

Marks and Spencer plc

Annual Report and Financial Statements

Year ended 3 April 2004

Registered Number 214436



Directors' report

Principal activities

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

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

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

Review of activities and future performance

	2004 53 weeks	2003 As restated 52 weeks
<i>Summary of results from continuing operations</i>	<i>£m</i>	<i>£m</i>
Turnover (ex VAT)	8,301.5	8,019.1
Operating profit (before exceptional charges)	866.0	769.8
Exceptional operating charges	(42.1)	(43.9)
Operating profit (after exceptional charges)	823.9	725.9
Non-operating exceptional net income	18.7	0.1
Interest paid	(45.8)	(40.5)
Other finance (charges) / income	(15.2)	27.0
Profit on ordinary activities before tax	781.6	712.5
Dividend per share	9.2p	8.7p

Turnover from continuing operations increased by 3.5% to £8,301.5m. Within this, UK Retail turnover increased by 3.8%.

Operating profit from continuing operations (before exceptional charges) increased by 12.5% to £866.0m.

Net interest expense was £45.8m compared to £40.5m last year. The average rate of interest on borrowings during the period was 5.3%.

Profit before tax was £781.6m compared to £712.5m last year.

Further details of the Group's activities and of the future activities of the Group are contained within the Annual report and financial statements of Marks and Spencer Group plc.

Profit and dividends

The profit for the financial year, after taxation and minority interests amounts to £552.3m (last year £504.0m). The directors have declared dividends as follows:

Ordinary shares	£m
Proposed final, 9.2p per share (last year 8.7p)	262.0

Changes in share capital

During the period, 1,632,600 ordinary shares in the Company were issued for a consideration of £5.6m

Directors and their interests

The directors who held office during the year are: -

Luc Vandeveld (retired 31 May 2004)
 Roger Holmes (retired 31 May 2004)
 Maurice Helfgott (appointed 19 November 2003)
 Justin King (retired 19 November 2003)
 David Norgrove (retired 31 March 2004)
 Graham Oakley
 Laurel Powers-Freeling
 Vittorio Radice (retired 9 June 2004)
 Alison Reed

Mark McKeon was appointed a director of the Company on 5 April 2004 and Stuart Rose and Charles Wilson were appointed directors on 31 May 2004.

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

The interest of Graham Oakley in the shares of the ultimate holding company, Marks and Spencer Group plc, are as follows: -

	Ordinary shares	B shares
At 29 March 2003	73,874	3,110
At 3 April 2004	122,446	3,110

	Options	Exercisable options
At 29 March 2003	842,535	35,136
Granted in the period	195,286	
Exercised / lapsed in the period	(9,037)	
At 3 April 2004	1,028,784	364,611

Employee involvement

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

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

The ninth meeting of the European Council took place during the year in July 2003. This council provides an additional forum for communicating with employee representatives from the countries in the European Community.

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

Directors' report *continued*

Employee involvement *continued*

We continue to support employee share ownership through long-established employee share schemes, membership of which is service-related.

Equal opportunities

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

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

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

Employees with disabilities

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

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

Creditor payment policy

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

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

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

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

Trade creditor days for the Company for the year ended 3 April 2004 were 12.3 days, or 8.3 working days (last year 12.7 days, or 8.7 working days), based on the ratio of company trade creditors at the end of the year to the amounts invoiced during the year by trade creditors.

Charitable and political donations

During the year, £7.2m (last year £6.5m) was spent in the UK in support of the community. Within this figure, direct donations to charitable organisations amounted to £4.1m (last year £4.9m).

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

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

Property valuation

Since the year-end, the Group's property portfolio has been valued by a firm of external valuers (DTZ). The property portfolio has been valued on an Existing Use Value at approximately £3.6bn. This compares to a current net book value of £2.2bn, giving a surplus over net book value of approximately £1.4bn.

The Group is not intending to dispose of the property portfolio. However, the estimated amount of tax on chargeable gains that would be payable on the portfolio if it were sold at a value of £3.6 billion is approximately £230 million. The calculation relates only to the tax on potential gains.

Directors' responsibilities for preparing the financial statements

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

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

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

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

In addition, the directors are responsible for maintaining adequate accounting records and sufficient internal controls to safeguard the assets of the Group and to prevent and detect fraud or any other irregularities.

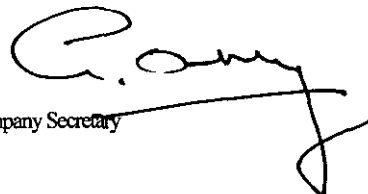
Auditors

A resolution to re-appoint PricewaterhouseCoopers LLP as auditors of the Company will be proposed at the Annual General Meeting.

By order of the Board

Graham Oakley, Company Secretary
London

3 September 2004



Auditors' report

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

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

Respective responsibilities of directors and auditors

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

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

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

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the

Company's and Group's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group at 3 April 2004 and of the profit and cash flows of the Group for the period then ended, and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers UK
PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
3 September 2004

Consolidated profit and loss account

	Notes	53 weeks ended 3 April 2004			52 weeks ended 29 March 2003		
		Before Exceptional items £m	Exceptional items (note 4) £m	Total £m	Before exceptional items As restated £m	Exceptional items (note 4) £m	Total As restated £m
Total turnover – continuing operations	2	8,301.5	–	8,301.5	8,019.1	–	8,019.1
Operating profit – continuing operations	2,3	866.0	(42.1)	823.9	769.8	(43.9)	725.9
Profit on sale of property and other fixed assets	4B	–	18.7	18.7	–	1.6	1.6
Loss on sale/termination of operations:	4C						
Loss arising on sale/termination		–	(26.8)	(26.8)	–	(12.3)	(12.3)
Less provision made in 2001		–	26.8	26.8	–	10.8	10.8
Net loss on sale/termination of operations		–	–	–	–	(1.5)	(1.5)
Net interest expense	5	(45.8)	–	(45.8)	(40.5)	–	(40.5)
Other finance (charges)/income	10C	(15.2)	–	(15.2)	27.0	–	27.0
Profit/(loss) on ordinary activities before taxation		805.0	(23.4)	781.6	756.3	(43.8)	712.5
Taxation on ordinary activities	6	(242.0)	12.7	(229.3)	(218.0)	9.1	(208.9)
Profit/(loss) on ordinary activities after taxation		563.0	(10.7)	552.3	538.3	(34.7)	503.6
Minority interests (all equity)		–	–	–	0.4	–	0.4
Profit/(loss) attributable to shareholders		563.0	(10.7)	552.3	538.7	(34.7)	504.0
Dividends	8	(262.0)	–	(262.0)	(247.7)	–	(247.7)
Retained profit/(loss) for the period		301.0	(10.7)	290.3	291.0	(34.7)	256.3
Dividend per share	8			9.2p			8.7p

NOTE OF GROUP HISTORICAL COST PROFITS AND LOSSES

	Notes	53 weeks ended 3 April 2004 £m	52 weeks ended 29 March 2003 As restated £m
Profit on ordinary activities before taxation		781.6	712.5
Realisation of property revaluation surplus	24	0.5	4.1
Share of joint venture's revaluation surplus realised on disposal		–	10.4
Revaluation element of depreciation charge	24	1.0	1.4
Historical cost profit on ordinary activities before taxation		783.1	728.4
Historical cost retained profit for the period		291.8	272.2

