Marks and Spencer plc financial statements 2006

MARKS &
SPENCER

REGISTERED NUMBER
00214436

Group directors' report

Principal activities and business review
Marks and Spencer plc is a holding company of the Marks & Spencer group of companies (the 'Group') and are one of the UK's leading retailers of clothing, food and home products. We also trade in wholly-owned stores in the Republic of Ireland and Hong Kong, as well as in worldwide franchise stores. On 28 April 2006 we completed the sale of Kings Super Markets, our wholly owned supermarket chain in the US.

Review of activities and future performance

	2006 £m	2005 £m
Summary of results		
Continuing operations before exceptional items and asset disposals		
Revenue	**7,797.7**	7,490.5
Operating profit	**855.8**	649.1
Net interest payable	**(119.4)**	(106.1)
Other finance income	**17.5**	11.4
Profit before tax, exceptional items and asset disposals	**753.9**	554.4
Loss on property disposals	**(5.7)**	(0.4)
Exceptional operating charges	**-**	(50.6)
Group profit before tax from continuing operations	**748.2**	503.4

Revenue from continuing operations increased by 4.1% to £7,797.7m. Within this, UK Retail revenue increased 3.4%.

Operating profit from continuing operations (before exceptional charges and asset disposals) increased by 31.8% to £855.8m.

Net interest expense was £101.9m compared to £94.7m last year. The average rate of borrowings during the period was 5.9%.

Profit before tax was £748.2m compared to £503.4m last year.

Profit and dividends
The profit for the financial year, after taxation, amounts to £525.6m (last year £585.0m). The directors have declared dividends as follows:

Ordinary shares:	**2006 £m**	2005 £m
Paid interim dividend of nil (last year 81.1p)	**-**	2,311.4
Proposed final dividend 8.2p (last year 7.2p)	**233.7**	205.2
Total ordinary dividend, 8.2p per share (last year 88.3p)	**233.7**	2,516.6

Changes in share capital
During the period, 13,100 ordinary shares in the Company were issued for a consideration of £59,998.

Directors and their interests
On 28 September 2006, the directors were Stuart Rose, Ian Dyson, Steven Sharp and Graham Oakley. Ian Dyson was appointed Finance Director on 27 June 2005 and Steven Sharp was appointed as a director on 15 December 2005.

Alison Reed retired as Finance Director on 30 April 2005. Charles Wilson retired as a director on 28 October 2005.

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
At 2 April 2005	104,927
At 1 April 2006	**66,695**

	Options	Exercisable options
At 2 April 2005	869,797	416,156
Granted in the period	4,613	
Exercised/lapsed in the period	(489,833)	
At 1 April 2006	**384,577**	**54,996**

Group directors' report continued

Principal risks and uncertainties
The directors manage the Group's risk at a Group level, rather than at an individual business unit level. For this reason, the Company's directors believe that a discussion of the Company's risks would not be appropriate for an understanding of the development, performance or position of Marks and Spencer plc's business. The principal risks and uncertainties of Marks and Spencer Group plc, which include those of the consolidated group and Company, are discussed on pages 36 and 37 of the Group's annual report which does not form part of this report.

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 at 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.

Audit information
The directors confirm that, so far as they are aware, there is no relevant audit information of which the auditors are unaware and that each director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Directors' indemnities
The Company maintains liability insurance for its directors and officers. Following shareholder approval in July 2005, the Company has also provided an indemnity for its directors and the secretary, which is a qualifying third-party indemnity provision for the purposes of the Companies Act 1985.

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 email. These are supplemented by our employee publication, and video presentations. Business Involvement Groups in stores, and head office locations represent employees in two-way communication and are involved in the delivery of change and driving business improvement.

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

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

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

We maintain contact with retired staff through communications from the Company and the Pension Trust. Elections have taken place to appoint member-nominated trustees to the Pension Trust Board, including employees and pensioners. Our retired staff have also recently benefited from a significant increase in their M&S discount entitlement.

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 endeavours to use everyone's talents and abilities to the full.

Group directors' report continued

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

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

Trade creditor days for Marks and Spencer plc for the year ended 1 April 2006 were 13.1 days, or 8.8 working days (last year 12.0 days, or 8.0 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 July 2004. 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 1 April 2006, exceeded their net book value (including prepayments in respect of leasehold land) by approximately £0.7bn.

Charitable donations

During the year, the Group made charitable donations to support the community of £9.3m (last year £9.8m). These principally consisted of cash donations of £3.4m (last year £3.0m) which includes the cost of our flagship community programme 'Marks & Start', Breakthrough Breast Cancer and other charitable donations, £1.3m (last year £2.0m) of employee time principally for the 'Marks & Start' programme and local community projects, and stock donations of £4.2m (last year £4.3m) to a variety of charities including Shelter, Fareshare, Birth Defects Foundation as well as to the local community.

Political donations

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.

It is our policy not to make Donations to EU Political parties or incur EU Political Expenditure and accordingly neither the Company nor its subsidiaries made any Political Donations or incurred Political Expenditure in 2005/06. However, the legislation gives a wide definition of what constitutes Political Donations and 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. To enable the Company and its principal employing companies, (Marks and Spencer plc, Marks & Spencer Outlet Limited, Marks and Spencer Shared Services Limited, Marks and Spencer Simply Foods Limited and Marks and Spencer (Ireland) Limited) to continue supporting the community and such organisations without inadvertently breaching the legislation, authority is being sought at the Annual General Meeting on 11 July 2006 to make Donations or incur Expenditure in the EU up to an aggregate limit of £100,000 for each company until 11 July 2010.

This authority expires in 2010 as permitted by the legislation. The policy of not making Donations to any EU Political Organisation will continue. However, should the Board wish to change this policy during the term of this authority, the Company will seek renewed shareholder approval prior to making any such Donation.

Going concern

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

Auditors

Resolutions 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, Executive director
London
28 September 2006

Auditors' report

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MARKS AND SPENCER PLC

We have audited the Group and parent Company financial statements (the 'financial statements') of Marks and Spencer plc for the year ended 1 April 2006 which comprise the consolidated income statement, the consolidated and Company balance sheets, the consolidated and Company cash flow statements, the consolidated and Company statements of recognised income and expense and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report. 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. 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 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 Group 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 affairs as at 1 April 2006 and of its profit and cash flows for the year then ended;
- the parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent Company's affairs as at 1 April 2006 and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
28 September 2006

Consolidated income statement

	Notes	52 weeks ended 1 April 2006 £m	52 weeks ended 2 April 2005 £m
Revenue	2	**7,797.7**	7,490.5
Operating profit			
Before exceptional operating charges		**850.1**	648.7
Exceptional operating charges		**-**	(50.6)
	2,3	**850.1**	598.1
Interest payable and similar charges	5	**(132.4)**	(120.9)
Interest receivable	5	**30.5**	26.2
Profit on ordinary activities before taxation		**748.2**	503.4
Analysed between:			
Before exceptional operating charges and property disposals		**753.9**	554.4
Loss on property disposals	3	**(5.7)**	(0.4)
Exceptional operating charges	3	**-**	(50.6)
Income tax expense	6	**(225.1)**	(149.6)
Profit on ordinary activities after taxation		**523.1**	353.8
Profit from discontinued operations	7A	**2.5**	231.2
Profit for the year attributable to shareholders		**525.6**	585.0

Consolidated statement of recognised income and expense

	Notes	52 weeks ended 1 April 2006 £m	52 weeks ended 2 April 2005 £m
Profit for the year attributable to shareholders		**525.6**	585.0
Exchange differences on translation of foreign operations		**11.1**	-
Actuarial losses on defined benefit pension schemes		**(169.3)**	(78.1)
Tax on items taken directly to equity		**80.7**	24.9
Hedging reserve			
- fair value movement		**(3.1)**	-
- recycled and reported in net profit		**(1.4)**	-
- amount recognised in inventories		**(3.8)**	-
Net losses not recognised in the income statement		**(85.8)**	(53.2)
Total recognised income and expense for the year		**439.8**	531.8
Effect of changes in accounting policy:			
First time adoption of IAS 39 (net of tax)	33	**(1.9)**	

Consolidated balance sheet

	Notes	2006 £m	2005 £m
ASSETS			
Non-current assets			
Intangible assets	12	**163.5**	165.4
Property, plant and equipment	13	**3,575.8**	3,586.2
Investment property	14	**38.5**	38.6
Investments in joint venture	15	**9.0**	8.7
Other financial assets	16	**13.0**	3.9
Trade and other receivables	17	**242.8**	211.2
Deferred income tax assets	24	**35.5**	24.6
		4,078.1	4,038.6
Current assets			
Inventories		**374.3**	338.9
Other financial assets	16	**2,100.5**	2,167.1
Trade and other receivables	17	**210.1**	213.8
Derivative financial instruments	21	**76.4**	–
Cash and cash equivalents	18	**362.6**	212.6
Assets of discontinued operation	7C	**69.5**	–
		3,193.4	2,932.4
Total assets		**7,271.5**	6,971.0
LIABILITIES			
Current liabilities			
Trade and other payables	19	**867.5**	717.4
Derivative financial instruments	21	**8.0**	–
Borrowings	20	**998.1**	478.8
Current tax liabilities		**58.7**	15.0
Provisions	23	**9.2**	25.2
Liabilities of discontinued operation	7C	**20.5**	–
		1,962.0	1,236.4
Non-current liabilities			
Borrowings	20	**1,133.8**	1,948.5
Retirement benefit obligations	10	**794.9**	676.0
Other non-current liabilities	19	**74.8**	71.8
Derivative financial instruments	21	**9.5**	–
Provisions	23	**19.1**	19.7
Deferred income tax liabilities	24	**6.1**	4.7
		2,038.2	2,720.7
Total liabilities		**4,000.2**	3,957.1
Net assets		**3,271.3**	3,013.9
EQUITY			
Called up share capital – equity	25,26	**712.5**	712.5
Share premium account	26	**386.1**	386.1
Capital redemption reserve	26	**8.0**	8.0
Hedging reserve	26	**(8.0)**	–
Retained earnings	26	**2,172.7**	1,907.3
Total equity		**3,271.3**	3,013.9

Approved by the Board
28 September 2006

Stuart Rose, Chief Executive
Ian Dyson, Group Finance Director

Consolidated cash flow information

CASH FLOW STATEMENT

	Notes	52 weeks ended 1 April 2006 £m	52 weeks ended 2 April 2005 £m
Cash flows from operating activities			
Cash generated from operations – continuing	28A	**1,184.0**	873.7
Cash generated from operations – discontinued	28B	**13.9**	727.4
Tax paid		**(101.0)**	(166.7)
Net cash inflow from operating activities		**1,096.9**	1,434.4
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired		**-**	(125.9)
Disposal of subsidiary, net of cash disposed		**-**	477.0
Capital expenditure and financial investment	28C	**(272.3)**	(112.9)
Interest received		**12.9**	13.7
Net cash (outflow)/inflow from investing activities		**(259.4)**	251.9
Cash flows from financing activities			
Interest paid		**(140.3)**	(116.5)
Other debt financing	28D	**(360.6)**	822.0
Proceeds from shares issued		**0.1**	5.5
Dividends paid		**(205.2)**	(946.7)
Pre-acquisition dividend paid		**-**	(1,626.7)
Net cash outflow from financing activities		**(706.0)**	(1,862.4)
Net cash inflow/(outflow) from activities		**131.5**	(176.1)
Effects of exchange rate changes		**1.6**	1.1
Opening net cash		**149.3**	324.3
Closing net cash	29	**282.4**	149.3

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	52 weeks ended 1 April 2006 £m	52 weeks ended 2 April 2005 £m
Opening net debt	**(47.6)**	121.1
Reclassification on the adoption of IAS 32 and IAS 39	**(63.8)**	-
Opening net debt – under IFRS	**(111.4)**	121.1
Net cash inflow/(outflow) from activities	**131.5**	(176.1)
Cash inflow from decrease in current asset investments	**(1.0)**	(11.0)
Cash outflow/(inflow) from decrease/(increase) in debt financing	**360.6**	(822.0)
Debt financing net of liquid resources disposed with subsidiary	**-**	839.7
Exchange and other movements	**(2.6)**	0.7
Movement in net debt	**488.5**	(168.7)
Closing net debt	**377.1**	(47.6)

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 disclosures required by IFRS 1 – 'First-time Adoption of International Financial Reporting Standards' concerning the transition from UK GAAP to IFRS are given in notes 32 and 33.

The date of transition to IFRS is 4 April 2004.

The impacts of IFRSs issued but not yet effective at the balance sheet date would not have a significant impact on these financial statements.

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

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

Basis of consolidation
The Group financial statements incorporate the financial statements of Marks and Spencer plc and all its subsidiaries made up to the year end date. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into 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 operations 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.

First time adoption of International Financial Reporting Standards
IFRS 1 – 'First-time Adoption of International Financial Reporting Standards' sets out the requirements for the first time adoption of IFRS. The Group is required to establish its IFRS accounting policies for the year to 1 April 2006 and, in general, apply these retrospectively to determine the IFRS opening balance sheet at its date of transition, 4 April 2004.

