 5	7,728 1
Operating profit – continuing operations					
UK Retail	1,095 9	956 7	784 5	528 0	738 6
International Retail	115 4	89 2	65 6	70 1	45 0
Total operating profit	1,211 3	1,045 9	850 1	598 1	783 6
Net interest payable	(141 1)	(130 0)	(121 9)	(104 4)	(45 7)
Pension finance income/(charge)	58 9	20 8	17 5	11 4	(15 2)
Profit on ordinary activities before taxation – continuing operations	1,129 1	936 7	745 7	505 1	722 7
Analysed between					
Before property disposals and exceptional items	1,007 1	965 2	751 4	556 1	746 1
Profit/(loss) on property disposals	27 0	19	(5 7)	(0 4)	18 7
Exceptional pension credit	95 0	–	–	–	–
Exceptional finance costs	–	(30 4)	–	–	–
Exceptional operating costs	–	–	–	(50 6)	(42 1)
Income tax expense	(308 1)	(277 5)	(225 1)	(150 1)	(225 1)
Profit after taxation	821 0	659 2	520 6	355 0	497 6
Profit from discontinued operations	–	0 7	2 5	231 2	54 7
Minority interests	0 7	–	–	–	–
Profit attributable to shareholders	821 7	659 9	523 1	586 2	552 3

	IFRS 2008 £m	IFRS 2007 £m	IFRS ¹ 2006 £m	IFRS ¹ 2005 £m	UK GAAP 2004 £m
Balance sheet					
Non-current assets					
Intangible assets	305 5	194 1	163 5	165 4	–
Property, plant and equipment (including investment properties)	4,729 0	4,069 6	3,614 3	3,624 8	3,497 6
Joint venture and other financial assets	12 6	12 3	12 3	9 0	10 0
Retirement benefit asset	504 0	–	–	–	–
Trade and other receivables	428 2	247 0	242 8	211 2	1,779 3
Deferred tax assets	–	11 6	83 9	73 0	203 5
Non-current assets	5,979 3	4,534 6	4,116 8	4,083 4	5,490 4
Current assets	1,181 7	846 4	1,142 1	832 3	2,086 7
Total assets	7,161 0	5,381 0	5,258 9	4,915 7	7,577 1
Current liabilities	(1,988 9)	(1,606 2)	(2,017 0)	(1,237 4)	(1,919 9)
Non-current liabilities					
Retirement benefit deficit	(20 5)	(283 3)	(794 9)	(676 0)	(669 5)
Other non-current liabilities	(3,187 6)	(1,843 3)	(1,243 3)	(2,044 7)	(2,533 7)
Total liabilities	(5,197 0)	(3,732 8)	(4,055 2)	(3,958 1)	(5,123 1)
Net assets	1,964 0	1,648 2	1,203 7	957 6	2,454 0

¹ Non-current deferred tax assets have been restated by £48.4m in 2005 and 2006 due to a change in accounting policy (see note 25).

	IFRS 2008 52 weeks £m	IFRS 2007 52 weeks £m	IFRS 2006 52 weeks £m	IFRS 2005 52 weeks £m	UK GAAP 2004 53 weeks £m
Cash flow					
Cash flows from operating activities					
Generated from operating activities	1,236 0	1,443 3	1,197 5	1,601 8	666 5
Taxation paid	(166 2)	(150 8)	(101 5)	(166 7)	(220 4)
Cash flows from operating activities	1,069 8	1,292 5	1,096 0	1 435 1	446 1
Cash flows from investing activities					
Acquisitions and disposals	(46 4)	48 8	–	351 1	51 3
Capital expenditure and financial investment	(924 6)	(712 8)	(266 3)	(113 5)	(317 4)
Interest received	4 8	13 2	12 9	15 4	14 4
Cash flows from investing activities	(966 2)	(650 8)	(253 4)	253 0	(251 7)
Cash flows from financing activities					
Interest paid ¹	(88 9)	(145 0)	(142 8)	(116 5)	(61 2)
Non-equity dividend paid	–	–	–	(2 8)	(3 0)
Other debt financing	954 5	(479 2)	(420 0)	757 1	413 6
Equity dividends paid	(343 6)	(260 6)	(204 1)	(236 9)	(247 1)
Other equity financing	(556 2)	9 2	55 8	(2,265 1)	(66 6)
Cash flows from financing activities	(34 2)	(875 6)	(711 1)	(1,864 2)	35 7
Net cash inflow/(outflow) from activities	69 4	(233 9)	131 5	(176 1)	230 1