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Notes	53 weeks ended 3 April 2004 £m	52 weeks ended 29 March 2003 As restated £m
Profit attributable to shareholders		552.3	504.0
Exchange differences on foreign currency translation	24	(15.9)	3.4
Unrealised surplus/(deficit) on revaluation of investment properties	24	7.3	(0.8)
Impairment of previously revalued properties	24	(20.0)	–
Actuarial gains/(losses) net of taxation	24	150.4	(627.9)
Total recognised gains and losses relating to the period		674.1	(121.3)
Prior year adjustments	24	(928.3)	
Total recognised gains and losses since last annual report		(254.2)	

Balance sheets

		Group		Company	
		3 April	29 March	3 April	29 March
	Notes	2004	2003	2004	2003
		£m	£m	£m	£m
Fixed assets					
Tangible assets:					
Land and buildings		2,151.9	2,148.4	1,511.2	1,459.0
Fit out, fixtures, fittings and equipment		1,295.3	1,248.2	1,197.7	1,138.9
Assets in the course of construction		50.4	38.5	43.3	38.4
	12	3,497.6	3,435.1	2,752.2	2,636.3
Investments	13	14.0	31.5	429.7	427.5
		3,511.6	3,466.6	3,181.9	3,063.8
Current assets					
Stocks		398.0	361.8	336.0	304.7
Debtors:					
Receivable within one year	14A	3,141.5	2,952.1	3,374.1	3,144.9
Receivable after more than one year	14B	1,779.3	1,559.5	6.7	21.3
Investments	15	325.9	304.0	-	-
Cash at bank and in hand	16	394.7	167.9	86.3	92.9
		6,039.4	5,345.3	3,803.1	3,563.8
Current liabilities					
Creditors: amounts falling due within one year	18	(1,985.8)	(1,810.9)	(1,170.2)	(1,092.5)
Net current assets		4,053.6	3,534.4	2,632.9	2,471.3
Total assets less current liabilities		7,565.2	7,000.1	5,814.8	5,535.1
Creditors: amounts falling due after more than one year	19	(2,519.6)	(1,810.0)	(1,530.3)	(1,130.4)
Provisions for liabilities and charges	21	(49.3)	(186.1)	(32.0)	(137.9)
Net assets before net post-retirement liability		4,996.3	5,004.9	4,252.5	4,266.8
Net post-retirement liability	10	(469.5)	(895.8)	(465.7)	(888.5)
Net assets		4,526.8	4,109.1	3,786.8	3,378.3
Capital and reserves					
Called up share capital	23, 24	712.5	712.1	712.5	712.1
Share premium account	24	386.1	380.9	386.1	380.9
Capital redemption reserve	24	8.0	8.0	8.0	8.0
Revaluation reserve	24	356.4	370.6	285.0	279.2
Profit and loss account	24	3,063.8	2,637.5	2,395.2	1,998.1
Shareholders' funds (all equity)	24	4,526.8	4,109.1	3,786.8	3,378.3

Approved by the Board
3 September 2004
Alison Reed, Chief Financial Officer

Alison Reed

Notes to the financial statements

1. ACCOUNTING POLICIES

Basis of preparation

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

The Group has fully adopted the following new accounting standards, or amendments to existing standards issued by the UK Accounting Standards Board:

- FRS 17 – 'Retirement Benefits' (see note 10); and
- Application Note G of FRS 5 – 'Revenue Recognition' (see note 2);

The impact of adopting these standards has been reflected throughout the financial statements. Prior year comparatives have been restated where appropriate. A summary of the more important Group accounting policies, as amended by the adoption of the above, is given below.

Accounting convention and basis of consolidation

The Group financial statements incorporate the financial statements of Marks and Spencer plc and all its subsidiaries for the 53 weeks ended 3 April 2004.

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

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

Turnover

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

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

Operating leases

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

Pensions

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

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

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

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

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

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

Goodwill

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

Fixed assets

- a Capitalised interest
Interest is not capitalised.
- b Depreciation
Depreciation is provided to write off the cost or valuation of tangible fixed assets, less residual value, by equal annual instalments as follows:
 - land: not depreciated.
 - freehold and leasehold buildings over 50 years: depreciated to their estimated residual value over their estimated remaining economic lives.
 - leasehold land and buildings under 50 years: over the remaining period of the lease.
 - fit out: 10–25 years according to the estimated life of the asset.
 - fixtures, fittings and equipment: 3–15 years according to the estimated life of the asset.

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

Notes to the financial statements

1. ACCOUNTING POLICIES *continued*

Any impairment in value is charged to the profit and loss account except where, in certain circumstances, it relates to a previously revalued asset, in which case it is charged through the statement of total recognised gains and losses.

c Land and buildings

The Group's freehold and leasehold properties in the United Kingdom were valued on the basis of open market value for existing use in 1982. At 31 March 1988, those same properties (excluding subsequent additions and adjusted for disposals) were revalued. On adoption of FRS 15, the Group followed the transitional provisions to retain the book value of land and buildings which were revalued in 1988, but not to adopt a policy of revaluation in the future.

These values are retained subject to the requirement to test assets for impairment in accordance with FRS 11.

d Investment properties

Investment properties are revalued annually and included in the balance sheet at their open market value. In accordance with SSAP 19, no depreciation is provided in respect of investment properties. This represents a departure from the Companies Act 1985 requirements concerning the depreciation of fixed assets. These properties are held for investment and the directors consider that the adoption of this policy is necessary to give a true and fair view.

Current asset investments

Current asset investments are stated at market value. All profits and losses from such investments are included in net interest income or in Financial Services turnover as appropriate. This represents a departure from the Companies Act 1985 requirements concerning the valuation of current asset investments. These assets are held as investments in the insurance and the long-term assurance businesses and the directors consider that the adoption of this policy is necessary to give a true and fair view.

Stocks

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

Loans and advances to customers

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

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

Long-term assurance business

The value of the long-term assurance business consists of the present value of surpluses expected to emerge in the future from business currently in force, and this value is included in prepayments and accrued income. In

determining their value, these surpluses are discounted at a risk-adjusted, post-tax rate. Changes in the value are included in the profit and loss account grossed up at the standard rate of corporation tax applicable to insurance companies.

Derivative financial instruments

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

Foreign currencies

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

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

Deferred taxation

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

2. SEGMENTAL INFORMATION

A Classes of business

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

	Turnover		Operating profit		Operating assets	
	2004	2003	2004	2003	2004	2003
	£m	As restated £m	£m	As restated £m	£m	As restated £m
Retailing activities	7,971.5	7,689.2	773.3	639.5	3,071.5	2,626.9
Before exceptional operating charges			815.4	683.4		
Exceptional operating charges			(42.1)	(43.9)		
Financial Services ¹	330.0	329.9	50.6	86.4	601.2	648.7
Total	8,301.5	8,019.1	823.9	725.9	3,672.7	3,275.6
Profit on sale of property and other fixed assets			18.7	1.6		
Net loss on sale/termination of operations			—	(1.5)		
Net interest expense			(45.8)	(40.5)		
Other finance (charges)/income			(15.2)	27.0		
Profit on ordinary activities before taxation			781.6	712.5	3,672.7	3,275.6
Unallocated net assets					844.5	831.7
Net assets					4,517.2	4,107.3

B Geographical split

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

	Turnover		Operating profit		Operating assets	
	2004	2003	2004	2003	2004	2003
	£m	As restated £m	£m	As restated £m	£m	As restated £m
United Kingdom						
Retail	7,293.7	7,027.1	725.9	596.7	2,954.2	2,510.2
Before exceptional operating charges			768.0	640.6		
Exceptional operating charges			(42.1)	(43.9)		
Financial Services ¹	330.0	329.9	50.6	86.4	601.2	648.7
	7,623.7	7,357.0	776.5	683.1	3,555.4	3,158.9
International Retail	677.8	662.1	47.4	42.8	117.3	116.7
Total	8,301.5	8,019.1	823.9	725.9	3,672.7	3,275.6

Application Note G of FRS 5 - 'Revenue Recognition' has been adopted for the first time in these financial statements.