The standard permits a number of optional exemptions to this general principle. The Group has adopted the following approach to the key exemptions:

- income statement: the Group has adopted the exemption to apply Companies Act 1985, s230. A company income statement will not be produced.
- business combinations: the Group has chosen not to restate business combinations prior to the transition date;
- fair value or revaluation as deemed cost: the Group has adopted a valuation as deemed cost on transition for freehold land and buildings;
- employee benefits: all cumulative actuarial gains and losses, having been recognised in equity under FRS 17 for UK GAAP purposes, have continued to be recognised in equity at the transition date;
- financial instruments: the Group has taken the exemption not to restate comparatives for IAS 32 – 'Financial Instruments: Disclosure and Presentation' and IAS 39 – 'Financial Instruments: Recognition and Measurement'. Comparative information for 2005 in the 2006 financial statements in respect of these items is presented on a UK GAAP basis as previously reported:
- share-based payments: the Group has not adopted the exemption to apply IFRS 2 – 'Share-Based Payments' only to awards made after 7 November 2002. Instead, a full retrospective approach has been followed on all awards granted but not fully vested at the date of transition to maintain consistency across reporting periods; and
- cumulative translation differences: the cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to IFRS.

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 are recorded on delivery.

Dividends
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.

Notes to the financial statements continued

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 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 benefits 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.

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

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

Under UK GAAP, property was stated at historical cost, subject to certain properties having been revalued as at 31 March 1988. The property portfolio was revalued as at 2 April 2004. The Group adopted the following values on transition to IFRS:

- freehold land and buildings: the 2004 revaluation was adopted as deemed cost under the exemptions available under IFRS 1;
- leasehold buildings: cost or 1988 revaluations were adopted as deemed cost under the provisions of IFRS 1; and
- leasehold land: any revaluations held against leasehold land were derecognised and the remaining cost included in prepayments.

Given that under IFRS leasehold land cannot be revalued, the 2004 valuation as it related to leasehold properties was not adopted on transition.

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;
- fit-out: 10-25 years according to the estimated life of the asset; and
- fixtures, fittings and equipment: 3-15 years according to the estimated life of the asset.

Notes to the financial statements continued

1 ACCOUNTING POLICIES continued

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 using the valuation technique most appropriate to value each class of award, either the Black-Scholes or Monte Carlo method.

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. 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 dealt with in 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.

Notes to the financial statements continued

1 ACCOUNTING POLICIES continued

Financial Instruments
The Group has adopted both IAS 32 – 'Financial Instruments: Disclosure and Presentation' and IAS 39 – 'Financial Instrument: Recognition and Measurement' from 3 April 2005. Under the IFRS 1 transition rules IAS 32 and IAS 39 are not applied to comparative figures.

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
Investments 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, gain 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 can not 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 Financial liability 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 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 and are subsequently remeasured at their fair value on the trade 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 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); or
- a hedge of the exposure to change in the fair value of a recognised asset or liability (a fair value 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 a majority of the Group's derivative instruments, 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.

Notes to the financial statements continued

1 ACCOUNTING POLICIES continued

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.

Derivatives classified as 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 forecasted transaction that is the subject of a cash flow hedge results in the recognition of an asset or a 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.

Derivatives classified as 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 or losses from remeasuring the derivative, or for non-derivatives the foreign currency component of its carrying amount, are recognised in profit or loss.

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 forecasted 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 balance sheet and profit and loss account translation exposures. Where appropriate, borrowings are arranged in local currencies to provide a natural hedge against overseas assets.

Critical accounting estimates and judgements
The preparation of consolidated financial statements under IFRS 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 above. The selection of these estimated lives requires the exercise of management judgement.

Notes to the financial statements continued

1 ACCOUNTING POLICIES continued

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

E Refunds and loyalty provisions
Provisions 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. Actual returns and redemptions could vary from these estimates.

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

Policies relating to discontinued operations in comparatives
A 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.

B 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 income statement grossed up at the standard rate of corporation tax applicable to insurance companies.

Notes to the financial statements continued

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 geographic segments disclose revenue, operating profit and operating 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 Group's geographical segments are United Kingdom and International Retail. The International segment consists of the Marks & Spencer owned businesses in the Republic of Ireland and Hong Kong, together with franchise operations.

The geographic segment results are as follows:

	Revenue		Operating profit		Operating assets		Operating liabilities	
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
United Kingdom								
Before exceptional operating charges	**7,275.0**	7,034.7	**784.5**	588.3				
Exceptional operating charges	**-**	–	**-**	(60.3)				
	7,275.0	7,034.7	**784.5**	528.0	**4,430.8**	4,443.1	**(1,630.4)**	(1,804.3)
International Retail								
Before exceptional operating charges	**522.7**	455.8	**65.6**	60.4				
Exceptional operating charges	**-**	–	**-**	9.7				
	522.7	455.8	**65.6**	70.1	**214.5**	215.2	**(81.5)**	(60.0)
Total	**7,797.7**	7,490.5	**850.1**	598.1	**4,645.3**	4,658.3	**(1,711.9)**	(1,864.3)
Assets/(liabilities) from discontinued operation[1]					**69.5**	59.3	**(20.5)**	(17.1)
Total non-operating assets/(liabilities)					**2,556.7**	2,253.4	**(2,267.8)**	(2,075.7)
Total assets/(liabilities)					**7,271.5**	6,971.0	**(4,000.2)**	(3,957.1)

[1] The assets and liabilities in the comparative period relate only to Kings Super Markets.

Revenue originates in the following geographical segments: United Kingdom £7,473.3m (last year £7,208.9m) and International £324.4m (last year £281.6m). The value of goods exported from the UK, including shipments to international subsidiaries, amounted to £367.6m (last year £319.9m).

The Group completed the sale of Marks and Spencer Retail Financial Services Holdings Limited to HSBC Holdings plc on 9 November 2004. At the same time, the Group and HSBC entered into a relationship under which the Group continues to share in the success of the business. Under this relationship, the Group receives income in the form of fees representing an amount equivalent to costs incurred, 50% of the profits of M&S Money (after a notional tax charge and after deducting agreed operating and capital costs) together with an amount relating to sales growth. In the current year, a net operating profit of £9.6m has been recorded and is included within the results for UK Retail.

Other segment items:

	2006			2005		
	United Kingdom £m	**International £m**	**Total £m**	United Kingdom £m	International £m	Total £m
Revenue						
General Merchandise	**3,644.4**	**366.0**	**4,010.4**	3,641.6	331.1	3,972.7
Food	**3,630.6**	**156.7**	**3,787.3**	3,393.1	124.7	3,517.8
	7,275.0	**522.7**	**7,797.7**	7,034.7	455.8	7,490.5
Expenditure on property, plant and equipment	**307.3**	**14.1**	**321.4**	184.0	29.9	213.9
Expenditure on intangible assets	**10.7**	**0.2**	**10.9**	159.6	–	159.6
Depreciation	**252.5**	**8.8**	**261.3**	253.3	5.4	258.7
Amortisation	**12.7**	**-**	**12.7**	11.4	–	11.4

Notes to the financial statements continued

3 EXPENSE ANALYSIS

	2006			2005		
	Before exceptional items £m	**Exceptional items £m**	**Total £m**	Before exceptional items £m	Exceptional items £m	Total £m
Revenue	**7,797.7**	**-**	**7,797.7**	7,490.5	–	7,490.5
Cost of sales	**(4,812.1)**	**-**	**(4,812.1)**	(4,884.3)	(3.3)	(4,887.6)
Gross profit	**2,985.6**	**-**	**2,985.6**	2,606.2	(3.3)	2,602.9
Selling and marketing expenses	**(1,625.7)**	**-**	**(1,625.7)**	(1,493.0)	(26.0)	(1,519.0)
Administrative expenses	**(522.7)**	**-**	**(522.7)**	(476.8)	(52.4)	(529.2)
Other operating income	**18.6**	**-**	**18.6**	12.7	–	12.7
Loss on property disposals	**(5.7)**	**-**	**(5.7)**	(0.4)	31.1	30.7
Operating profit after exceptional items	**850.1**	**-**	**850.1**	648.7	(50.6)	598.1

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

	Selling and marketing expenses £m	**Administrative expenses £m**	**Total £m**	Selling and marketing expenses £m	Administrative expenses £m	Total £m
Employee costs (see note 9A)	**844.9**	**228.3**	**1,073.2**	773.6	195.8	969.4
Occupancy costs	**276.2**	**49.2**	**325.4**	265.8	42.5	308.3
Repairs, renewals and maintenance of property	**73.0**	**17.2**	**90.2**	60.9	12.9	73.8
Depreciation and amortisation	**243.5**	**30.5**	**274.0**	226.0	29.0	255.0
Other costs	**188.1**	**197.5**	**385.6**	166.7	196.6	363.3
Operating expenses before exceptional items	**1,625.7**	**522.7**	**2,148.4**	1,493.0	476.8	1,969.8

Exceptional items are comprised of:

	2006 £m	2005 £m
Head office relocation	**-**	(8.8)
Head office change programme	**-**	(6.3)
Board restructure	**-**	(8.4)
Closure of Lifestore	**-**	(29.3)
Defence costs	**-**	(38.6)
Sale of head office premises	**-**	31.1
Release of provision held against European closure	**-**	9.7
Exceptional items	**-**	(50.6)

Notes to the financial statements continued

4 PROFIT BEFORE TAXATION

	2006 £m	2005 £m
The following items have been included in arriving at profit before taxation:		
Depreciation of property, plant, and equipment:		
– Owned assets	**259.2**	256.6
– Under finance leases	**2.1**	2.1
Amortisation of intangibles (included in administrative expenses)	**12.7**	11.4
Loss/(profit) on disposal of fixed assets	**5.7**	(30.7)
Operating lease rentals payable		
– Property	**127.1**	135.7
– Fixtures, fittings and equipment	**8.5**	7.5

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

	2006 £m	2005 £m
Statutory audit services		
Annual audit	**0.8**	1.0
Non-audit related services		
Further assurance services	**–**	0.2
Corporate finance transactions	**–**	1.5
Tax advisory services	**0.3**	0.2
Other services	**0.2**	0.2
	0.5	2.1

Included in the comparatives for Corporate finance transactions are fees paid to the Group's auditors in the UK in relation to the provision of assurance services relating to the sale of Financial Services of £0.5m, the acquisition of per una of £0.1m and Defence of £0.8m.

Notes to the financial statements continued

5 FINANCE COSTS

	2006 £m	2005 £m
Interest payable:		
Interest payable on bank borrowings	**4.0**	43.3
Amortisation of issue costs of bank loan	**2.3**	1.5
Interest payable on syndicated bank facility	**7.7**	7.8
Interest payable on medium term notes	**96.2**	110.8
Interest payable on securitised loan notes	**20.3**	20.2
Interest payable on finance leases	**2.3**	2.3
	132.8	185.9
Less: amounts included in profit from discontinued operations[1]	**(0.4)**	(65.0)
Interest payable and similar charges	**132.4**	120.9
Interest receivable:		
Bank and other interest receivable	**13.4**	168.2
Pension finance income (net) (see note 10E)	**17.5**	11.4
Fair value hedges[2]	**0.2**	–
	31.1	179.6
Less: amounts included in profit from discontinued operations[1]	**(0.6)**	(153.4)
Interest receivable	**30.5**	26.2
Net finance costs	**101.9**	94.7

[1] Interest payable and receivable last year of £64.6m and £153.2m respectively relate to Financial Services. These were included within cost of sales and turnover respectively and are therefore excluded from net interest within note 7.

[2] Represents a fair value gain on hedging instruments of £67.2m and a corresponding fair value loss on underlying medium term notes of £67.0m, which have been designated into a hedging relationship.

Where applicable, interest payable amounts are shown net of their assigned interest rate derivative. The fair values of these derivatives have been reported as a net figure under interest income.

6 INCOME TAX EXPENSE

A Taxation charge

	2006 £m	2005 £m
Current tax		
UK corporation tax at 30% (last year 30%)		
– current year	**150.3**	115.2
– prior years	**(2.0)**	(17.5)
	148.3	97.7
Overseas current taxation	**5.3**	5.5
Total current taxation	**153.6**	103.2
Deferred tax (note 25)		
– current year	**71.8**	36.0
– prior years	**(0.3)**	10.4
Total deferred taxation	**71.5**	46.4
	225.1	149.6

Notes to the financial statements continued

6 INCOME TAX EXPENSE continued

B Taxation reconciliation

	2006 £m	2005 £m
Profit before tax	**748.2**	503.4
Taxation at the standard UK corporation tax rate of 30% (last year 30%)	**224.5**	151.0
Depreciation and charges on non-qualifying fixed assets	**10.2**	10.8
Share schemes	**-**	(4.9)
Other income and expenses not taxable or deductible	**(3.5)**	10.8
Overseas profits taxed at lower rates	**(3.8)**	(7.3)
Exceptional items	**-**	(3.7)
Adjustments to tax charge in respect of prior periods	**(2.3)**	(7.1)
Total taxation charge	**225.1**	149.6

The effective tax rate was 30.1% (last year 29.7%). Included in the tax charge for last year is a credit of £19.1m which is attributable to exceptional operating charges.