¹ 2007 includes £21 6m of exceptional finance costs

About us

Key performance
indicators

Business review

Financial review

Governance

Financial statements

Shareholder
information

Group financial record

continued

Key performance measures

		IFRS 2008 52 weeks	IFRS 2007 52 weeks	IFRS 2006 52 weeks	IFRS 2005 52 weeks	UK GAAP 2004 53 weeks
Gross margin ¹	<u>Gross profit</u> Revenue	38.6%	38.9%	38.3%	34.7%	35.4%
Net margin ¹	<u>Operating profit</u> Revenue	13.4%	12.2%	10.9%	8.0%	9.9%
Net margin excluding property disposals and exceptional items		12.1%	12.2%	11.0%	8.7%	10.2%
Profitability ¹	<u>Profit before tax</u> Revenue	12.5%	10.9%	9.6%	6.7%	9.4%
Profitability excluding property disposals and exceptional items		11.2%	11.2%	9.6%	7.4%	9.7%
Basic earnings per share ¹	<u>Basic earnings</u> Weighted average ordinary shares in issue	49.2p	39.1p	31.3p	17.6p	24.2p
Earnings per share adjusted for property disposals and exceptional items ¹		43.6p	40.4p	31.4p	19.2p	24.7p
Dividend per share declared in respect of the year		22.5p	18.3p	14.0p	12.1p	11.5p
Dividend cover	<u>Profit attributable to shareholders</u> Dividend payable	2.3x	2.1x	2.2x	2.9x	2.1x
Return on equity ²	<u>Profit attributable to shareholders</u> Average equity shareholders' funds	45.6%	46.3%	50.0%	35.1%	25.2%
Retail gearing ²	<u>Retail debt + net post-retirement liability</u> Retail debt + net post-retirement liability + retail shareholders' funds	64.0%	59.1%	68.8%	76.2%	44.7%
Retail fixed charge cover	<u>Operating profit before depreciation and operating lease charges</u> Fixed charges ³	5.3x	5.9x	4.9x	4.1x	7.3x
Net debt ⁴ (£m)		3,094.9	1,949.5	1,729.3	2,147.7	1,994.7
Capital expenditure ⁵ (£m)		1,102.9	792.4	337.7	229.4	433.5

1 Based on continuing operations

2 Retail shareholders' funds for 2005 and 2006 have been restated to recognise £48.4m of additional tax assets and reserves following the change in external interpretation of IAS 12 - Income Taxes

3 Fixed charges are defined as net interest payable and operating leases payable

4 Excludes accrued interest

5 2008 includes £48.4m of goodwill

Shareholder information

Ordinary shares

As at 29 March 2008, there are 223,128 holders of ordinary shares whose shareholdings are analysed below. We also have a further 38,000 investors holding shares via our Corporate nominee.

Size of shareholding	Number of shareholders	Percentage of total shareholders	Number of ordinary shares	Percentage of ordinary shares
1 – 500	110,900	49.70	22,118,506	1.39
501 – 1,000	45,179	20.25	33,575,904	2.12
1,001 – 2,000	34,569	15.49	49,132,796	3.10
2,001 – 5,000	23,065	10.34	70,303,326	4.43
5,001 – 10,000	5,848	2.62	40,471,985	2.55
10,001 – 100,000	2,907	1.30	68,418,477	4.31
100,001 – 1,000,000	472	0.21	165,817,566	10.45
1,000,001 – Highest	188	0.09	1,136,639,863	71.65
Total	223,128	100.00	1,586,478,423	100.00

Shareholders are further analysed as follows:

Type of owner	Number of shareholders	Percentage of total shareholders	Number of ordinary shares	Percentage of ordinary shares
Private holders	212,856	95.40	334,217,456	21.07
Institutional and corporate holders	10,272	4.60	1,252,260,967	78.93
Total	223,128	100.00	1,586,478,423	100.00

Further information on many of the topics covered in these pages can be found under the 'Investor' section of our website.

Shareholder vouchers

We currently send a booklet of discount vouchers to our shareholders each year. At present there is no minimum holding requirement to receive these; you just need to be a shareholder at the qualifying date, which is normally the dividend record date prior to mailing. The vouchers for 2007/08 were distributed in January and were valid throughout February and March 2008.