The key areas affected by the adoption of the new guidance are as follows:

- a provision for customer returns has now been made representing the Group's cumulative estimate of the amount of merchandise sold during the year which will be returned and refunded in the following year;
- staff discounts, previously reported as part of employee costs, have been reclassified and are now deducted from turnover; and
- discounts provided to certain customers at Kings Super Markets, previously reported as a deduction from gross margin, have been reclassified as deductions from turnover.

These charges have been accounted for by way of a prior period adjustment and previously reported figures have been restated accordingly. The impact of adopting the new policy for the current financial year is to reduce turnover by £49.8m with a negligible impact on profit before tax. The impact of adopting the policy for the year ended 29 March 2003 was to reduce turnover by £58.1m and profit before tax by £3.4m.

¹ Operating profit for Financial Services includes £9.3m of merchant fee income (last year £14.1m) arising on Marks & Spencer Chargecard transactions. This fee is payable by UK Retail and has been deducted in arriving at UK Retail operating profit.

² UK Retail turnover including VAT comprises Clothing £4,032.6m (last year £3,976.5m); Home £526.6m (last year £542.6m) and Foods £3,490.2m (last year £3,242.3m). VAT on UK Retail turnover was £755.7m (last year £734.3m). Since last year-end, £138.0m of gifts have been reclassified to be included within Home. Certain other product lines have also been reclassified to reflect management responsibility. As a result of this change, comparative figures have been restated.

³ Turnover from continuing operations originates in the following geographical segments: United Kingdom £7,783.4m (last year £7,500.5m) and International £518.1m (last year £518.6m).

⁴ The value of goods exported from the UK, including shipments to international subsidiaries, amounted to £293.0m (last year £271.6m).

Notes to the financial statements continued

3. OPERATING PROFIT

	2004			2003		
	Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items As restated £m	Exceptional items £m	Total As restated £m
Turnover	8,301.5	–	8,301.5	8,019.1	–	8,019.1
Cost of sales	(5,259.9)	–	(5,259.9)	(5,118.2)	–	(5,118.2)
Gross profit	3,041.6	–	3,041.6	2,900.9	–	2,900.9
Employee costs (see note 9)	(1,067.0)	(24.5)	(1,091.5)	(1,067.5)	(2.5)	(1,070.0)
Occupancy costs	(280.4)	(5.2)	(285.6)	(264.7)	–	(264.7)
Repairs, renewals and maintenance of fixed assets	(93.2)	–	(93.2)	(114.8)	–	(114.8)
Depreciation	(241.9)	(4.2)	(246.1)	(234.9)	–	(234.9)
Other costs ¹	(493.1)	(8.2)	(501.3)	(449.2)	(41.4)	(490.6)
Total net operating expenses ²	(2,175.6)	(42.1)	(2,217.7)	(2,131.1)	(43.9)	(2,175.0)
Operating profit	866.0	(42.1)	823.9	769.8	(43.9)	725.9

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

¹ Included in 'Other costs' is the auditors' remuneration for audit and non-audit services as follows:

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Statutory audit services				
Annual audit	1.0	0.8	0.5	0.4
Non-audit related services				
Further assurance services	0.1	0.4	0.1	0.1
Tax advisory services	0.9	0.4	0.8	0.2
General consultancy	0.4	0.6	0.1	0.2
	1.4	1.4	1.0	0.5

² Included in 'Total net operating expenses' are rentals under operating leases, comprising £4.1m for hire of plant and machinery (last year £3.8m) and £108.9m of other rental costs (last year £102.0m).

4. EXCEPTIONAL ITEMS

A Exceptional operating charges

	2004 £m	2003 £m
Head office relocation	19.6	7.6
Head office restructuring programme	22.5	–
Restructuring of general merchandise logistics operations	–	36.3
Exceptional operating charges	42.1	43.9

B Profit on sale of property and other fixed assets

	2004 £m	2003 £m
Profit on sale of property and other fixed assets	18.7	1.6

C Loss on sale/termination of operations

	2004 £m	2003 £m
Loss on sale/termination of operations	(26.8)	(12.3)
Less provision made in 2001	26.8	10.8
Net loss on sale/termination of operations	–	(1.5)

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

5. NET INTEREST EXPENSE

		2004	2003
	£m	£m	£m
Bank and other interest income	248.5		272.8
Less: amounts included in turnover of Financial Services	(235.2)		(262.0)
		13.3	10.8
Interest expenditure	(136.1)		(137.0)
Less: interest charged to cost of sales of Financial Services	77.0		85.7
		(59.1)	(51.3)
Net interest expense		(45.8)	(40.5)
Interest expenditure comprises:			
Amounts repayable within five years:			
Bank loans, overdrafts and other borrowings	(22.2)		(22.4)
Medium term notes	(68.1)		(69.8)
Securitised loan notes	(1.2)		(1.0)
		(91.5)	(93.2)
Amounts repayable after five years:			
Medium term notes	(24.8)		(24.1)
Securitised loan notes	(19.8)		(19.7)
		(44.6)	(43.8)
		(136.1)	(137.0)

6. TAXATION ON ORDINARY ACTIVITIES

A Taxation charge for the period

		2004	2003
	£m	£m	£m
Current taxation			
UK corporation tax at 30% (last year 30%):			
Current year	205.7		211.3
Prior years	(3.6)		(16.4)
		202.1	194.9
Overseas taxation		3.7	3.7
Total current taxation		205.8	198.6
Deferred taxation (see note 21)			
Current year	26.0		7.4
Prior years	(2.5)		2.9
Total deferred taxation		23.5	10.3
		229.3	208.9

Included in the tax charge for the year is a credit of £12.7m (last year £9.1m credit) which is attributable to exceptional charges

B Taxation reconciliation

	2004	2003
	£m	£m
Profit before taxation	781.6	712.5
Taxation at the standard UK corporation tax rate of 30% (last year 30%)	234.5	213.7
Permanent differences	6.0	11.5
Capital allowances in (excess of)/less than depreciation	(1.8)	2.4
Other timing differences	(24.2)	(9.7)
Net effect of restructuring charges	1.9	0.6
Net effect of different rates of tax in overseas businesses	(7.0)	(3.6)
Adjustments to tax charge in respect of prior periods	(3.6)	(16.4)
Other differences	-	0.1
Total current taxation	205.8	198.6

Notes to the financial statements *continued*

7. PROFIT FOR THE FINANCIAL YEAR

The profit and loss account of the Company is not presented as part of these financial statements. A profit after tax of £511.2m (last year £395.7m) is dealt with in the financial statements of the Company.

8. DIVIDEND

	2004 £m	2003 £m
Dividends on equity shares		
Proposed final ordinary dividend of 9.2p per share (last year 8.7p per share)	262.0	247.7

9. EMPLOYEES

A Aggregate remuneration

The aggregate remuneration and associated costs of Group employees were:

	2004			2003		
	Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items As restated £m	Exceptional items £m	Total As restated £m
Wages and salaries	845.3	23.0	868.3	837.5	1.0	838.5
Share Incentive Plan (see note 9C)	—	—	—	8.8	—	8.8
Social security costs	55.7	0.1	55.8	47.4	0.3	47.7
Pension costs (see note 10A)	123.8	—	123.8	131.8	—	131.8
Employee welfare and other personnel costs	42.2	1.4	43.6	42.0	1.2	43.2
Employee costs	1,067.0	24.5	1,091.5	1,067.5	2.5	1,070.0

Exceptional employee costs include £22.5m (last year £nil) in connection with the Head Office restructuring programme and £2.0m (last year (£2.5m) relating to the Head Office relocation.