7 DISCONTINUED OPERATIONS

On 31 March 2006, the Group announced the sale of Kings Super Markets Inc to a US investor group for $61.5m excluding cash in the business at the date of disposal.

The profit after tax in the current year is entirely attributable to Kings Super Markets Inc (last year £3.9m). The balance of profit after tax last year, together with the net gain on disposal is entirely attributable to the sale of Marks and Spencer Retail Financial Services Holdings to HSBC Holdings plc completed on 9 November 2004.

A Profit from discontinued operations

	2006 £m	2005 £m
Revenue	**228.2**	451.8
Cost of sales	**(144.7)**	(235.7)
Gross profit	**83.5**	216.1
Net operating expenses	**(80.5)**	(180.4)
Net interest	**0.2**	(0.2)
Profit before tax	**3.2**	35.5
Taxation on results	**(0.7)**	(2.4)
Profit after tax	**2.5**	33.1
Gain on disposal of subsidiary net assets	**-**	199.0
Taxation	**-**	(0.9)
Net gain on disposal	**-**	198.1
Profit from discontinued operations	**2.5**	231.2

Notes to the financial statements continued

7 DISCONTINUED OPERATIONS continued

B Expenditure, depreciation and amortisation

The following items have been excluded from the segmental disclosures in note 2.

	2006 £m	2005 £m
Expenditure on property, plant and equipment	**5.4**	4.6
Expenditure on intangible assets	**–**	0.8
Depreciation	**6.3**	7.8
Amortisation	**–**	1.9

Analysed below are the net assets of Kings Super Markets Inc as at 1 April 2006:

C Net assets of discontinued operations

	2006 £m
Fixed assets	33.8
Trade and other receivables	2.8
Inventories	9.2
Cash and cash equivalents	4.8
Other financial assets	18.9
Assets held in discontinued operation	**69.5**
Liabilities of discontinued operation[1]	**(20.5)**
Net assets of discontinued operation	**49.0**

[1] Includes £2.0m of finance leases included within financial liabilities of discontinued operations.

8 DIVIDENDS

	2006 per share	2005 per share	2006 £m	2005 £m
Dividends on equity ordinary shares:				
Paid final dividend	**7.2p**	9.2p	**205.2**	262.0
Paid interim dividend	**–**	81.1p	**–**	2,311.4
	7.2p	90.3p	**205.2**	2,573.4

In addition the directors have proposed a final dividend in respect of the financial year ended 1 April 2006 of 8.2p per share amounting to a dividend of £233.7m. In line with the requirements of IAS 10 – 'Events after the Balance Sheet Date', this dividend has not been recognised within these results.

Notes to the financial statements continued

9 EMPLOYEES

A Aggregate remuneration

The aggregate remuneration and associated costs of Group employees were:

	2006			2005		
	Continuing operations £m	**Discontinued operations £m**	**Total £m**	Continuing operations[1] £m	Discontinued operations £m	Total £m
Wages and salaries	**856.3**	**36.2**	**892.5**	781.3	61.8	843.1
Social security costs	**64.3**	**3.3**	**67.6**	52.6	5.2	57.8
Other pension costs	**96.9**	**1.3**	**98.2**	99.8	3.4	103.2
Share-based payments	**24.7**	**–**	**24.7**	22.2	–	22.2
Employee welfare and other personnel costs	**33.1**	**2.3**	**35.4**	22.7	10.8	33.5
Capitalised staffing costs	**(2.1)**	**–**	**(2.1)**	(2.0)	–	(2.0)
	1,073.2	**43.1**	**1,116.3**	976.6	81.2	1,057.8

[1] Includes exceptional operating charges of £7.2m.

Details of key management compensation is given in note 31E.

B Average number of employees

	2006	2005
UK stores		
Management and supervisory categories	**4,601**	4,863
Other	**57,687**	56,269
UK head office		
Management and supervisory categories	**2,325**	2,537
Other	**732**	968
Overseas	**2,959**	2,110
Discontinued operations	**2,006**	3,803
	70,310	70,550

If the number of hours worked was converted on the basis of a normal working week, the equivalent average number of full-time employees for continuing operations would have been 46,989 (last year 45,297) and for discontinued operations 1,592 (last year 3,005).

C Directors' 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.

	2006 £000	2005 £000
Highest paid director	**2,305**	2,119
Aggregate emoluments of other directors	**1,785**	3,814
Termination payments	**622**	3,651
Gains made on exercise of options	**704**	631

One director (last year five) accrued retirement benefits under a defined benefit scheme. One director (last year two) realised gains on the exercise of share options.

Notes to the financial statements continued

10 RETIREMENT BENEFITS

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

The defined benefit section operates on a Final Salary basis and at the year end had some 31,000 active members (last year 35,000), 57,000 deferred members (last year 56,000) and 38,000 pensioners (last year 36,000). At the year end, the defined contribution section had some 5,000 active members (last year 4,000).

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 include a UK post-retirement healthcare scheme and unfunded pension plans.

Within the total Group retirement benefit cost of £80.7m (last year £84.8m), £69.1m (last year £74.0m) relates to the UK defined benefit section, £5.6m (last year £4.6m) to the UK defined contribution section and £6.0m (last year £6.2m) to other retirement benefit schemes.

The Group's accounting policy for recognising actuarial gains and losses is to recognise these immediately through the statement of recognised income and expense.

A Pensions and other post-retirement liabilities

	2006 £m	2005 £m
Total market value of assets	**4,606.2**	3,956.8
Present value of scheme liabilities	**(5,381.3)**	(4,611.0)
Pension scheme deficit	**(775.1)**	(654.2)
Unfunded pension plans	**(1.7)**	(2.5)
Post-retirement healthcare	**(18.1)**	(19.3)
Retirement benefit obligations	**(794.9)**	(676.0)

B Financial assumptions

A full actuarial valuation of the UK defined benefit pension scheme was carried out at 31 March 2003 and showed a deficit of £585m. 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 in order to assess the liabilities of the schemes at 1 April 2006:

	2006 %	2005 %
Rate of increase in salaries	**3.7**	3.7
Rate of increase in pensions in payment for service:		
– pre April 1997	**2.4**	2.5
– between April 1997 and July 2005	**2.9**	2.9
– post July 2005	**2.1**	2.4
Discount rate	**4.9**	5.5
Inflation rate	**2.9**	2.9
Long-term healthcare cost increases	**7.9**	7.9

Notes to the financial statements continued

10 RETIREMENT BENEFITS continued

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 2003 updated to allow for anticipated longevity improvements over the subsequent three years. The specific mortality rates used are based on the PMA92 and PFA92 tables, adjusted to allow for the experience of scheme pensioners. The life expectancies underlying the valuation are as follows:

	2006 Years	2005 Years
Current pensioners (at age 65) – males	**18.8**	18.6
Current pensioners (at age 65) – females	**22.6**	22.4
Future pensioners (at age 65) – males	**19.8**	19.6
Future pensioners (at age 65) – females	**23.6**	23.4

The next funding valuation for the UK Scheme is due to be carried out as at 31 March 2006, when the mortality trends under the Scheme will be reviewed and the demographic assumptions updated if appropriate.

D Analysis of assets and expected rates of return

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

	2006 %	2005 %
UK equities	**17**	26
Overseas equities	**30**	27
Government bonds	**16**	31
Corporate bonds (Triple B or above)	**27**	13
Other	**10**	3
	100	100

The expected long-term rates of return at 1 April 2006 were:

	2006 %	2005 %
UK equities	**8.0**	8.1
Overseas equities	**8.0**	8.4
Government bonds	**4.3**	4.8
Corporate bonds (Triple B or above)	**4.9**	5.5
Other	**4.5**	3.8
	6.2	6.7

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

As at 1 April 2006 the UK scheme indirectly held 394,672 (last year 746,868) ordinary shares in Marks and Spencer Group plc through its investment in an Aquila Life UK Equity Index Fund.

Notes to the financial statements continued

10 RETIREMENT BENEFITS continued

E Analysis of amount charged against profits

	2006 £m	2005 £m
Operating cost		
Current service cost[1]	**109.9**	113.8
Curtailment gain	**(13.0)**	(14.0)
	96.9	99.8
Finance cost		
Expected return on plan assets	**(265.5)**	(248.3)
Interest on scheme liabilities	**248.0**	236.9
Net finance income	**(17.5)**	(11.4)
Discontinued operations		
Service cost and finance income of discontinued operation	**1.3**	3.4
Curtailment gain on disposal of Financial Services	**–**	(7.0)
Total cost of retirement benefits	**80.7**	84.8

[1] Includes defined contributions of £6.3m (last year £6.5m).

F Scheme assets

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

	2006 £m	2005 £m
Fair value of scheme assets at start of year	**3,956.8**	3,634.2
Expected return on scheme assets[1,2]	**265.9**	248.9
Employer contributions[3,4]	**130.2**	156.4
Benefits paid	**(164.2)**	(160.1)
Transfer on disposal of Financial Services	**(32.0)**	–
Actuarial gain	**454.3**	77.4
Exchange	**1.4**	–
Discontinued operation	**(6.2)**	–
Fair value of scheme assets at end of year	**4,606.2**	3,956.8

[1] The expected return on scheme assets includes £0.4m (last year £0.6m) in respect of discontinued operations.

[2] The actual return on scheme assets was £720.2m (last year £325.7m).

[3] The cash contribution for 2005/06 includes an additional contribution of £51m paid into the UK defined benefit pension scheme in April 2005 (last year an additional contribution of £64m was paid in March 2005).

[4] 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. The Group expects to contribute £60m to defined benefit schemes for the year ended 31 March 2007.

Notes to the financial statements continued

10 RETIREMENT BENEFITS continued

G Retirement benefit obligations

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

	2006 £m	2005 £m
Present value of obligation at start of year	**4,632.8**	4,303.7
Current service cost	**111.2**	117.2
Curtailment gain	**(13.0)**	(21.0)
Interest cost[1]	**248.4**	237.5
Benefits paid	**(164.2)**	(160.1)
Transfer on disposal of Financial Services	**(32.0)**	–
Actuarial loss	**623.6**	155.5
Exchange	**1.3**	–
Discontinued operation	**(7.0)**	–
Present value of obligation at end of year	**5,401.1**	4,632.8
Analysed as:		
Present value of pension scheme liabilities	**5,381.3**	4,611.0
Unfunded pension plans	**1.7**	2.5
Post-retirement healthcare	**18.1**	19.3
Present value of obligation at end of year	**5,401.1**	4,632.8

[1] Interest cost includes £0.4m (last year £0.6m) in respect of discontinued operations.

H Cumulative actuarial gains and losses recognised in equity

	2006 £m	2005 £m
Loss at start of year	**(757.7)**	(679.6)
Net actuarial losses recognised in the year	**(169.3)**	(78.1)
Loss at end of year	**(927.0)**	(757.7)

I History of experience gains and losses

	2006 £m	2005 £m	2004 £m	2003 £m
Experience adjustments arising on scheme assets	**454.3**	77.4	401.9	(713.3)
Experience gains/(losses) arising on scheme liabilities	**20.0**	(24.0)	(30.3)	16.0
Changes in assumptions underlying the present value of scheme liabilities	**(643.6)**	(131.5)	(157.8)	(196.1)
Actuarial (losses)/gains recognised in equity	**(169.3)**	(78.1)	213.8	(893.4)
Fair value of scheme assets	**4,606.2**	3,956.8	3,634.2	2,638.5
Present value of scheme liabilities	**(5,381.3)**	(4,611.0)	(4,280.1)	(3,888.1)
Pension scheme deficit	**(775.1)**	(654.2)	(645.9)	(1,249.6)

Notes to the financial statements continued

11 SHARE-BASED PAYMENTS

The charge for share-based payments under IFRS arises across the following schemes:

	Notes	2006 £m	2005 £m
Save As You Earn Share Option Scheme	11A	**10.2**	10.8
Executive Share Option Scheme	11B	**6.5**	8.7
Performance Share Plan	11C	**2.5**	–
Deferred Bonus Plan	11D	**2.0**	–
Restricted Share Plan	11E	**1.8**	0.8
Executive Share Matching Plan	11F	**0.4**	0.6
Share Incentive Plan	11G	**1.3**	1.3
		24.7	22.2

A Save As You Earn Share Option Scheme

Under the terms of the Scheme, the Board may offer options to purchase ordinary shares in Marks and Spencer Group plc once in each financial year to those employees who enter into an Inland Revenue approved Save As You Earn (SAYE) savings contract. Inland Revenue rules limit the maximum amount saved to £250 per month. The price at which options may be offered is 80% of the 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, five or seven years after entering the Scheme.