Dividends

Shareholders are able to choose how they receive their dividends:

- direct to their bank account,*
- paid in foreign currencies,
- reinvested in M&S shares, or
- paid by cheque

*M&S preferred option

The quickest and most efficient way to receive your dividends is to have them paid direct to your bank account. It saves waiting for funds to clear and reduces the paper and postage we use. Those selecting this payment method receive a consolidated tax voucher at their registered address each January. However, we are able to send a tax voucher with each payment if preferred. To change how you receive your dividends either log on to shareview.co.uk or contact Equiniti.

Financial calendar

Record date to be eligible for the final dividend

30 May 2008

AGM – Royal Festival Hall, London

9 July 2008

Final ordinary dividend for the year to 29 March 2008 to be paid
11 July 2008

Half year results to be announced
4 November 2008*

Record date to be eligible for the interim dividend

14 November 2008*

Interim ordinary dividend to be paid

9 January 2009*

provisional dates

Company website

In July 2008 we will be launching our new corporate website. This will provide a number of interactive features and a greater wealth of information. Shareholders can be kept up-to-date with the latest news, as well as watch recordings of past AGMs and our financial results presentations. Our AGM is again being broadcast live on the internet and details of how to view this are included in the Notice of Meeting. The directors are responsible for the maintenance and integrity of the financial information on our website. This information has been prepared under relevant accounting standards and legislation. We welcome feedback on the website. Please email comments to chairman@marks-and-spencer.com.

Electronic communication

Registering for online communication gives shareholders more control of their shareholding. The registration process is via our registrars' secure website shareview.com. Once registered shareholders are able to:

- elect how we communicate with them,
- amend their details,
- amend the way dividends are received, and
- buy or sell shares online

This doesn't mean shareholders can no longer receive paper copies of documents. We are able to offer a range of services and tailor communication to meet our shareholders' needs, mailing hard copy documents to those who request them. Informed choices, aligned to new technology will reduce the amount of paper, print and postage we use. Together, we can minimise waste and our impact on the environment. For further information go to the Investor section of our website.

Shareholder information

continued

Electronic shareholding

Shareholders can hold shares electronically in our Corporate nominee account. This

- gives increased security for personal details,
- removes the need for a share certificate, and
- provides share dealing at competitive rates

For further information please contact our registrars, Equiniti

Half year results

Our half year results will be available on our website in November 2008

Lost shareholders

As announced at last year's AGM we are taking a more proactive approach to return unclaimed funds to shareholders who have failed to keep their details up to date. We launched a search programme with Trust Research Services (TRS), who specialise in reuniting people with their unclaimed assets.

Working closely with TRS and our registrars, Equiniti, we have been able to return unclaimed dividends amounting to over £1m, and put these shareholders or beneficiaries back in touch with 2 million shares. Further information can be found on our website.

Shareholder security

Shareholders are advised to be wary of any unsolicited advice, offers to buy shares at a discount, or offers of free reports about the Company. Details of any share dealing facilities that the Company endorses will be included in Company mailings or on our website. More detailed information can be found at fsa.gov.uk/consumer

ShareGift

Shareholders with a small number of shares, the value of which makes it uneconomical to sell, may wish to consider donating them to the charity ShareGift (Registered charity no. 1052686). The Company and its shareholders are active supporters of ShareGift donating over £200,000 to date. Find out more about ShareGift at sharegift.org or by telephoning ShareGift on +44 (0)20 930 3737.

American Depositary Receipts (ADRs)

The Company has a Level 1 ADR programme. This enables US investors to purchase Marks & Spencer American Depositary Shares (ADS) in US Dollars 'over the counter'. Each ADS represents two ordinary shares. In February 2008 we changed our ADR sponsor from JP Morgan Chase Bank NA to Deutsche Bank Trust Company Americas. For further information, please contact Deutsche Bank email DB@amstock.com website adr.db.com

Toll-free for callers within the US 1 866 249 2593
For those calling outside the US +1 (718) 921 8137

How we do business

An update on Plan A, our five-year 'eco plan' to address key social and environmental challenges facing M&S, is available online at marksandspencer.com/annualreport08

Unsolicited mail

The Company is obliged by law to make its share register publicly available should a request be received. As a consequence, some shareholders may receive unsolicited mail. To limit the amount of unsolicited received, please contact

The Mailing Preference Service (MPS)
DMA House, 70 Margaret Street, London W1W 8SS

Alternatively, register online at mpsonline.org.uk or call the MPS Registration line on 0845 703 4599

The mailing preference service is an independent organisation which offers a free service to the public within the UK. Registering with them will help stop most unsolicited consumer advertising material.