B Average number of employees

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

		2004	2003
UK stores	Management and supervisory categories	4,419	4,335
	Other	56,008	53,191
UK head office	Management and supervisory categories	2,755	2,616
	Other	919	997
Financial Services	Management and supervisory categories	265	200
	Other	1,354	1,267
Overseas		4,381	4,527
		70,101	67,133

If the number of hours worked was converted on the basis of a normal working week, the equivalent average number of full-time employees would have been 46,654 (last year 47,756).

C United Kingdom Share Incentive Plan and Republic of Ireland Profit Share Scheme

The Company has adopted the free share element of the new all-employee Share Incentive Plan, which is approved by the Inland Revenue. This is a discretionary plan and the Company will decide each year whether an award is to be made, depending upon the year-end profits. The Republic of Ireland Profit Sharing Scheme remains unchanged. No award will be made in July 2004 in respect of the financial year ending 3 April 2004. Last year, an award of £8.8m, representing 2.0% of the earnings of 53,418 eligible employees (with a maximum award of approximately £220) was made.

These shares are purchased in the market: 2,556,366 ordinary shares in Marks and Spencer Group plc were purchased by the Profit Sharing Trustees in respect of the 2002/2003 allocation.

10. RETIREMENT BENEFITS

The Group has adopted FRS 17 - 'Retirement Benefits' in full for the year ended 3 April 2004. For the year ended 29 March 2003, the Group accounted for retirement benefits under SSAP 24 and gave disclosures under the FRS 17 transitional arrangements.

The total cost of retirement benefits for the Group was £139.0m (last year £104.8m) under FRS 17 of which £123.8m (last year £131.8m) has been charged against operating profit and £15.2m (last year a credit of £27.0m) has been charged within other finance charges. If the Group had continued to account for retirement benefits under SSAP 24, the total Group cost would have been £182.2m (last year £146.4m). The SSAP 24 cost would have been higher this year when compared to last year because it includes the impact of the full actuarial valuation of the UK defined benefit pension scheme at 31 March 2003 (see below).

Within the total Group retirement benefit cost of £139.0m, £130.7m relates to the UK defined benefit pension scheme. The Group also operates small defined benefit pension schemes in the Republic of Ireland and at Kings Super Markets in the USA. Retirement benefits also includes a UK post-retirement healthcare scheme and unfunded pension plans.

Contributions to non-defined benefit pension schemes in the year were £2.3m (last year £5.7m). These are included in note (e).

Disclosures for the Company are not provided here as the impact on the profit and loss account, and the assets and liabilities of the Company are not materially dissimilar to that of the Group.

(a) A full actuarial valuation of the UK defined benefit pension scheme was carried out at 31 March 2003 and showed a deficit of £585m. This valuation, and the most recent actuarial valuations of the other post-retirement schemes, have been updated by independent qualified actuaries to take account of the requirements of FRS 17 in order to assess the liabilities of the schemes at 3 April 2004. The FRS 17 data for 2003 and 2002 has been restated to include the defined benefit pension scheme at Kings Super Markets. The major assumptions used for FRS 17 purposes were:

	2004 %	2003 %	2002 %
Rate of increase in salaries	3.5	3.5	4.0
Rate of increase in pensions in payment	2.7	2.5	2.5
Discount rate	5.6	5.5	5.9
Inflation rate	2.7	2.5	2.5
Long-term healthcare cost increases	7.7	7.5	7.5

(b) The market value of the assets in the Group defined benefit pension schemes and the expected long-term rates of return as at 3 April 2004 were:

	Expected long-term rate of return p.a.			Value		
	2004 %	2003 %	2002 %	2004 £m	2003 As restated £m	2002 As restated £m
UK equities	8.1	8.7	7.9	974.7	757.0	1,113.4
Overseas equities	8.6	9.0	8.3	1,011.4	777.2	955.8
Government bonds	4.8	4.6	5.3	833.4	500.2	290.1
Corporate bonds (Triple B or above)	5.6	5.5	5.9	483.3	561.1	740.9
Other	3.7	4.0	4.6	331.4	43.0	9.0
Total market value of assets ¹	6.8	7.3	7.3	3,634.2	2,638.5	3,109.2
Present value of scheme liabilities				(4,280.1)	(3,888.1)	
Pension scheme deficit				(645.9)	(1,249.6)	
Unfunded pension plans				(3.2)	(3.9)	
Post-retirement healthcare				(20.4)	(24.7)	
Total post-retirement liabilities				(669.5)	(1,278.2)	
Less: Related deferred tax asset				200.0	382.4	
Net post-retirement liability				(469.5)	(895.8)	

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

(c) Analysis of the amount charged against profits:

	2004 £m	2003 As restated £m
Operating profit		
Current service costs	123.8	131.8
Finance cost		
Expected return on scheme assets	(196.9)	(231.0)
Interest on scheme liabilities	212.1	204.0
Net finance charges/(income)	15.2	(27.0)
Total charge	139.0	104.8

Notes to the financial statements continued

10. RETIREMENT BENEFITS continued

(d) Analysis of the amount recognised in the statement of total recognised gains and losses:

	2004	2003
	£m	As restated £m
Actual return less expected return on scheme assets	401.9	(713.3)
Experience (losses)/gains arising on scheme liabilities	(30.3)	16.0
Changes in assumptions underlying the present value of scheme liabilities	(157.8)	(196.1)
Actuarial gain/(loss) recognised in the consolidated statement of total recognised gains and losses	213.8	(893.4)

(e) Movements in liability during year:

	2004	2003
	£m	As restated £m
Post-retirement liability at beginning of year	(1,278.2)	(420.8)
Current service cost ¹	(123.8)	(131.8)
Cash contribution ²	533.7	140.8
Net finance (charges)/income	(15.2)	27.0
Actuarial gain/(loss)	213.8	(893.4)
Exchange movement	0.2	—
Post-retirement liability at end of year	(669.5)	(1,278.2)

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

² The cash contribution of £533.7m includes £400m to the UK defined benefit pension scheme in respect of the deficit identified at the time of the full actuarial valuation of the scheme at 31 March 2003. Future contributions to the UK scheme will be made at the rate of 15.8% of pensionable salaries up to the next full actuarial valuation.

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

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

11. DIRECTORS

A Emoluments

Emoluments of directors of the Company are summarised below. Further details are given in the Remuneration Report within the Annual Report and financial statements of Marks and Spencer Group plc.

	2004	2003
	£000	£000
Highest paid director	693	1,725
Aggregate emoluments of other directors	3,079	5,489
Gains made on exercise of options	11	15
Termination payments	754	451

The highest paid director had an accrued pension of £10,000 (last year £7,000). Six directors (last year six) are accruing retirement benefits under a defined benefit scheme. Two directors (last year one) realised a gain on the exercise of share options.

11. DIRECTORS continued

B Transactions with directors

During the year, transactions entered into by Marks and Spencer Financial Services plc with directors and connected persons resulted in the following outstanding balances on their combined credit and loyalty cards as at 3 April 2004:

	2004		2003
No. of persons	Total balances £	No. of persons	Total balances £
6	31,209	5	11,888

Interest free loans were made under the employees' loan scheme by the Company to Graham Oakley and Maurice Helfgott prior to their appointments as directors. As at 3 April 2004 the loan to Graham Oakley was £4,956 (last year £16,944). The balance on the loan to Maurice Helfgott at 19 November 2003 was £45,710, which was the highest balance since his appointment. The loan balance was £40,630 at 3 April 2004.