	2006		2005	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at beginning of the period	**52,188,263**	**235.0p**	64,873,219	234.4p
Granted	**8,528,770**	**349.0p**	8,241,836	280.0p
Exercised	**(14,658,839)**	**206.9p**	(11,329,689)	225.2p
Forfeited	**(4,270,037)**	**253.6p**	(6,474,910)	252.5p
Expired	**(1,384,532)**	**397.7p**	(3,122,193)	339.4p
Outstanding at end of the period	**40,403,625**	**261.6p**	52,188,263	235.0p
Exercisable at end of period	**3,897,065**	**226.7p**	2,476,297	220.5p

For SAYE share options exercised during the period, the weighted average share price at the date of exercise was 472.5p (last year 345.5p).

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

	2006		2005	
	3 year plan	**5 year plan**	3 year plan	5 year plan
Grant date	**Nov 05**	**Nov 05**	Nov 04	Nov 04
Share price at grant date	**436p**	**436p**	350p	350p
Exercise price	**349p**	**349p**	280p	280p
Option life in years	**3 years**	**5 years**	3 years	5 years
Risk free rate	**4.3%**	**4.2%**	4.6%	4.6%
Expected volatility	**25.8%**	**29.8%**	31.3%	37.3%
Expected dividend yield	**2.7%**	**2.7%**	3.3%	3.3%
Fair value of option	**120.6p**	**143.6p**	103.0p	125.7p

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

The resulting fair value is expensed over the service period of three or five years on the assumption that 15% of three-year options and 20% of five-year options will lapse over the service period as employees leave the Company.

Notes to the financial statements continued

11 SHARE-BASED PAYMENTS continued

Outstanding options granted under the United Kingdom Employees' Save As You Earn Option Scheme are as follows:

	Number of options		Weighted average remaining contractual life (years)		Option
Options granted	**2006**	2005	**2006**	2005	price
January 1998	**Expired**	1,038,090	**–**	0.2	467p
January 1999	**164,580**	1,594,114	**0.3**	1.2	324p
January 2000	**3,295,357**	4,398,817	**1.3**	1.9	223p
January 2001	**4,485,640**	13,572,339	**2.1**	1.9	156p
January 2002	**3,775,553**	4,702,766	**1.3**	2.1	250p
January 2003	**3,923,986**	7,988,919	**2.1**	2.3	283p
January 2004	**9,238,136**	10,812,290	**2.2**	3.2	228p
January 2005	**7,199,193**	8,080,928	**3.3**	4.2	280p
January 2006	**8,321,180**	–	**4.1**	–	349p
	40,403,625	52,188,263	**2.6**	2.6	262p

B Executive Share Option Scheme

Under the terms of the Executive Share Option Scheme, approved by shareholders in 2005, the Board may offer options to purchase ordinary shares in Marks and Spencer Group plc to executive directors and senior employees 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.

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

	2006		2005	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at beginning of the period	**31,690,916**	**335.2p**	47,165,764	308.9p
Granted	**1,491,046**	**352.0p**	12,709,897	346.3p
Exercised	**(9,683,033)**	**324.8p**	(16,979,635)	252.9p
Forfeited	**(4,338,398)**	**352.2p**	(8,867,917)	333.3p
Expired	**(1,025,065)**	**414.0p**	(2,337,193)	469.8p
Outstanding at end of the period	**18,135,466**	**333.5p**	31,690,916	335.2p
Exercisable at end of period	**2,841,565**	**374.4p**	7,005,133	355.2p

For executive share options exercised during the period, the weighted average share price at the date of exercise was 423.4p (last year 358.8p).

The fair value of executive share options granted during the year is calculated based on a Black-Scholes model assuming the inputs shown below:

	2006	2005	2005
Grant date	**Jun 05**	Nov 04	Jul 04
Share price at grant date	**352p**	337p	347p
Exercise price	**352p**	337p	347p
Expected life	**5 years**	5 years	5 years
Contractual life	**10 years**	10 years	10 years
Risk free rate	**4.2%**	4.6%	5.0%
Expected volatility	**31.9%**	37.3%	38.7%
Expected dividend yield	**3.4%**	3.3%	3.3%
Fair value of option	**87.0p**	98.8p	106.8p

Volatility has been estimated by taking the historic volatility in the Marks and Spencer Group plc share price over a five-year period to match the expected option life.

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

Notes to the financial statements continued

11 SHARE-BASED PAYMENTS continued

Outstanding options granted under all executive share option schemes are as follows:

	Number of options		Weighted average remaining contractual life (years)		Option price
Options granted	**2006**	2005	**2006**	2005	
(1984 Scheme)					
May 1995	**–**	1,025,065	**–**	0.1	414p
May 1996	**13,100**	39,376	**0.1**	1.1	458p
November 1996	**–**	6,172	**–**	1.6	486p
June 1997	**5,692**	11,384	**1.2**	2.2	527p
(1997 Scheme)					
June 1998	**486,551**	847,693	**2.2**	3.2	557p
November 1998	**7,425**	41,088	**2.6**	3.6	404p
June 1999	**217,279**	1,015,906	**3.2**	4.2	358p
November 1999	**–**	21,583	**–**	4.6	278p
(2000 Scheme)					
September 2000	**6,945**	329,342	**4.4**	5.4	215p
June 2001	**358,488**	1,873,894	**5.2**	6.2	256p
December 2001	**110,170**	1,793,630	**5.7**	6.7	350p
(2002 Scheme)					
June 2002	**1,500,272**	5,603,693	**6.2**	7.2	350p
November 2002	**102,905**	704,148	**6.6**	7.6	353p
January 2003	**32,738**	212,121	**6.8**	7.8	297p
March 2003	**–**	112,612	**–**	7.9	296p
June 2003	**5,355,784**	7,394,132	**7.2**	8.2	297p
November 2003	**522,773**	600,292	**7.6**	8.6	270p
January 2004	**96,884**	96,884	**7.8**	8.8	289p
February 2004	**85,185**	85,185	**7.8**	8.8	270p
July 2004	**6,950,820**	8,985,830	**8.3**	9.3	347p
November 2004	**868,599**	890,886	**8.6**	9.6	337p
June 2005	**1,413,856**	–	**9.2**	–	352p
	18,135,466	31,690,916	**7.5**	7.6	335p

Notes to the financial statements continued

11 SHARE-BASED PAYMENTS continued

C Performance Share Plan
The Performance Share Plan is the primary long-term incentive plan for approximately 100 of the most senior executives and was 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 earnings per share growth over three years. The first award under this scheme was made in July 2005.

During the year, 3,694,559 shares were awarded under the plan. The weighted average fair value of the shares issued was 365.7p.

D Deferred Bonus Plan
The Deferred Bonus Plan was introduced in 2005 as part of the annual bonus scheme for approximately 400 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 at the end of the period.

Shares with a value of £10.6m were awarded under the scheme in June 2006.

E Restricted Share Plan
A Restricted Share Plan was established in 2000 as part of the reward strategy for retention of senior employees who are vital to the success of the business recovery and growth. The Plan operates for senior executives below Executive Director level. Awards under the plan are made as part of ongoing reviews of reward packages, and recruitment tools for new employees. 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.

During the year, 564,336 shares (last year 795,428) have been awarded under the Restricted Share Plan. The weighted average fair value of the shares issued was 331.1p (last year 332.8p).

F Executive Share Matching Plan
The Executive Share Matching Plan for senior management was introduced in 2002, since when there have been annual awards in 2002, 2003 and 2004. The plan currently operates for four members of senior management, and it is intended that no further awards are made under this plan. Participants were required to invest one-third of any annual bonus earned in shares of Marks and Spencer Group plc. The pre-tax value of the invested bonus would be matched by an award of shares, with the extent of the match determined by the Total Shareholder Return performance measure.

No shares have been awarded under the Executive Share Matching Plan during the year. Last year, 46,293 shares were issued with a weighted average fair value of 376.2p.

G United Kingdom Share Incentive Plan
The Share Incentive Plan is a discretionary, all-employee plan, approved by the Inland Revenue, under which Freeshares in Marks and Spencer Group plc may be allocated by the Company. The last award was made in July 2003.

Notes to the financial statements continued

12 INTANGIBLE ASSETS

	Goodwill £m	Brands £m	Computer software £m	Computer software under development £m	Total £m
At 3 April 2004					
Cost or valuation	–	–	44.5	2.5	47.0
Accumulated amortisation	–	–	(14.6)	–	(14.6)
Net book value	–	–	29.9	2.5	32.4
Year ended 2 April 2005					
Opening net book value	–	–	29.9	2.5	32.4
Additions[1,2]	69.5	80.0	0.8	10.1	160.4
Transfers	–	–	7.0	(7.0)	–
Disposal of subsidiary	–	–	(14.1)	–	(14.1)
Amortisation charge[3]	–	(2.7)	(10.6)	–	(13.3)
Closing net book value	69.5	77.3	13.0	5.6	165.4
At 2 April 2005					
Cost or valuation	69.5	80.0	32.8	5.6	187.9
Accumulated amortisation	–	(2.7)	(19.8)	–	(22.5)
Net book value	69.5	77.3	13.0	5.6	165.4
Year ended 1 April 2006					
Opening net book value	69.5	77.3	13.0	5.6	165.4
Additions	–	–	0.2	10.7	10.9
Transfers	–	–	9.5	(9.5)	–
Disposals	–	–	–	(0.1)	(0.1)
Amortisation charge	–	(5.3)	(7.4)	–	(12.7)
Closing net book value	**69.5**	**72.0**	**15.3**	**6.7**	**163.5**
At 1 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**

[1] On 4 October 2004, the Group acquired the per una group of companies for a total consideration of £125.9m. The net assets acquired included £1.4m of assets offset by £1.0m of liabilities. There were no fair value adjustments. The Group adopted acquisition accounting for the acquisition of the per una group of companies.

Per Una Group Limited was a newly formed entity into which the net assets and liabilities acquired were transferred immediately prior to the acquisition date. As separate accounts were not maintained for this entity in the period prior to the acquisition date, separate figures for profit after tax were not available. Based on the available information, the profit before tax attributable to the acquired business in the year to 31 March 2004 and in the six months prior to acquisition was approximately £17m and £15m respectively. These pre-acquisition figures for the acquired business have been adjusted to reflect the post-acquisition structure for the per una group. In the six months prior to acquisition, the value of goods purchased from the acquired business was £85.2m.

[2] 'Additions' includes £0.8m in respect of discontinued operations.

[3] 'Amortisation charge' includes £1.9m in respect of discontinued operations.

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

Brands consist of the per una brand which was acquired in October 2004 and which is being amortised on a straight-line basis over a period of 15 years.

Goodwill is not amortised but the Group tests goodwill 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 retail businesses in the UK. 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.

Notes to the financial statements continued

13 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £m	Fixtures, fittings & equipment £m	Assets in the course of construction £m	Total £m
At 3 April 2004				
Cost	2,448.1	3,156.8	50.4	5,655.3
Accumulated depreciation	(73.9)	(1,861.5)	–	(1,935.4)
Net book value	2,374.2	1,295.3	50.4	3,719.9
Year ended 2 April 2005				
Opening net book value	2,374.2	1,295.3	50.4	3,719.9
Exchange difference	1.8	0.3	0.2	2.3
Additions[1]	25.5	177.8	15.2	218.5
Transfers	14.3	29.9	(44.2)	–
Disposals	–	(1.9)	–	(1.9)
Disposal of subsidiaries	(73.6)	(12.5)	–	(86.1)
Depreciation charge[2]	(12.9)	(253.6)	–	(266.5)
Closing net book value	2,329.3	1,235.3	21.6	3,586.2
At 2 April 2005				
Cost	2,412.0	3,162.1	21.6	5,595.7
Accumulated depreciation	(82.7)	(1,926.8)	–	(2,009.5)
Net book value	2,329.3	1,235.3	21.6	3,586.2
Year ended 1 April 2006				
Opening net book value	2,329.3	1,235.3	21.6	3,586.2
Exchange difference	2.2	2.0	0.3	4.5
Additions[1]	34.7	251.8	40.3	326.8
Transfers	–	20.3	(20.3)	–
Disposals	(34.1)	(6.2)	–	(40.3)
Assets of discontinued operations	(11.4)	(21.0)	(1.4)	(33.8)
Depreciation charge[2]	(10.7)	(256.9)	–	(267.6)
Closing net book value	**2,310.0**	**1,225.3**	**40.5**	**3,575.8**
At 1 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**

1 'Additions' includes amounts relating to discontinued operations of £5.4m (last year £4.6m).

2 'Depreciation charge' includes amounts relating to discontinued operations of £6.3m (last year £7.8m).

The net book values included in the tables above include land and buildings of £44.9m (last year £50.9m) and equipment of £5.0m (last year £5.5m) where the Group is a lessee under a finance lease.

In accordance with IFRS 1 – 'First time adoption of International Financial Reporting Standards' and IAS 17 – 'Leases' the Group reviewed the classification of all leases at the transition balance sheet date of 4 April 2004. Under IAS 17, the land and building elements of a lease need to be considered separately and the land element is normally deemed to be an operating lease. As a result, the buildings element of a number of properties, previously treated as operating leases, have been reclassified as finance leases. In addition, the revaluation element held in respect of leasehold land previously held as a fixed asset has been derecognised and the payments made to acquire such land have been reclassified as leasehold prepayments.