Registered office and Head office

Waterside House, 35 North Wharf Road, London W2 1NW
Registered in England and Wales (No. 4256886)
Telephone +44 (0)20 7935 4422

Group Secretary and Head of Corporate Governance

Graham Oakley

Registrars

Equiniti Limited,
Aspect House, Spencer Road, Lancing,
West Sussex BN99 6DA

Telephone 0845 609 0810
and outside the UK +44 (0)121 415 7071

Further information

For additional copies of the Annual report or Summary financial statements go to marksandspencer.com/annualreport08

Alternatively, call 0800 591 697

Large print and audio files can be downloaded from our website

Contact us

email us at chairman@marks-and-spencer.com
Customer queries 0845 302 1234
Shareholder queries 0845 609 0810
(outside the UK) +44 (0)121 415 7071

Index

A	Page	F	Page	N	Page
Accounting policies	60	Finance costs/income	66, 94	Net debt	34, 59, 90, 98
Acquisitions	86	Finance leases	61, 66, 77, 80, 81, 82, 90	Nomination Committee	42
Audit Committee	42	Financial assets	79	Non-GAAP performance measures	64
Auditors' remuneration	66	Financial instruments	62, 82	O	
Auditors' report	56	Financial liabilities	80	Occupancy costs	65
Authorised share capital	86	Financial record	96	Operating assets	64
B		Financial review	33	Operating leases	61, 66, 88
B shares	87	Fixed charge cover	98	Operating liabilities	64
Balance sheet	58, 92	Food	17	Operating profit	2, 33, 57, 64, 92
Board	32	Footfall	3	P	
Bonus	33, 49, 53	Foreign exchange rates	91	Partnership liability	34, 81
Borrowing facilities	80	G		Pensions	34, 61, 70
Brand	10	Gearing	98	Plan A	30
C		Geographic segments	64	Prepaid leasehold premiums	79
Capital commitments	88	Going concern	38	Principal risks and uncertainties	44
Capital expenditure	34, 65, 98	Goodwill	61, 76, 86, 87	Property, plant and equipment	77
Cash flow statement	59, 93	Group directors' report	35	Property valuation	38
Chairman's foreword	4	H		Provisions	85
Charitable donations	38	Hedging reserve	87	R	
Chief Executive's statement	5	Home	16	Related party transactions	91, 95
Clothing	11	I		Remuneration Committee	42, 48
Corporate governance statement	39	Income statement	57, 92	Remuneration report	48
Cost of sales	65	Intangible assets	76	Reserves	87, 98
Critical accounting estimates and judgements	63	International Financial Reporting Standards	60	Retained earnings	87, 95
Customers	3	International retail	5, 8, 28, 64	Return on equity	98
D		Inventories	58, 62	Revenue	2, 33, 57, 64
Deferred tax	62, 67, 85	Investment property	78	Risk assessment	44
Depreciation	61, 65, 77	J		S	
Derivatives	62, 84	Joint venture	78, 91	Segmental information	64
Diluted earnings per share	68	K		Service	7, 22
Directors' emoluments	53, 69	Key performance indicators	2, 3	Share-based payments	73
Directors' interests	52, 54	Key performance measures	98	Shareholders' equity	87, 95
Directors' responsibilities	37	L		Shareholder information	99
Discontinued operation	67	Like-for-like sales	33	Share capital	86, 95
Dividend cover	98	M		Share issues	36, 86
Dividend per share	4, 34, 35, 69, 94, 98	Major shareholders	35	Share options	50, 54, 73
E		Margin (gross)	2, 9, 33, 98	Simply Food	19, 24
Earnings per share	2, 9, 34, 68, 98	Marketplace	11	Sourcing & supply chain	22
Employees	20	Market share	2	Statement of recognised income and expense	57
Environment	7, 24	Minority interest	57, 58	Stores	5, 7, 24
Exceptional items	33, 64, 65, 86	Modernisation programme	24	Subsidiary undertakings	95
Executive team	8	Mystery shopper	3, 22	T	
		M&S Direct	26	Taxation	62, 67, 85
		M&S Money	6	Total shareholder return	52
				Trade and other payables	79
				Trade and other receivables	79

MARKS & SPENCER

marksandspencer.com/annualreport08

This report is printed on Revue uncoated, a
100% recycled paper made from post-consumer
collected waste. Revue uncoated is
manufactured to the certified environmental
management system ISO 14001.

Designed by Likemind www.likemindgroup.com

Printed by Royle Corporate Print