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

12. TANGIBLE FIXED ASSETS

A Tangible fixed assets

	Group		
	Land & buildings £m	Fixtures, fittings & equipment £m	Assets in the course of construction £m
Cost or valuation			
At 30 March 2003	2,265.9	2,966.2	38.5
Additions	79.4	303.5	50.6
Transfers	29.7	8.7	(38.4)
Revaluation surplus	7.3	—	—
Impairment of previously revalued properties	(20.0)	—	—
Disposals	(88.7)	(103.5)	—
Differences on exchange	(4.4)	(18.1)	(0.3)
At 3 April 2004	2,269.2	3,156.8	50.4
Accumulated depreciation			
At 30 March 2003	117.5	1,718.0	—
Depreciation for the year	10.8	235.3	—
Disposals	(10.5)	(79.5)	—
Differences on exchange	(0.5)	(12.3)	—
At 3 April 2004	117.3	1,861.5	—
Net book value			
At 3 April 2004	2,151.9	1,295.3	50.4
At 29 March 2003	2,148.4	1,248.2	38.5

	Company		
	Land & buildings £m	Fixtures, fittings & equipment £m	Assets in the course of construction £m
Cost or valuation			
At 30 March 2003	1,558.0	2,684.2	38.4
Additions	38.7	281.6	43.2
Transfers	29.6	8.7	(38.3)
Revaluation surplus	7.3	—	—
Disposals	(25.6)	(82.9)	—
At 3 April 2004	1,608.0	2,891.6	43.3
Accumulated depreciation			
At 30 March 2003	99.0	1,545.3	—
Depreciation for the year	8.0	219.0	—
Disposals	(10.2)	(70.4)	—
At 3 April 2004	96.8	1,693.9	—
Net book value			
At 3 April 2004	1,511.2	1,197.7	43.3
At 29 March 2003	1,459.0	1,138.9	38.4

Notes to the financial statements continued

12. TANGIBLE FIXED ASSETS continued

Analysis of land and buildings

				Group
	Freehold £m	Long leasehold £m	Short leasehold £m	Total £m
At valuation	604.0	383.6	12.2	999.8
At cost	777.1	417.5	74.8	1,269.4
	1,381.1	801.1	87.0	2,269.2
Accumulated depreciation	(31.4)	(21.3)	(64.6)	(117.3)
Net book value				
At 3 April 2004	1,349.7	779.8	22.4	2,151.9
At 29 March 2003	1,286.1	834.7	27.6	2,148.4

Analysis of land and buildings

				Company
	Freehold £m	Long leasehold £m	Short leasehold £m	Total £m
At valuation	285.8	339.5	12.2	637.5
At cost	626.0	274.1	70.4	970.5
	911.8	613.6	82.6	1,608.0
Accumulated depreciation	(19.1)	(17.4)	(60.3)	(96.8)
Net book value				
At 3 April 2004	892.7	596.2	22.3	1,511.2
At 29 March 2003	839.2	592.9	26.9	1,459.0

B Investment properties

Freehold land and buildings include investment properties as follows:

	Group and Company £m
Cost or valuation	
At 30 March 2003	30.5
Revaluation surplus	7.3
At 3 April 2004	37.8

The properties were valued as at 3 April 2004, by qualified professional valuers working for the company of DTZ Debenham Tie Leung, Chartered Surveyors, acting in the capacity of External Valuers. All such valuers are Chartered Surveyors, being members of the Royal Institution of Chartered Surveyors.

The properties were valued on the basis of open market value at an aggregate value of £37.8m. All valuations were carried out in accordance with the RICS Appraisal and Valuation Manual.

C Tangible fixed assets at cost

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

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

	2004 £m	Group 2003 £m
At valuation at 31 March 1975 ¹	227.1	228.7
At cost	1,402.0	1,368.6
	1,629.1	1,597.3
Accumulated depreciation	(146.3)	(146.0)
Closing net book value	1,482.8	1,451.3

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

Notes to the financial statements continued

12. TANGIBLE FIXED ASSETS continued

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

	2004 £m	Company 2003 £m
At valuation at 31 March 1975 ¹	164.5	166.1
At cost	729.8	676.1
	894.2	842.2
Accumulated depreciation	134.4	136.1
Closing net book value	759.8	706.1

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

13. FIXED ASSET INVESTMENTS

A Investments

	Joint venture ¹ £m	Other investments ² £m	Group Total £m
Cost			
At 30 March 2003	8.8	31.3	40.1
Additions	—	4.2	4.2
Disposals	—	(11.9)	(11.9)
Share of joint venture's losses	(0.3)	—	(0.3)
Differences on exchange	—	(1.9)	(1.9)
At 3 April 2004	8.5	21.7	30.2
Accumulated provision and amortisation			
At 30 March 2003	—	8.6	8.6
Amortisation	—	1.4	1.4
Provision for impairment	—	7.1	7.1
Differences on exchange	—	(0.9)	(0.9)
At 3 April 2004	—	16.2	16.2
Net book value			
At 3 April 2004	8.5	5.5	14.0
At 29 March 2003	8.8	22.7	31.5

	Shares in Group undertakings £m	Loans to Group undertakings £m	Joint venture ¹ £m	Other investments ² £m	Company Total £m
Cost					
At 30 March 2003	669.1	42.5	6.1	2.2	719.9
Additions	—	—	—	3.6	3.6
At 3 April 2004	669.1	42.5	6.1	5.8	723.5
Accumulated provision and amortisation					
At 30 March 2003	292.0	—	—	0.4	292.4
Amortisation	—	—	—	1.4	1.4
At 3 April 2004	292.0	—	—	1.8	293.8
Net book value					
At 3 April 2004	377.1	42.5	6.1	4.0	429.7
At 29 March 2003	377.1	42.5	6.1	1.8	427.5

¹ The joint venture represents a 50% equity interest in Hedge End Park Ltd, a property investment company incorporated in Great Britain. The partner in the joint venture is J Sainsbury plc. The Group's investment in the joint venture includes accumulated reserves of £2.4m (last year £2.7m).

² Other investments include listed securities held by a subsidiary and shares held for employee share schemes. The difference between the book value and market value of the listed securities is negligible. The shares held for employee share schemes include 1,795,951 (last year 705,327) of shares held in employee trusts for the Restricted Share Plan and Long-term Incentive Scheme.