Under the provisions of IFRS 1, the Group adopted a valuation as deemed cost on transition for freehold land and buildings. A property valuation was prepared on an existing use basis by external valuers DTZ Debenham Tie Leung as at 2 April 2004. The Group elected under IFRS 1 to reflect this valuation, in so far as it related to freehold land and buildings, as deemed cost on transition at 4 April 2004. This gave rise to an uplift of £530.9m against the previous carrying value.

Notes to the financial statements continued

14 INVESTMENT PROPERTY

	2006 £m	2005 £m
Cost		
At start of year	**38.6**	37.8
Additions	**–**	0.8
At end of year	**38.6**	38.6
Depreciation		
At start of year	**–**	–
Depreciation charge	**0.1**	–
At end of year	**0.1**	–
Net book value	**38.5**	38.6

The investment properties were valued at £55.5m (last year £42.6m) as at 1 April 2006 by qualified professional valuers working for 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 (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 £1.4m) in respect of these investment properties.

15 INVESTMENT IN JOINT VENTURE

	2006 £m	2005 £m
At start of year	**8.7**	8.5
Share of profit	**0.3**	0.2
At end of year	**9.0**	8.7

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.

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

	2006 £m	2005 £m
Non-current assets	**2.5**	2.5
Current assets	**6.7**	6.4
Current liabilities	**(0.2)**	(0.2)
Net assets	**9.0**	8.7

Notes to the financial statements continued

16 OTHER FINANCIAL ASSETS

	2006 £m	2005 £m
Non-current		
Unlisted investments	**3.3**	0.3
Other investments[1]	**9.7**	3.6
	13.0	3.9
Current		
Amounts owed by Group undertakings	**2,051.7**	2,100.1
Listed securities:		
– Listed in the United Kingdom	**43.6**	51.0
– Listed overseas	**–**	11.4
Unlisted investments	**5.2**	4.6
	2,100.5	2,167.1

[1] Other investments are the shares held for employee share schemes.

17 TRADE AND OTHER RECEIVABLES

	2006 £m	2005 £m
Non-current		
Other receivables[1]	**5.3**	6.2
Prepaid leasehold premiums	**235.8**	204.9
Other prepayments and accrued income	**1.7**	0.1
	242.8	211.2
Current		
Trade receivables	**45.2**	29.3
Less: Provision for impairment of receivables	**(3.2)**	(1.5)
Trade receivables – net	**42.0**	27.8
Other receivables	**27.0**	44.8
Prepaid pension contributions	**57.7**	65.6
Prepaid leasehold premiums	**7.6**	1.8
Other prepayments and accrued income	**75.8**	73.8
	210.1	213.8

[1] Amounts receivable after more than one year in 2005 included £2.0m of non-financial assets which were excluded from the analysis in note 22.

18 CASH AND CASH EQUIVALENTS

Cash at bank 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 4.5% (last year 4.8%); these deposits have an average maturity of eight days (last year two days).

Notes to the financial statements continued

19 TRADE & OTHER PAYABLES

	2006 £m	2005 £m
Current		
Trade payables	**242.6**	195.3
Other payables	**196.6**	176.3
Social security and other taxes	**40.7**	40.4
Accruals and deferred income	**387.6**	305.4
	867.5	717.4
Non-current		
Accruals and deferred income	**74.8**	71.8
	74.8	71.8

20 BORROWINGS AND OTHER FINANCIAL LIABILITIES

	2006 £m	2005[1] £m
Current		
Bank loans, overdrafts and commercial paper[2]	**90.0**	212.9
Syndicated bank facility	**–**	200.0
Medium term notes[3]	**901.0**	58.3
Securitised loan notes[4]	**4.4**	3.2
Finance lease liabilities	**2.7**	4.4
	998.1	478.8
Non-current		
Medium term notes[5]	**779.0**	1,588.6
Securitised loan notes[4]	**307.3**	310.4
Finance lease liabilities	**47.5**	49.5
	1,133.8	1,948.5
Total financial liabilities	**2,131.9**	2,427.3

[1] Last year comparatives have been prepared under UK GAAP.

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

[3] Relates to a number of floating rate medium term notes set to mature throughout the 2006/07 financial year linked to sterling and euro LIBOR for periods ranging from one to six months.

[4] 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 £48.7m 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.

[5] Relates to fixed rate bonds of £375m at a rate of 6.375% repayable on 7 November 2011 and £400m at a rate of 5.625% repayable on 24 March 2014.

Notes to the financial statements continued

20 BORROWINGS AND OTHER FINANCIAL LIABILITIES continued

Maturity of borrowings

The maturity of borrowings is as follows:

	2006 £m	2005 £m
Repayable within one year or on demand:		
Bank loans, overdrafts and commercial paper	**90.0**	212.9
Syndicated bank facility	**-**	200.0
Medium term notes	**901.0**	58.3
Securitised loan notes	**4.4**	3.2
Finance leases	**2.7**	4.4
	998.1	478.8
Repayable between one and two years:		
Medium term notes	**-**	820.7
Securitised loan notes	**3.8**	3.5
Finance leases	**1.3**	2.2
	5.1	826.4
Repayable between two and five years:		
Securitised loan notes	**13.6**	12.5
Finance leases	**0.3**	0.7
	13.9	13.2
Repayable in five years or more:		
Medium term notes	**779.0**	767.9
Securitised loan notes	**289.9**	294.4
Finance leases	**45.9**	46.6
	1,114.8	1,108.9
	2,131.9	2,427.3

Borrowing facilities

At 1 April 2006, the Group had a five-year committed syndicated bank facility of £1.2bn set to mature on 27 March 2011, which contains only one financial covenant being earnings before interest, tax, depreciation, amortisation and rents payable to fixed charge cover. The Group also has a number of undrawn uncommitted facilities available to it. At 1 April 2006, these amounted to £175m (last year £190m), all of which are due to be reviewed within a year. All committed and uncommitted bank facilities were undrawn as at the balance sheet date.

Financial liabilities

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

			2006
Currency	Fixed rate £m	Floating rate £m	Total £m
Sterling	**1,137.7**	**990.8**	**2,128.5**
Euro	**3.2**	**0.2**	**3.4**
	1,140.9	**991.0**	**2,131.9**

Notes to the financial statements continued

20 BORROWINGS AND OTHER FINANCIAL LIABILITIES continued

The floating rate sterling and euro borrowings are linked to interest rates related to LIBOR. These rates are for periods ranging from one month to six months. Excluding finance leases, the fixed rate Sterling borrowings are at an average rate of 6.1% and the weighted average time for which the rate is fixed is 10.4 years.

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

	2006 **%**
Medium term notes	**5.7**
Securitised loan notes	**6.3**
Finance leases	**4.4**

Finance leases
The minimum lease payments under finance leases fall due as follows:

	2006 **£m**	2005 £m
Not later than one year	**4.8**	5.5
Later than one year but not more than five	**9.8**	13.6
More than five years	**197.7**	201.2
	212.3	220.3
Future finance charges on finance leases	**(162.1)**	(166.4)
Present value of lease obligations	**50.2**	53.9

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

Notes to the financial statements continued

21 FINANCIAL INSTRUMENTS

The Group has taken advantage of the exemption under IFRS 1 from the requirement to restate comparatives in accordance with IAS 32 and IAS 39. The comparative figures have therefore been measured and presented in accordance with previously adopted UK GAAP. The main adjustment that would be required to make the comparative information comply with IAS 32 and IAS 39 is the inclusion of derivative assets and liabilities on the balance sheet.

Treasury Policy and Financial Risk Management
Marks and Spencer operates a centralised treasury function to manage the Group's external/internal funding requirements and financial risks in line with the Board approved treasury policies and procedures, and delegated authorities therein given.

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 Group 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 to which the Group is exposed relate to liquidity/funding, interest rates, foreign exchange rates and counterparty risk. 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 financing methods 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 note issuance and securitised loan notes. In addition to the existing borrowings, the Group has a Euro Medium Term Note programme of £3 billion, of which £1.7 billion was in issuance as at the balance sheet date. Furthermore, short-term borrowings are backed by a £1.2 billion five-year committed syndicated bank facility, which was undrawn at the balance sheet date.

(b) Interest rate risk
Interest rate risk primarily occurs with the movement of sterling interest rates in relation to the Group's floating rate financial assets and liabilities. Group policy for interest rate management is to maintain a mix of fixed and floating rate borrowings. Interest rate risk in respect of debt on the balance sheet is reviewed on a regular basis against forecast interest costs and covenants. A number of interest rate swaps have been entered into to redesignate fixed and floating debt. The structure and maturity of these swaps 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 £1,137.7m representing the property securitisation, two public bond issues and finance leases. Based on the financial liabilities and assets as at the balance sheet date a one percentage point movement in average sterling interest rates will have a £5.7m impact on the Group's net interest charge.

(c) Foreign currency risk
Transactional foreign currency exposures arise from both the export of goods from the UK to overseas subsidiaries, also from the import of materials and goods directly sourced from overseas suppliers. Group Treasury hedge these exposures principally using forward foreign exchange contracts covering between 80% and 100% out to 15 months.

As at the balance sheet date the gross value in Sterling terms of forward foreign exchange sell or buy contracts amounted to £270m with a weighted average maturity date of six months.

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

Where funding has been sourced in currencies other than sterling, the Group has swapped these exposures back into sterling debt through cross currency swaps matching the underlying terms. The gross notional value of cross currency swaps as at the balance sheet date was £610.8m with a weighted average maturity of 0.6 years.

The Group also hedges foreign currency intercompany loans where these exist. As at the balance sheet date, the gross notional value of intercompany loan hedges was £109m.

Notes to the financial statements continued

21 FINANCIAL INSTRUMENTS continued

(d) Counterparty risk

Counterparty risk exists where the Group has the potential to experience loss through default or non-performance by financial institutions in relation to outstanding financial instruments. Counterparty exposures for these instruments are managed through Board approved Group Treasury policy that limits the value that can be placed with each approved counterparty to minimise the risk of loss. These limits are based on a combination of short-term credit ratings of A-1/P-1 and long-term credit ratings of AA-/Aa3 or better. The monetary limit will apply to the aggregate of investments and the mark to market value of foreign exchange and interest rate derivatives. Limits are reviewed regularly by senior management. Dealing mandates and derivative agreements are entered into with counterparty banks prior to deals being arranged.

The maximum exposure to credit risk at 1 April 2006 was as follows: trade receivables £42m, other receivables £33m, cash and cash equivalents £363m and derivatives £76m. The Group does not have any material exposures to concentrations of credit risk with any one counterparty.

Derivative financial instruments

		2006
	Assets	**Liabilities**
Current		
Interest rate swaps – fair value hedges	1.6	–
Cross currency – fair value hedges	71.9	(5.3)
Forward foreign exchange contracts – cash flow hedges	1.2	(2.7)
Forward foreign exchange contracts – held for trading	1.7	–
	76.4	(8.0)
Non-current		
Interest rate swaps – cash flow hedges	–	(9.5)

The Group has entered into a number of interest rate and currency swaps to redesignate both fixed and floating rate debt to the Group's desired interest rate profile. The attributes of these derivatives match the characteristics of the underlying debt hedged. Derivatives moving floating debt to fixed have been designated as cash flow hedges, and derivatives moving fixed debt to floating have been designated as fair value hedges in accordance with IAS 39.

As at the balance sheet date gross outstanding interest rate swaps amounted to £754.3m with a weighted average maturity of 3.6 years. The weighted average effective interest rate for floating to fixed interest rate derivatives was 6.3% as at the balance sheet date. The gross notional outstanding interest rate swaps converting fixed debt to floating was £574.6m with rate fixings being set using the published one, three, or six month LIBOR, where appropriate.

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.

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.

Gains and losses in equity on forward foreign exchange contracts as of 1 April 2006 will be released to the income statement at various dates over the following 15 months from the balance sheet date.

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

The carrying value of the Group's fixed rate bond debt was £915.0m, the fair value of this debt was £940.8m.

Notes to the financial statements continued

22 FINANCIAL INSTRUMENTS – DISCLOSURES IN RESPECT OF COMPARATIVES

The Group has taken advantage of the exemption permitted under IFRS 1 not to retrospectively apply IAS 32 and 39. In accordance with IFRS 1 the disclosures in respect of the comparative period are presented in this note in accordance with FRS 13 – 'Financial Instruments'.

A 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:

				2005
Currency	Fixed rate £m	Floating rate £m	Non-interest bearing £m	Total £m
Sterling	38.8	118.5	74.5	231.8
US dollar	–	12.9	7.2	20.1
Euro	–	5.2	12.3	17.5
Other	–	9.3	5.4	14.7
	38.8	145.9	99.4	284.1

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.

The weighted average interest rate of fixed interest assets, which were all denominated in sterling, was 4.8%. These assets were fixed for a weighed average period of 0.3 years.