13. FIXED ASSET INVESTMENTS continued

B Principal subsidiary undertakings

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

	Principal activity	Country of incorporation and operation	Proportion of voting rights and shares held by:	
			Company	A subsidiary
Marks and Spencer International Holdings Limited	Holding Company	Great Britain	100%	—
Marks and Spencer (Nederland) BV	Holding Company	The Netherlands	—	100%
Marks & Spencer Finance Inc	Holding Company	United States	100%	—
Marks and Spencer (Ireland) Limited	Retailing	Republic of Ireland	—	100%
Kings Super Markets Inc	Retailing	United States	—	100%
Marks and Spencer (Asia Pacific) Limited	Retailing	Hong Kong	—	100%
M&S Card Services Limited	Credit Card Handling	Great Britain	100%	—
Marks and Spencer Retail Financial Services Holdings Limited	Holding Company	Great Britain	100%	—
Marks and Spencer Financial Services plc	Financial Services	Great Britain	—	100%
Marks and Spencer Unit Trust Management Limited	Financial Services	Great Britain	—	100%
Marks and Spencer Savings and Investments Limited	Financial Services	Great Britain	—	100%
Marks and Spencer Life Assurance Limited	Financial Services	Great Britain	—	100%
M.S. Insurance L.P.	Financial Services	Guernsey	—	100%
M.S. II Insurance L.P.	Financial Services	Guernsey	—	100%
Marks and Spencer Investments Limited	Finance	Great Britain	—	100%
St Michael Finance plc	Finance	Great Britain	100%	—
Marks and Spencer Finance plc	Finance	Great Britain	100%	—
Marks and Spencer Property Holdings Limited	Property Investment	Great Britain	100%	—
Amethyst Leasing (Properties) Limited	Finance	Great Britain	—	100%
Amethyst Finance plc	Finance	Great Britain	—	1 ¹
Marks and Spencer SCM Limited	Procurement	Great Britain	100%	—
The Zip Project Limited	Procurement	Great Britain	75%	—

¹ Amethyst Finance plc is a wholly owned subsidiary of a non-group company but has been consolidated in these accounts as a quasi-subsiidiary in accordance with FRS 5. The quasi-subsiidiary has net assets of £nil (last year £nil), the material balances being securitised loan notes of £325.6m (last year £328.7m) offset by a receivable from a group company.

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.

14. DEBTORS

	Group		Company	
	2004 £m	2003 Restated £m	2004 £m	2003 Restated £m
A Amounts receivable within one year				
Trade debtors	30.5	32.1	30.1	29.2
Customer advances	740.8	534.3	—	—
Amounts owed by Group undertakings	2,170.6	2,099.0	3,181.9	2,858.1
Other debtors ¹	43.3	110.7	22.3	94.6
Deferred tax asset (see note 21)	3.5	—	—	—
Prepayments and accrued income ²	152.8	176.0	139.8	163.0
	3,141.5	2,952.1	3,374.1	3,144.9
B Amounts receivable after more than one year³				
Customer advances	1,711.6	1,481.6	—	—
Other debtors ¹	8.8	15.7	6.7	13.4
Prepayments and accrued income ²	58.9	62.2	—	7.9
	1,779.3	1,559.5	6.7	21.3

¹ Other debtors include interest-free loans to two directors of the Company of £45,586 (last year £16,944).

² Prepayments and accrued income include £76.0m (last year £119.5m) in respect of the UK pension scheme. In addition, prepayments include £61.3m (last year £57.4m) relating to the long-term assurance business.

³ Amounts receivable after more than one year include £61.1m (last year £64.4m) of non-financial assets which have been excluded from the analysis in note 17.

Notes to the financial statements *continued*

15. CURRENT ASSET INVESTMENTS

	Group	
	2004	2003
	£m	£m
Listed investments:		
Government securities	86.9	131.4
Listed in the United Kingdom	191.8	108.5
Listed overseas	42.6	59.5
Unlisted investments	4.6	4.6
	325.9	304.0

Listed investments include £175.5m (last year £160.9m) in relation to the long-term assurance business.

16. CASH AT BANK AND IN HAND

Cash at bank includes commercial paper and short-term deposits with banks and other financial institutions with initial maturity of three months or less.

17. ANALYSIS OF FINANCIAL ASSETS

After taking into account the various interest rate swaps entered into by the Group, the currency and interest rate exposure of the Group's financial assets is set out below. There are no financial assets other than short-term debtors excluded from this analysis.

A Interest rate and currency analysis

	2004				2003			
	Fixed rate	Floating rate	Non-interest bearing	Total	Fixed rate	Floating rate	Non-interest bearing	Total
Currency	£m	£m	£m	£m	£m	£m	£m	£m
Sterling	624.2	1,633.9	110.5	2,368.6	144.4	1,641.2	53.8	1,839.4
US dollar	—	15.0	3.7	18.7	6.2	18.0	0.4	24.6
Euro	—	19.6	6.3	25.9	27.6	30.3	11.5	69.4
Other	—	18.5	8.6	27.1	19.5	34.4	0.6	54.5
	624.2	1,687.0	129.1	2,440.3	197.7	1,723.9	66.3	1,987.9

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

B Analysis of fixed interest rate

	2004	2003	2004	2003
	Weighted average interest rate	Weighted average interest rate	Weighted average period for which rate is fixed	Weighted average period for which rate is fixed
Currency	%	%	Years	Years
Sterling	5.6	5.6	2.5	10.1
US dollar	—	3.8	—	9.5
Euro	—	4.8	—	8.9
Other	—	2.6	—	6.6

C Analysis of financial assets

	Group	
	2004	2003
	£m	£m
Current asset investments	325.9	304.0
Cash at bank and in hand	394.7	167.9
Customer advances falling due in more than one year	1,711.6	1,481.6
Fixed asset investments	1.5	20.9
Other amounts receivable after more than one year	6.6	13.5
Financial assets as defined by FRS 13	2,440.3	1,987.9
Other amounts receivable in less than one year	2,911.4	2,633.3
Financial assets including amounts receivable in less than one year	5,346.1	4,621.2

18. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2004	2003	2004	2003
	£m	As restated £m	£m	As restated £m
Bank loans, overdrafts and commercial paper ¹	126.0	150.2	70.4	72.9
Medium term notes (see note 20B)	216.5	443.9	—	15.4
Securitised loan notes (see note 20B)	2.7	2.5	—	—
Trade creditors	210.2	201.6	166.0	165.9
Amounts owed to Group undertakings	—	—	211.7	117.6
Taxation	79.7	96.9	31.3	62.0
Social security and other taxes	43.1	30.5	35.7	25.6
Other creditors ²	297.7	288.4	165.4	159.5
Customer deposits	439.3	78.6	—	—
Accruals and deferred income	308.6	270.6	227.7	225.9
Proposed final dividend	262.0	247.7	262.0	247.7
	1,985.8	1,810.9	1,170.2	1,092.5

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

² Other creditors includes £32.6m (last year £31.7m) which is treated as a financial liability (see note 20B).

19. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	2004	2003	2004	2003
	£m	£m	£m	£m
Medium term notes (see note 20B)	1,980.0	1,310.9	1,525.8	1,128.0
Securitised loan notes (see note 20B)	313.3	315.7	0.1	—
Other creditors ^{1,2}	226.3	183.4	4.4	2.4
	2,519.6	1,810.0	1,530.3	1,130.4

¹ Other creditors include £182.1m (last year £132.6m) of non-financial liabilities which have been excluded from the analysis in note 20.

² Other creditors include £179.5m (last year £130.5m) in relation to the long-term assurance business.

20. ANALYSIS OF FINANCIAL LIABILITIES

A Interest rate and currency analysis

After taking into account the various interest rate and currency swaps entered into by the Group, the currency and interest rate exposure of the Group's financial liabilities are set out below. There are no financial liabilities other than short-term creditors excluded from this analysis.

Currency	2004			Group		
	Fixed rate	Floating rate	Total	Fixed rate	Floating rate	Total
	£m	£m	£m	£m	£m	£m
Sterling	1,731.6	971.7	2,703.3	780.9	1,515.1	2,296.0
US dollar	—	8.3	8.3	—	9.5	9.5
Euro	—	3.6	3.6	—	0.2	0.2
Other	—	0.1	0.1	—	—	—
	1,731.6	983.7	2,715.3	780.9	1,524.8	2,305.7

The floating rate sterling, US dollar and euro borrowings are linked to interest rates related to LIBOR. These rates are for periods ranging from one month to six months. The fixed rate sterling borrowings are at a weighted average rate of 5.5% (last year 6.2%) and the weighted average time for which the rate is fixed is 8.6 years (last year 13.2 years).

Notes to the financial statements continued

20. ANALYSIS OF FINANCIAL LIABILITIES continued

B Maturity of financial liabilities

	Group	
	2004	2003
	£m	£m
Repayable within one year:		
Bank loans, overdrafts and commercial paper	126.0	150.2
Medium term notes	216.5	443.9
Securitised loan notes	2.7	2.5
Other creditors	32.6	31.7
	377.8	628.3
Repayable between one and two years:		
Medium term notes	309.8	26.6
Securitised loan notes	3.2	5.9
Other creditors	22.3	22.3
	335.3	54.8
Repayable between two and five years:		
Medium term notes	903.4	915.2
Securitised loan notes	11.4	11.4
Other creditors	21.9	24.3
	936.7	950.9
Repayable in five years or more:		
Medium term notes ¹	766.8	369.1
Securitised loan notes ²	298.7	298.4
Other creditors	—	4.2
	1,065.5	671.7
	2,715.3	2,305.7

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

² Relates to three separate bonds securitised against 45 of the Group's properties. Two are repayable in instalments. The gross amounts before finance costs are £54.6m and £131m respectively. The first is a floating rate bond which has been swapped into a fixed rate of 6.34%, amortised on a quarterly basis from 12 March 2002, with final payment due on 12 September 2015. The second is a floating rate bond which has been swapped into a fixed rate of 6.344%, amortised on a quarterly basis from 12 September 2015, with final payment due on 12 December 2026. The gross amount of the remaining bond is £140m before finance costs. It relates to a fixed rate bond at a rate of 6.282% and is repayable in full on 12 December 2026.

C Borrowing facilities

At 3 April 2004, the Group had undrawn committed facilities of £405m (last year £385m) linked to its commercial paper programme and subject to annual review. The Group also has a number of undrawn uncommitted facilities available to it. At 3 April 2004, these amounted to £415.0m (last year £402.2m), all of which are due to be reviewed within a year. The Group also has a three-year syndicated credit facility of £1.25bn.

21. PROVISIONS FOR LIABILITIES AND CHARGES

	Group			
	Post-retirement health benefits	UK restructuring ¹	Overseas restructuring ²	Deferred tax ³
	£m	£m	£m	£m
At 30 March 2003	25.0	54.0	44.1	105.3
Prior year adjustment	(0.3)	—	—	(395.8)
Transfer to net post-retirement liability	(24.7)	(3.9)	—	382.4
At 30 March 2003 as restated	—	50.1	44.1	91.9
Provided in the period	—	25.3	—	29.1
Utilised during the period	—	(39.1)	(26.8)	—
Released	—	(4.1)	—	(5.6)
Movement in net post-retirement liability	—	—	—	(118.9)
Exchange differences	—	—	(0.2)	—
Transfer to deferred tax asset (see note 14)	—	—	3.5	3.5
At 3 April 2004	—	32.2	17.1	—

	Company			
	Post-retirement health benefits	UK restructuring ¹	Deferred tax ³	Total
	£m	£m	£m	£m
At 30 March 2003	25.0	54.0	100.9	179.9
Prior year adjustment	(0.3)	—	(394.1)	(394.4)
Transfer to net post-retirement liability	(24.7)	(3.9)	381.0	352.4
At 30 March 2003 as restated	—	50.1	87.8	137.9
Provided in the period	—	25.3	32.4	57.7
Utilised during the period	—	(40.6)	—	(40.6)
Released	—	(4.1)	—	(4.1)
Movement in net post-retirement liability	—	—	(118.9)	(118.9)
At 3 April 2004	—	30.7	1.3	32.0

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

² The provision for Overseas restructuring costs primarily relates to further closure costs in respect of the Group's discontinued operations in Continental Europe, the majority of which are expected to be incurred during the next financial year.

³ The deferred tax balance comprises the following:

	Group		Company	
	2004	2003	2004	2003
	£m	£m	£m	£m
Accelerated capital allowances	72.3	67.1	76.6	67.1
Pension prepayment	(67.2)	35.0	(67.2)	35.0
Other short-term timing differences	(8.6)	(10.2)	(8.1)	(14.3)
Deferred tax (asset)/liability	(3.5)	91.9	1.3	87.8

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

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

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

A Fair values of financial instruments

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

	2004		Group 2003	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Assets/(liabilities)				
Customer advances falling due in more than one year	1,711.6	1,712.3	1,481.6	1,495.0
Current asset investments ¹	325.9	325.9	304.0	304.0
Fixed asset investments	1.5	1.5	20.9	20.9
Cash at bank and in hand ¹	394.7	394.7	167.9	167.9
Other financial assets due after more than one year	6.6	6.6	13.5	13.5
Borrowings due within one year ²	(377.8)	(372.0)	(628.3)	(652.8)
Financial liabilities due after more than one year ²	(2,337.5)	(2,392.6)	(1,677.4)	(1,763.2)
Cross currency swaps ²	—	24.5	—	90.1
Interest rate swaps ²	—	11.9	—	(24.9)
Forward foreign currency contracts ²	—	3.8	—	(8.0)

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

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

B Hedges of future transactions

Unrecognised gains and losses on instruments used for hedging and those recognised in the period ended 3 April 2004 are as follows:

	2004			2003		
	Gains £m	Losses £m	Net total £m	Gains £m	Losses £m	Net total £m
Unrecognised gains/(losses) on hedges at beginning of the period	114.8	(57.6)	57.2	66.5	(46.6)	19.9
(Gains)/losses arising in previous years recognised in the period	(26.1)	12.5	(13.6)	(13.7)	15.4	1.7
Gains/(losses) in previous years not recognised in the period	88.7	(45.1)	43.6	52.8	(31.2)	21.6
Gains/(losses) arising in the period	(14.4)	11.0	(3.4)	62.0	(26.4)	35.6
Unrecognised gains/(losses) on hedges at end of the period	74.3	(34.1)	40.2	114.8	(57.6)	57.2
Of which:						
Gains/(losses) expected to be recognised within one year	10.4	(12.1)	(1.7)	26.1	(12.7)	13.4
Gains/(losses) expected to be recognised after one year	63.9	(22.0)	41.9	88.7	(44.9)	43.8

C Currency risk

The effect of currency exposures arising from the translation of overseas investments is mitigated by Group borrowings in local currencies as appropriate. Gains and losses arising on net investments in overseas subsidiaries are recognised in the consolidated statement of total recognised gains and losses.

After taking into account the effect of any hedging transactions that manage transactional currency exposures, no Group company had any material monetary assets or liabilities in currencies other than their functional currencies at the balance sheet date.