Financial assets are analysed as follows:

	2005 £m
Current asset investments	67.0
Cash at bank and in hand	212.6
Fixed asset investments	0.3
Other amounts receivable after more than one year	4.2
Financial assets as defined by FRS 13	284.1
Other amounts receivable in less than one year	2,100.1
Financial assets including short-term customer advances	2,384.2

B Financial liabilities

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 is as set out below. There are no financial liabilities other than short-term creditors excluded from this analysis:

			2005
Currency	Fixed rate £m	Floating rate £m	Total £m
Sterling	1,086.7	1,283.4	2,370.1
US dollar	–	8.3	8.3
Euro	–	0.2	0.2
	1,086.7	1,291.9	2,378.6

Notes to the financial statements continued

22 FINANCIAL INSTRUMENTS – DISCLOSURES IN RESPECT OF COMPARATIVES continued

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 6.1% and the weighted average time for which the rate is fixed is 11.4 years.

C Fair values of non-derivative financial assets and financial liabilities

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.

	2005 Book value	2005 Fair value
Assets/(liabilities)		
Current asset investments[1]	67.0	67.0
Fixed asset investments	0.3	0.3
Cash at bank and in hand[1]	212.6	212.6
Other financial assets due after more than one year	4.2	4.2
Borrowings due within one year[2]	(476.7)	(476.4)
Financial liabilities due after more than one year[2]	(1,901.9)	(1,935.8)
Cross currency swaps[2]	–	56.3
Interest rate swaps[2]	–	3.7
Forward foreign currency contracts[2]	–	(0.4)

[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 currency contracts have been marked to market to produce a fair value figure.

Hedges of future transactions

Unrecognised gains and losses on instruments used for hedging and those recognised in the period ended 2 April 2005 are as follows:

	2005 Gains £m	2005 Losses £m	2005 Net total £m
Unrecognised gains/(losses) on hedges at beginning of the period	74.3	(34.1)	40.2
(Gains)/losses arising in previous years recognised in the period	(12.7)	25.8	13.1
Gains/(losses) arising in previous years not recognised in the period	61.6	(8.3)	53.3
Gains/(losses) arising in the period	12.8	(6.5)	6.3
Unrecognised gains/(losses) on hedges at end of the period	74.4	(14.8)	59.6
Of which:			
Gains/(losses) expected to be recognised within one year	2.9	(3.6)	(0.7)
Gains/(losses) expected to be recognised after one year	71.5	(11.2)	60.3

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 were recognised in the consolidated statement of total recognised income and expenses.

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.

Notes to the financial statements continued

23 PROVISIONS

	UK restructuring £m	Overseas restructuring £m	Total £m
At 4 April 2004	32.2	17.1	49.3
Provided in the period	30.4	–	30.4
Released in the period	(1.4)	(9.7)	(11.1)
Utilised during the period	(26.0)	–	(26.0)
Net closure profit in Continental Europe	–	1.2	1.2
Exchange differences	–	1.1	1.1
At 2 April 2005	35.2	9.7	44.9
At 2 April 2005	35.2	9.7	44.9
Provided in the period	5.8	–	5.8
Released in the period	(3.5)	–	(3.5)
Utilised during the period	(18.2)	(0.8)	(19.0)
Exchange differences	–	0.1	0.1
At 1 April 2006	**19.3**	**9.0**	**28.3**

Analysis of total provisions:

	2006 £m	2005 £m
Current	**9.2**	25.2
Non-current	**19.1**	19.7
	28.3	44.9

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 the Group's 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 Direct operations and are expected to be utilised over a period of 15 years.

Notes to the financial statements continued

24 DEFERRED INCOME TAX

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 30% (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) 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 asset/(liabilities):

	Fixed assets temporary differences £m	Accelerated capital allowances £m	Pension temporary differences £m	Other short-term temporary differences £m	Total deferred tax assets £m	Deferred tax liabilities[2] £m	Total £m
At 4 April 2004	(151.8)	(70.2)	267.0	30.3	75.3	(5.3)	70.0
(Charged)/credited to the income statement[1]	1.9	0.8	(48.3)	(4.1)	(49.7)	0.3	(49.4)
Acquisition of subsidiary	–	–	–	(24.0)	(24.0)	–	(24.0)
Disposal of subsidiary	4.2	(4.9)	(0.2)	(0.7)	(1.6)	–	(1.6)
Credited to equity	–	–	22.7	1.9	24.6	0.3	24.9
At 2 April 2005	(145.7)	(74.3)	241.2	3.4	24.6	(4.7)	19.9
At 2 April 2005	(145.7)	(74.3)	241.2	3.4	24.6	(4.7)	19.9
Charged to the income statement	(2.7)	(10.7)	(42.4)	(14.9)	(70.7)	(0.8)	(71.5)
Credited/(charged) to equity	5.0	–	52.7	24.7	82.4	(0.6)	81.8
Transferred to discontinued operations	–	–	–	(0.8)	(0.8)	–	(0.8)
At 1 April 2006	**(143.4)**	**(85.0)**	**251.5**	**12.4**	**35.5**	**(6.1)**	**29.4**

[1] The £49.4m charge to the income statement in the year to 2 April 2005 includes £3.0m charge in respect of discontinued operations.

[2] Deferred tax liabilities relate primarily to overseas fixed assets revaluations and accelerated capital allowances.

In arriving at the deferred tax on fixed asset revaluations, credit has been taken for capital losses with a tax value of £56.1m (last year £56.1m).

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 £187.0m (last year £150.0m).

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.

25 SHARE CAPITAL

	2006 Shares	**£m**	2005 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	**2,850,019,827**	**712.5**	2,850,019,827	712.5
Shares issued on exercise of share options	**13,100**	**–**	–	–
At end of year	**2,850,032,927**	**712.5**	2,850,019,827	712.5

Issue of new shares:
13,100 (last year nil) ordinary shares having a nominal value of £3,275 (last year £nil) were allotted during the year under the terms of the Company's 1984 option scheme. The aggregate consideration received was £59,998 (last year £nil).

Notes to the financial statements continued

26 STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital					
	Ordinary shares £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Retained earnings[1,2] £m	Total £m
At 4 April 2004	712.5	386.1	8.0	–	3,926.7	5,033.3
Profit for the year attributable to shareholders	–	–	–	–	585.0	585.0
Dividends	–	–	–	–	(2,573.4)	(2,573.4)
Actuarial loss on post-retirement liability	–	–	–	–	(78.1)	(78.1)
Deferred tax on post-retirement liability	–	–	–	–	23.0	23.0
Deferred tax on share schemes	–	–	–	–	1.9	1.9
Charge for share-based payments	–	–	–	–	22.2	22.2
At 2 April 2005	712.5	386.1	8.0	–	1,907.3	3,013.9
At 2 April 2005	712.5	386.1	8.0	–	1,907.3	3,013.9
First time adoption of IAS 32 and IAS 39	–	–	–	(1.6)	(0.3)	(1.9)
At 3 April 2005	**712.5**	**386.1**	**8.0**	**(1.6)**	**1,907.0**	**3,012.0**
Profit for the year attributable to shareholders	–	–	–	–	525.6	525.6
Dividends	–	–	–	–	(205.2)	(205.2)
Foreign currency translation	–	–	–	–	11.1	11.1
Actuarial loss on post-retirement liability	–	–	–	–	(169.3)	(169.3)
Deferred tax on post-retirement liability	–	–	–	–	52.0	52.0
Deferred tax on share schemes	–	–	–	–	21.8	21.8
Deferred tax on revalued properties	–	–	–	–	5.0	5.0
Charge for share-based payments	–	–	–	–	24.7	24.7
Cash flow hedges						
– fair value movement	–	–	–	(3.1)	–	(3.1)
– recycled and reported in net profit	–	–	–	(1.4)	–	(1.4)
– amount recognised in inventories	–	–	–	(3.8)	–	(3.8)
– tax on fair value gains	–	–	–	1.9	–	1.9
At 1 April 2006	**712.5**	**386.1**	**8.0**	**(8.0)**	**2,172.7**	**3,271.3**

[1] Cumulative goodwill of £62.0m (last year £62.0m) arising on the acquisition of subsidiaries has been written off against retained earnings.

[2] Includes a currency reserve of £11.1m (last year £nil).

Notes to the financial statements continued

27 CONTINGENCIES AND COMMITMENTS

A Capital commitments

	2006 £m	2005 £m
Commitments in respect of properties in the course of construction	**60.5**	34.5

B Marks and Spencer (Ireland) Limited:

Marks and Spencer (Ireland) Limited and its subsidiaries Aprell Limited and M&S Card Services (Ireland) 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.

C 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.

D 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.

	2006 £m	2005 £m
Total commitments under non-cancellable operating leases expiring:		
Not later than one year	**10.2**	13.3
Later than one year and not later than five years	**49.9**	62.1
Later than five years and not later than 25 years	**1,724.4**	1,658.1
Later than 25 years	**1,515.4**	1,554.7
	3,299.9	3,288.2

The total future sublease payments to be received are £58.9m (last year £47.1m).

28 ANALYSIS OF CASH FLOWS GIVEN IN THE CASH FLOW STATEMENT

	52 weeks ended 1 April 2006 £m	52 weeks ended 2 April 2005 £m
A Cash flows from operating activities – continuing		
Profit on ordinary activities after taxation	**523.1**	353.8
Income tax expense	**225.1**	149.6
Interest payable and similar charges	**132.4**	120.9
Interest receivable	**(30.5)**	(26.2)
Exceptional operating charges	**-**	50.6
Operating profit before exceptional operating charges	**850.1**	648.7
(Increase)/decrease in inventories	**(42.2)**	55.0
Increase in receivables	**(3.7)**	(1.6)
Payments to acquire leasehold properties	**(38.0)**	(0.1)
Increase/(decrease) in payables	**128.0**	(31.3)
Exceptional operating cash outflow (see note 28E)	**(14.6)**	(74.6)
Depreciation and amortisation	**274.0**	255.0
Share-based payments	**24.7**	22.2
Loss on property disposals	**5.7**	0.4
Cash generated from operations – continuing	**1,184.0**	873.7

Notes to the financial statements continued

28 ANALYSIS OF CASH FLOWS GIVEN IN THE CASH FLOW STATEMENT continued

	52 weeks ended 1 April 2006 £m	52 weeks ended 2 April 2005 £m
B Cash flows from operating activities – discontinued		
Profit on ordinary activities after taxation	**2.5**	231.2
Profit on sale	**-**	(199.0)
Income tax expense	**0.7**	3.3
Interest payable and similar charges	**0.4**	0.2
Interest receivable	**(0.6)**	–
Operating profit	**3.0**	35.7
(Increase)/decrease in inventories	**(1.1)**	0.5
Decrease in receivables	**0.4**	6.3
Increase in customer advances	**-**	(19.6)
Increase in customer deposits	**-**	697.3
Increase/(decrease) in payables	**4.2**	(2.5)
Depreciation and amortisation	**6.3**	9.7
Loss on property disposals	**1.1**	–
Cash generated from operations – discontinued[1]	**13.9**	727.4

[1] Discontinued operations in the current period relate to Kings Super Markets Inc, and include those results of M&S Money for the comparative period. For Kings Super Markets Inc, there was a cash outflow of £5.2m (last year £3.5m outflow) in relation to investing activities, £0.1m inflow (last year £0.1m inflow) in relation to financing activities and £0.6m outflow (last year £0.5m outflow) for taxation.

	52 weeks ended 1 April 2006 £m	52 weeks ended 2 April 2005 £m
C Capital expenditure and financial investment		
Purchase of property, plant and equipment	**(298.5)**	(232.2)
Proceeds from sale of property, plant and equipment	**45.1**	117.8
Purchase of intangible fixed assets	**(10.9)**	(10.9)
(Purchase)/sale of non-current financial assets	**(3.0)**	0.8
Net (purchase)/sale of shares held in employee trusts	**(6.0)**	0.6
Sale of current available for sale investments	**1.0**	11.0
	(272.3)	(112.9)
D Other debt financing		
Cash (outflow)/inflow from borrowings	**(144.6)**	649.0
(Repayment)/drawdown of syndicated bank facility	**(200.0)**	200.0
Repayment of intercompany loan	**48.4**	64.9
Redemption of securitised loan notes	**(3.1)**	(2.8)
Redemption of medium term notes	**(58.3)**	(95.2)
Decrease in obligations under finance leases	**(3.0)**	(1.6)
Movement in other creditors treated as financing	**-**	7.7
	(360.6)	822.0

Notes to the financial statements continued

28 ANALYSIS OF CASH FLOWS GIVEN IN THE CASH FLOW STATEMENT continued

	52 weeks ended 1 April 2006 £m	52 weeks ended 2 April 2005 £m
E Exceptional operating cash flows		
UK restructuring costs	**(7.0)**	(27.0)
Closure of Lifestore	**(6.7)**	(3.1)
Defence costs	**(0.2)**	(36.2)
Board restructure	**–**	(7.7)
Head office relocation	**–**	(12.6)
Restructuring of general merchandise logistics operations	**–**	(0.7)
Closure of European operations	**(0.7)**	12.7
	(14.6)	(74.6)

Additions to property, plant and equipment during the year amounting to £1.3m were financed by new finance leases.

29 ANALYSIS OF CASH AND CASH EQUIVALENTS

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

	2006 £m	2005 £m
Cash at bank and in hand	**160.8**	147.7
Short-term deposits	**201.8**	64.9
	362.6	212.6
Bank loans, overdrafts and commercial paper	**(90.0)**	(212.9)
Bank loans, overdrafts and commercial paper treated as financing	**5.0**	149.6
Cash and cash equivalents of discontinued operations (note 7)	**4.8**	–
	282.4	149.3

30 FOREIGN EXCHANGE RATES

	Weighted average sales rate		Weighted average profit rate		Balance sheet rate	
	2006	2005	**2006**	2005	**2006**	2005
Euro	**1.47**	1.46	**1.47**	1.46	**1.43**	1.46
US dollar	**1.78**	1.85	**1.79**	1.86	**1.74**	1.89
Hong Kong dollar	**13.85**	14.41	**13.89**	14.47	**13.48**	14.73

31 RELATED PARTY TRANSACTIONS

A Subsidiaries

During the year the Company paid dividends to its parent company Marks and Spencer Group plc of £205.2m (last year £2,573.4m) and received loan repayments of £48.4m (last year £64.9m).

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

B M&S Money

The Group sold Marks and Spencer Retail Financial Services Holdings Limited to HSBC Holdings plc on 9 November 2004. At the same time the Group and HSBC entered into a relationship under which the Group receives income in the form of fees representing an amount equivalent to costs incurred, 50% of the profits of M&S Money (after a notional tax charge and after deducting agreed operating and capital costs) together with an amount relating to sales growth. The fees received in the period from 10 November 2004 to 2 April 2005 were £16.4m.

Notes to the financial statements continued

31 RELATED PARTY TRANSACTIONS continued

In addition the Group also received in the same period £1.1m for rent and £15.1m for costs incurred as part of the transition of M&S Money to HSBC. The Group also conducted settlement transactions with M&S Money in the normal course of business. At 2 April 2005, the amount owed by M&S Money was £16.2m.

Transactions between the Company and its subsidiaries are disclosed in the company's separate Financial Statements (see note C17).

C 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 31 December 2005. Interest was charged on the loan at 3% from 1 January 2004 to 31 December 2004 and at 5% thereafter.

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

E Key management compensation

	2006 £m	2005 £m
Salaries and short-term benefits	**12.0**	12.5
Post-employment benefits	**0.7**	0.9
Termination benefits	**1.6**	7.0
Share-based payments	**4.7**	4.0
	19.0	24.4

The key management figures given above include directors.

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.

Interest-free loans outstanding to key management, which includes no directors, at 1 April 2006 were £13,678 (last year £50,561). The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provision has been made for doubtful debts in respect of the amounts owed by related parties.

32 ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

		As at 2 Apr 2005 £m	As at 3 Apr 2004 £m
Net assets and equity under UK GAAP		2,545.0	4,526.8
Adjustments (after taxation)			
IFRS 1 – 'Property Revaluation'	a	376.2	378.5
IFRS 2 – 'Share Schemes'	b	9.8	6.2
IAS 10 – 'Dividend Recognition'	c	205.2	262.1
IAS 17 – 'Leases'			
Treatment of leasehold land	d	(72.4)	(102.4)
Finance leases	e	(1.8)	(1.7)
Lease incentives	f	(21.0)	(17.2)
Fixed rental uplifts	g	(13.5)	(10.3)
IAS 19 – 'Employee Benefits'	h	(27.2)	(30.7)
IAS 38 – 'Intangible Assets'			
Software assets	i	13.0	22.7
Goodwill and brands	j	1.3	–
Other		(0.7)	(0.7)
Net assets and equity under IFRS		3,013.9	5,033.3

Notes to the financial statements continued

32 ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS continued

		Year ended 2 Apr 2005 £m
Net income under UK GAAP		585.7
Adjustments (before taxation)		
IFRS 1 – 'Property Revaluation'	a	1.1
IFRS 2 – 'Share Schemes'	b	(23.0)
IAS 17 – 'Leases'		
Treatment of leasehold land	d	29.9
Finance leases	e	(0.2)
Lease incentives	f	(5.1)
Fixed rental uplifts	g	(4.5)
IAS 19 – 'Employee Benefits'	h	5.3
IAS 38 – 'Intangible Assets'		
Software assets	i	1.4
Goodwill and brands	j	0.5
		5.4
Taxation		4.6
Discontinued operations – software assets		(10.7)
Net income under IFRS		585.0

a) IFRS 1 – 'Property Revaluation'
Under UK GAAP, property was stated at historical cost, subject to certain properties having been revalued as at 31 March 1988. A property revaluation was prepared on an existing use basis by external valuers DTZ Debenham Tie Leung as at 2 April 2004. The Group has elected under IFRS 1 to reflect this valuation, in so far as it relates to freehold land and buildings, as deemed cost on transition at 4 April 2004.

b) IFRS 2 – 'Share Schemes'
The Group operates a range of share-based incentive schemes. Under UK GAAP, where shares (or rights to shares) were awarded to employees, UITF 17 required that the charge to the profit and loss account should be based on the difference between the market value of shares at the date of grant and the exercise price (i.e. an intrinsic value basis) spread over the performance period. Save As You Earn (SAYE) schemes were exempt from this requirement and no charge was made. IFRS 2 requires that all shares or options (including SAYE) awarded to employees as remuneration should be measured at fair value at grant date, using an option pricing model, and charged against profits over the period between grant date and vesting date, being the vesting period. This treatment has been applied to all awards granted but not fully vested at the date of transition.

c) IAS 10 – 'Events after the Balance Sheet Date'
Under UK GAAP, dividends are recognised in the period to which they relate. IAS 10 requires that dividends declared after the balance sheet date should not be recognised as a liability at that balance sheet date as the liability does not represent a present obligation as defined by IAS 37 – 'Provisions, Contingent Liabilities, and Contingent Assets'. Accordingly the final dividends for 2003/04 (£262.0m) and 2004/05 (£205.2m) are derecognised in the balance sheets for April 2004 and April 2005 respectively.

d) IAS 17 – 'Leases – Treatment of Leasehold Land'
The Group previously recognised finance leases under the recognition criteria set out in SSAP 21. IAS 17 requires the land and building elements of property leases to be considered separately, with leasehold land normally being treated as an operating lease. As a consequence, payments made to acquire leasehold land, previously treated as fixed assets, have been recategorised as prepaid leases and amortised over the life of the lease. In addition, the revaluation previously attributed to the land element has been derecognised.

e) IAS 17 – 'Leases – Finance Leases'
Also under the provisions of IAS 17, the building elements of certain property leases, classified as operating leases under UK GAAP, have been reclassified as finance leases. The adjustments are to include the fair value of these leased buildings within fixed assets and to set up the related obligation, net of finance charges, in respect of future periods, within creditors.

Notes to the financial statements continued

32 ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS continued

f) IAS 17 'Leases – Lease Incentives'
Under UK GAAP, leasehold incentives received on entering into property leases were recognised as deferred income on the balance sheet and amortised to the profit and loss account over the period to the first rent review. Under IAS 17, these incentives have to be amortised over the term of the lease. Consequently, as the term of the lease is longer than the period to the first rent review, amounts previously amortised to the profit and loss account are reinstated on the balance sheet as deferred income and released over the term of the lease.

g) IAS 17 – 'Leases – Fixed Rental Uplifts'
The Group has a number of leases that contain predetermined, fixed rental uplifts. Under IAS 17, it is necessary to account for these leases such that the predetermined, fixed rental payments are recognised on a straight-line basis over the life of the lease. Under UK GAAP, the Group accounted for these property lease rentals such that the increases were charged in the year that they arose.

h) IAS 19 – 'Employee Benefits'
Previously no provision was made for holiday pay. Under IAS 19 – 'Employee Benefits' the expected cost of compensated short-term absences (e.g. holidays) should be recognised when employees render the service that increases their entitlement. As a result, an accrual has been made for holidays earned but not taken.

i) IAS 38 – 'Software Assets'
The cost of developing software used to be written off as incurred. Under IAS 38 – 'Intangible Assets' there is a requirement to capitalise internally generated intangible assets provided certain recognition criteria are met. Results have been adjusted to reflect the capitalisation and subsequent amortisation of costs that meet the criteria. As a result expenses previously charged to the profit and loss account have been brought onto the balance sheet as intangible software assets and amortised over their estimated useful lives.

j) IAS 38 – 'Goodwill'
Goodwill used to be capitalised and amortised over its useful economic life. Under IAS 38 – 'Intangible Assets' there is a requirement to separately identify brands and other intangibles acquired rather than include these as part of goodwill. Intangible assets, other than goodwill, are amortised over their useful lives. Goodwill, which is considered to have an indefinite life, is subject to an annual impairment review. As a result, the goodwill recognised under UK GAAP on the acquisition of per una of £125.5m has been split between brand (£80m) and goodwill (£45.5m). The goodwill amortisation under UK GAAP has been reversed but the brand has been amortised as required under IFRS.

Cash flow statement
Under UK GAAP, the Group was not required to produce a cash flow statement as the Company was a wholly owned subsidiary of an EU company which published a consolidated cash flow statement. This exemption from presenting a cash flow statement is not available under IFRS.

Notes to the financial statements continued

33 FIRST TIME ADOPTION OF IAS 32 AND IAS 39

The adoption of IAS 32 – 'Financial Instruments: Disclosure and Presentation' and IAS 39 – 'Financial Instruments: Recognition and Measurement' with effect from 3 April 2005 results in a change in the Group's accounting policy for financial instruments. The impact of these standards on the Group's opening balance sheet is shown below.

The principal impact of IAS 32 and IAS 39 on the Group's financial statements relates to the recognition of derivative financial instruments at fair value. Any derivatives that do not qualify for hedge accounting are held on the balance sheet at fair value with the changes in value reflected through the income statement. The accounting treatment of derivatives that qualify for hedge accounting depends on how they are designated, as follows:

Fair value hedges
The Group uses interest rate swaps to hedge the exposure to interest rates of its issued debt. Under UK GAAP, derivative financial instruments were not recognised at fair value in the balance sheet.

Under IAS 39, derivative financial instruments that meet the 'fair value' hedging requirements are recognised in the balance sheet at fair value with corresponding fair value movements recognised in the income statement. For an effective fair value hedge, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in the income statement. To the extent that the designated hedge relationship is fully effective, the amounts in the income statement offset each other. As a result, only the ineffective element of any designated hedging relationship impacts the financing line in the income statement.

Cash flow hedges
Under IAS 39, derivative financial instruments that qualify for cash flow hedging are recognised on the balance sheet at fair value with corresponding fair value changes deferred in equity. In addition, the Group hedges the foreign currency exposure on inventory purchases. Under UK GAAP, foreign currency derivatives were held off balance sheet and these are now treated as cash flow hedges.

The adjustments to the opening balance sheet as at 3 April 2005 are as follows:

	Opening balance sheet under IFRS £m	Effect of IAS 32 and IAS 39 £m	Restated opening position at 3 Apr 2005 £m
Non-current assets			
Derivative financial instruments	–	71.1	71.1
Deferred tax asset	24.6	1.3	25.9
Current assets			
Derivative financial instruments	–	2.8	2.8
Inventories	338.9	0.4	339.3
Current liabilities			
Derivative financial instruments	–	(1.9)	(1.9)
Borrowings	(478.8)	(0.5)	(479.3)
Trade and other payables	(717.9)	24.7	(693.2)
Non-current liabilities			
Derivative financial instruments	–	(12.0)	(12.0)
Borrowings	(1,948.5)	(87.8)	(2,036.3)
Impact on net assets		(1.9)	
Hedging reserve		(1.6)	
Retained earnings		(0.3)	
Impact on shareholders' funds		(1.9)	

34 ULTIMATE PARENT COMPANY

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

Company statement of recognised income and expense

	Notes	**52 weeks ended 1 April 2006 £m**	52 weeks ended 2 April 2005 £m
Profit for the year attributable to shareholders		**494.7**	639.9
Actuarial losses on defined benefit pension schemes		**(175.7)**	(75.0)
Tax on items taken directly to equity		**79.5**	24.4
Hedging reserve			
– fair value movement		**(0.1)**	–
– amount recognised in inventories		**0.3**	–
Net losses not recognised in the income statement		**(96.0)**	(50.6)
Total recognised income and expense for the year		**398.7**	589.3
Effect of changes in accounting policy:			
First time adoption of IAS 39 (net of tax)	C22	**(0.5)**	