23. CALLED UP SHARE CAPITAL

	2004 £m	2003 £m
Authorised:		
3,200,000,000 ordinary shares of 25p each (last year 3,200,000,000)	800.0	800.0
Allotted, called up and fully paid:		
2,850,019,827 ordinary shares of 25p each (last year 2,848,387,227)	712.5	712.1

24. SHAREHOLDERS' FUNDS

						Group
	Share capital Ordinary shares £m	Share premium account £m	Capital redemption reserve £m	Revaluation reserve £m	Profit ¹ and loss account £m	Total £m
At 30 March 2003 as previously reported	712.1	380.9	8.0	370.6	3,565.8	5,037.4
Prior year adjustment (see below)	—	—	—	—	(928.3)	(928.3)
Opening shareholders' funds as restated	712.1	380.9	8.0	370.6	2,637.5	4,109.1
Shares issued on exercise of share options	0.4	5.2	—	—	—	5.6
Revaluation of investment properties	—	—	—	7.3	—	7.3
Impairment of previously revalued properties	—	—	—	(20.0)	—	(20.0)
Revaluation surplus realised on disposals	—	—	—	(0.5)	0.5	—
Revaluation element of depreciation charge	—	—	—	(1.0)	1.0	—
Actuarial gain on post-retirement liability	—	—	—	—	150.4	150.4
Exchange differences on foreign currency translation	—	—	—	—	(15.9)	(15.9)
Profit for the period	—	—	—	—	290.3	290.3
At 3 April 2004	712.5	386.1	8.0	356.4	3,063.8	4,526.8

¹ Included in the profit and loss account reserve is a pension reserve of £469.5m (last year, £895.8m) which equates to the net post-retirement liability under FRS 17 (see note 10).

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

The following adjustments have been made to opening shareholders' funds as a result of the adoption of FRS 17 and Application Note G of FRS 5.

	March 2003 £m	March 2002 £m
Post-retirement liability (net of deferred tax)	875.5	270.9
Reversal of SSAP 24 pension prepayment	42.7	51.7
Deferred tax on SSAP 24 pension prepayment	(12.5)	(15.4)
FRS 5 returns provision net of tax	22.6	20.0
Total prior year adjustments	928.3	327.2

						Company
	Share capital Ordinary shares £m	Share premium account £m	Capital redemption reserve £m	Revaluation reserve £m	Profit ¹ and loss account £m	Total £m
At 30 March 2003 as previously reported	712.1	380.9	8.0	279.2	2,917.7	4,297.9
Prior year adjustment (see below)	—	—	—	—	(919.6)	(919.6)
Opening shareholders' funds as restated	712.1	380.9	8.0	279.2	1,998.1	3,378.3
Shares issued on exercise of share options	0.4	5.2	—	—	—	5.6
Revaluation of investment properties	—	—	—	7.3	—	7.3
Revaluation surplus realised on disposals	—	—	—	(0.5)	0.5	—
Revaluation element of depreciation charge	—	—	—	(1.0)	1.0	—
Actuarial gain	—	—	—	—	146.4	146.4
Profit for the period	—	—	—	—	249.2	249.2
At 3 April 2004	712.5	386.1	8.0	285.0	2,395.2	3,786.8

¹ Included in the profit and loss account reserve is a pension reserve of £465.7m (last year, £888.5m) which equates to the net post-retirement liability under FRS 17 (see note 10).

The following adjustments have been made to opening shareholders' funds as a result of the adoption of FRS 17 and Application Note G of FRS 5.

	March 2003 £m
Post-retirement liability (net of deferred tax)	867.3
Reverse SSAP 24 pension prepayment	42.7
Deferred tax on SSAP 24 pension prepayment	(12.5)
FRS 5 returns provision net of tax	22.1
Total prior year adjustments	919.6

Notes to the financial statements *continued*

25. RECONCILIATION OF MOVEMENTS IN GROUP SHAREHOLDERS' FUNDS

	Group	
	2004	2003
	£m	As restated £m
Profit attributable to shareholders	552.3	504.0
Dividends	(262.0)	(247.7)
	290.3	256.3
New share capital subscribed	5.6	—
Other recognised (losses)/gains relating to the year	(28.6)	2.6
Actuarial gains/(losses) net of taxation	150.4	(627.9)
Amounts deducted from profit and loss account reserve in respect of shares issued to the QUEST	—	0.5
Net increase / (decrease) in shareholders' funds	417.7	(368.5)
Opening shareholders' funds as previously stated	5,037.4	4,804.8
Prior year adjustment (see note 24)	(928.3)	(327.2)
Opening shareholders' funds as restated	4,109.1	4,477.6
Closing shareholders' funds	4,526.8	4,109.1

26. COMMITMENTS AND CONTINGENT LIABILITIES

	Group		Company	
	2004	2003	2004	2003
	£m	£m	£m	£m
A Commitments in respect of properties in the course of development	74.9	75.8	58.6	75.6
B Guarantees by the Company in respect of debt instruments issued by subsidiaries	—	—	761.4	929.8

C Marks and Spencer (Ireland) Limited and its subsidiary Aprell Limited have availed themselves of the exemption provided for in S17 of the Companies (Amendment) Act 1986 (Ireland) in respect of the documents required to be annexed to their annual returns.

D Other material contracts:

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

E Commitments under operating leases:

At 3 April 2004 the Group had annual commitments under operating leases as follows:

	2004		2003	
	Land & buildings £m	Other £m	Land & buildings £m	Other £m
Expiring within one year	1.2	0.4	3.5	0.7
Expiring in the second to fifth years inclusive	14.6	3.1	13.5	2.7
Expiring in more than five years	99.7	—	82.3	—
	115.5	3.5	99.3	3.4

27. FOREIGN EXCHANGE RATES

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

	Weighted average sales average rate		Weighted average profit average rate		Balance sheet rate	
	2004	2003	2004	2003	2004	2003
Euro	1.44	1.56	1.43	1.56	1.50	1.46
US dollar	1.69	1.55	1.71	1.54	1.85	1.57
Hong Kong dollar	13.23	12.05	13.44	12.01	14.39	12.23

28. RELATED PARTY TRANSACTIONS

There were no material transactions with related parties as defined by FRS 8 - 'Related Party Transactions'.

29. POST BALANCE SHEET EVENTS

Since the year end, the Company's parent undertaking, Marks and Spencer Group plc, announced the following:

A Sale of Financial Services

On 12 July 2004, the Group announced the sale of Marks & Spencer Money to HSBC Holdings plc (HSBC) in a joint venture arrangement. HSBC will acquire 100% of Marks and Spencer Retail Financial Services Holdings Limited (MSRF) for a consideration of £762m.

The Group will continue to receive payments for services to be provided to MSRF based on product sales including a 50 per cent share of the earnings of the business, after deducting certain costs that will be incurred by HSBC. Under the terms of the agreement, which has an initial 10 year term, Marks & Spencer Money will be managed jointly by HSBC and the Group. The transaction should be completed by the end of 2004 and is subject to regulatory and other approvals.

B Return to shareholders

On 12 July 2004, Marks and Spencer Group plc, the Company's parent undertaking announced the return of £2.3bn to shareholders by way of a tender offer. The tender offer is expected to be completed during the year to March 2005 and will be funded through a mixture of the proceeds from the sale of Marks & Spencer Money (see note 29A), existing resources and new bank facilities.

In connection, on 13 August 2004, the Company signed two new facility agreements. The first facility, for £1.2bn matures on 13 August 2009 and is provided by BBVA, BNP Paribas, Citigroup, HSBC, Lloyds TSB and Morgan Stanley as Mandated Lead Arrangers and Bookrunners, and by Fortis Bank, Rabobank, and Standard Chartered as Senior Lead Arrangers. The margin is 0.35% over LIBOR, and is fixed for the life of the facility. The second facility, for £800m, is provided by HSBC alone. It is a standby facility for use, if necessary, to bridge the period between the return of value to shareholders and the receipt of the proceeds from the disposal of M&S Money.

C Acquisition of per una

On 12 July 2004, the Group announced the acquisition of the per una business from George Davis for consideration of £125m. The acquisition is expected to be completed during the year to March 2005.

30. ULTIMATE PARENT COMPANY

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

Waterside House, 35 North Wharf Road, London, W2 1NN