Company balance sheet

	Notes	2006 £m	2005 £m
ASSETS			
Non-current assets			
Intangible assets	C5	**21.7**	18.6
Property, plant and equipment	C6	**2,257.5**	2,862.0
Investments in joint venture	C7A	**6.1**	6.1
Investment in Group undertakings	C7B	**767.7**	444.4
Other financial assets	C8	**12.7**	3.6
Trade and other receivables	C9	**175.2**	196.4
Deferred income tax assets	C15	**91.9**	53.5
		3,332.8	3,584.6
Current assets			
Inventories		**282.1**	279.5
Amounts owed by group undertakings		**2,704.9**	2,391.6
Trade and other receivables	C9	**184.6**	211.5
Derivative financial instruments	C13	**71.5**	-
Cash and cash equivalents	C10	**278.4**	129.8
		3,521.5	3,012.4
Total assets		**6,854.3**	6,597.0
LIABILITIES			
Current liabilities			
Trade and other payables	C11	**1,481.0**	1,463.9
Derivative financial instruments	C13	**4.1**	–
Borrowings	C12	**879.5**	320.6
Current tax liabilities		**39.6**	–
Provisions	C14	**3.8**	13.9
		2,408.0	1,798.4
Non-current liabilities			
Borrowings	C12	**823.4**	1,522.8
Retirement benefit obligations	C4	**794.9**	668.4
Trade and other payables	C11	**73.9**	67.0
Provisions	C14	**11.4**	15.4
		1,703.6	2,273.6
Total liabilities		**4,111.6**	4,072.0
Net assets		**2,742.7**	2,525.0
EQUITY			
Called up share capital – equity	C16	**712.5**	712.5
Share premium account	C16	**386.1**	386.1
Capital redemption reserve	C16	**8.0**	8.0
Hedging reserve	C16	**-**	–
Retained earnings	C16	**1,636.1**	1,418.4
Total equity		**2,742.7**	2,525.0

Approved by the Board
28 September 2006

Stuart Rose, Chief Executive
Ian Dyson, Group Finance Director

Company cash flow statement

CASH FLOW STATEMENT		52 weeks ended 1 April 2006 £m	52 weeks ended 2 April 2005 £m
Cash flows from operating activities			
Cash generated from operations – continuing	C18A	**1,105.1**	635.1
Tax paid		**(66.0)**	(127.8)
Net cash inflow from operating activities		**1,039.1**	507.3
Cash flows from investing activities			
Disposal of subsidiary, net of cash disposed		**-**	590.7
Capital expenditure and financial investment	C18B	**55.8**	(339.2)
Interest received		**26.1**	24.7
Dividend received		**-**	235.0
Net cash inflow from investing activities		**81.9**	511.2
Cash flows from financing activities			
Interest paid		**(132.3)**	(112.7)
Other debt financing	C18C	**(656.5)**	1,713.3
Dividends paid		**(205.2)**	(2,573.4)
Net cash outflow from financing activities		**(994.0)**	(972.8)
Net cash inflow/(outflow) from activities		**127.0**	45.7
Opening net cash		**66.6**	20.9
Closing net cash	C19	**193.6**	66.6

Company notes to the financial statements

C1 ACCOUNTING POLICIES

The Company's accounting policies are given in note 1 of the Group's financial statements.

C2 DIVIDENDS

	2006 per share	2005 per share	**2006 £m**	2005 £m
Dividends on equity ordinary shares:				
Paid final dividend	**7.2p**	9.2p	**205.2**	262.0
Paid interim dividend	**-**	81.1p	**-**	2,311.4
	7.2p	90.3p	**205.2**	2,573.4

In addition the directors have proposed a final dividend in respect of the financial year ended 1 April 2006 of 8.2p per share amounting to a dividend of £233.7m. In line with the requirements of IAS 10 – 'Events after the Balance Sheet Date', this dividend has not been recognised within these results.

C3 EMPLOYEES

A Aggregate remuneration

The aggregate remuneration and associated costs of Plc employees were:

	2006 £m	2005[1] £m
Wages and salaries	**800.0**	741.8
Social security costs	**59.7**	49.0
Other pension costs	**92.7**	95.1
Share-based payments	**24.9**	23.0
Employee welfare and other personnel costs	**27.9**	11.2
Capitalised staffing costs	**(2.1)**	(2.0)
	1,003.1	918.1

[1] Includes exceptional operating charges of £7.2m.

Details of key management compensation for the Company is the same as that disclosed for the Group and is given in note 31E of the Group notes.

B Average number of employees

	2006	2005
UK stores		
Management and supervisory categories	**4,601**	4,863
Other	**57,687**	56,269
UK head office		
Management and supervisory categories	**2,257**	2,525
Other	**601**	807
	65,146	64,464

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 44,684 (last year 43,554).

C4 RETIREMENT BENEFITS

Disclosures for the Company are not provided here as the impact on the income statement, and the assets and liabilities of the Company are not materially dissimilar to that of the Group in note 10 of the Group notes.

Company notes to the financial statements continued

C5 INTANGIBLE ASSETS

	Computer software £m	Computer software under development £m	Total £m
At 3 April 2004			
Cost or valuation	25.7	2.5	28.2
Accumulated amortisation	(11.0)	–	(11.0)
Net book value	14.7	2.5	17.2
Year ended 2 April 2005			
Opening net book value	14.7	2.5	17.2
Additions	–	10.1	10.1
Transfers	7.0	(7.0)	–
Amortisation charge	(8.7)	–	(8.7)
Closing net book value	13.0	5.6	18.6
At 2 April 2005			
Cost or valuation	32.7	5.6	38.3
Accumulated amortisation	(19.7)	–	(19.7)
Net book value	13.0	5.6	18.6
Year ended 1 April 2006			
Opening net book value	13.0	5.6	18.6
Additions	–	10.6	10.6
Transfers	9.5	(9.5)	–
Disposals	–	(0.1)	(0.1)
Amortisation charge	(7.4)	–	(7.4)
Closing net book value	**15.1**	**6.6**	**21.7**
At 1 April 2006			
Cost or valuation	42.2	6.6	48.8
Accumulated amortisation	(27.1)	–	(27.1)
Net book value	**15.1**	**6.6**	**21.7**

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

Company notes to the financial statements continued

C6 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £m	Fixtures, fittings & equipment £m	Assets in the course of construction £m	Total £m
At 3 April 2004				
Cost	1,850.4	2,891.6	43.3	4,785.3
Accumulated depreciation	(96.8)	(1,693.9)	–	(1,790.7)
Net book value	1,753.6	1,197.7	43.3	2,994.6
Year ended 2 April 2005				
Opening net book value	1,753.6	1,197.7	43.3	2,994.6
Additions	21.8	147.1	12.9	181.8
Transfers	14.3	29.0	(43.3)	–
Disposals	(72.2)	3.9	–	(68.3)
Depreciation charge	(9.9)	(236.2)	–	(246.1)
Closing net book value	1,707.6	1,141.5	12.9	2,862.0
At 2 April 2005				
Cost	1,777.2	2,943.9	12.9	4,734.0
Accumulated depreciation	(69.6)	(1,802.4)	–	(1,872.0)
Net book value	1,707.6	1,141.5	12.9	2,862.0
Year ended 1 April 2006				
Opening net book value	1,707.6	1,141.5	12.9	2,862.0
Additions	14.4	238.9	20.9	274.2
Transfers	–	12.9	(12.9)	–
Disposals	(552.9)	(81.8)	–	(634.7)
Depreciation charge	(6.9)	(237.1)	–	(244.0)
Closing net book value	**1,162.2**	**1,074.4**	**20.9**	**2,257.5**
At 1 April 2006				
Cost	1,231.2	2,975.0	20.9	4,227.1
Accumulated depreciation	(69.0)	(1,900.6)	–	(1,969.6)
Net book value	**1,162.2**	**1,074.4**	**20.9**	**2,257.5**

The net book values included in the tables above include land and buildings of £41.0m (last year £42.1m) and equipment of £5.0m (last year £5.4m) where the Company is a lessee under a finance lease.

In accordance with IFRS 1 – 'First time adoption of International Financial Reporting Standards' and IAS 17 – 'Leases' the Company reviewed the classification of all leases at the transition balance sheet date of 4 April 2004. Under IAS 17, the land and building elements of a lease need to be considered separately and the land element is normally deemed to be an operating lease. As a result, the buildings element of a number of properties, previously treated as operating leases, have been reclassified as finance leases. In addition, the revaluation element held in respect of leasehold land previously held as a fixed asset has been derecognised and the payments made to acquire such land have been reclassified as leasehold prepayments.

Under the provisions of IFRS 1, the Company adopted a valuation as deemed cost on transition for freehold land and buildings. A property valuation was prepared on an existing use basis by external valuers DTZ Debenham Tie Leung as at 2 April 2004. The Company elected under IFRS 1 to reflect this valuation, in so far as it related to freehold land and buildings, as deemed cost on transition at 4 April 2004.

Company notes to the financial statements continued

C7 INVESTMENTS

A Investment in joint venture

	Joint venture £m
At year ended 3 April 2004	
Cost	6.1
Accumulated provision	–
Net book value	6.1
Year ended 2 April 2005	
Opening net book value	6.1
Additions	–
Disposals	–
Closing net book value	6.1
At 2 April 2005	
Cost	6.1
Accumulated provision	–
Net book value	6.1
Year ended 1 April 2006	
Opening net book value	6.1
Additions	–
Disposals	–
Closing net book value	**6.1**
At 2 April 2005	
Cost	6.1
Accumulated provision	–
Net book value	**6.1**

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.

Company notes to the financial statements continued

C7 INVESTMENTS continued

B Investment in Group undertakings

	Shares in Group undertakings £m	Loans in Group undertakings £m	Total £m
At year ended 3 April 2004			
Cost	669.1	42.5	711.6
Accumulated provision	(292.0)	–	(292.0)
Net book value	377.1	42.5	419.6
Year ended 2 April 2005			
Opening net book value	377.1	42.5	419.6
Additions	143.0	–	143.0
Disposals	(83.2)	(35.0)	(118.2)
Closing net book value	436.9	7.5	444.4
At 2 April 2005			
Cost	728.9	7.5	736.4
Accumulated provision	(292.0)	–	(292.0)
Net book value	436.9	7.5	444.4
Year ended 1 April 2006			
Opening net book value	436.9	7.5	444.4
Additions	392.1	–	392.1
Disposals	–	(3.8)	(3.8)
Provision for impairment	(65.0)	–	(65.0)
Closing net book value	**764.0**	**3.7**	**767.7**
At 2 April 2006			
Cost	1,121.0	3.7	1,124.7
Accumulated provision	(357.0)	–	(357.0)
Net book value	**764.0**	**3.7**	**767.7**

Company notes to the financial statements continued

C7 INVESTMENTS continued

C Principal subsidiary undertakings

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

	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 Nederlands	–	100%
Marks and 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%
Marks and Spencer Simply Foods Ltd	Retailing	Great Britain	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%	–
Amethyst Leasing (Properties) Limited	Finance	Great Britain	–	100%
Amethyst Finance plc	Finance	Great Britain	–	–[1]
Marks and Spencer Chester Limited Property	Investment	Great Britain	–	100%
Marks and Spencer SCM Limited	Procurement	The Nederlands	100%	–
Per Una Group Limited	Procurement	Great Britain	100%	–
The Zip Project Limited	Procurement	Great Britain	100%	–

[1] Amethyst Finance plc is a wholly-owned subsidiary of a non-group company but has been consolidated in these accounts under SIC 12 – 'Consolidation – Special Purpose Entities', as it meets the definition of a special purpose entity.

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 for the directors, principally affected the financial statements.

C8 OTHER FINANCIAL ASSETS

	2006 £m	2005 £m
Non-current		
Unlisted investments	**3.0**	–
Other investments[1]	**9.7**	3.6
	12.7	3.6

[1] Other investments are the shares held for employee share schemes.

Company notes to the financial statements continued

C9 TRADE AND OTHER RECEIVABLES

	2006 £m	2005 £m
Non-current		
Other receivables	**3.7**	4.2
Prepaid leasehold premiums	**171.5**	192.2
	175.2	196.4
Current		
Trade receivables	**43.6**	28.1
Less: Provision for impairment of receivables	**(14.5)**	(12.8)
Trade receivables – net	**29.1**	15.3
Other receivables	**23.4**	59.9
Prepaid pension contributions	**57.7**	65.6
Prepaid leasehold premiums	**1.5**	1.7
Other prepayments and accrued income	**72.9**	69.0
	184.6	211.5

C10 CASH AND CASH EQUIVALENTS

Cash at bank 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 4.5% (last year 4.8%); these deposits have an average maturity of eight days (last year two days).

C11 TRADE & OTHER PAYABLES

	2006 £m	2005 £m
Current		
Trade payables	**172.5**	159.4
Other payables	**166.4**	145.9
Social security and other taxes	**33.8**	29.3
Accruals and deferred income	**346.3**	268.3
Amounts owed to Group undertakings	**762.0**	861.0
	1,481.0	1,463.9
Non-current		
Accruals and deferred income	**73.9**	67.0
	73.9	67.0

Company notes to the financial statements continued

C12 BORROWINGS AND OTHER FINANCIAL LIABILITIES

	2006 £m	2005[1] £m
Current		
Bank loans and overdrafts[2]	**90.0**	68.3
Syndicated bank facility	**–**	200.0
Medium term notes[3]	**786.9**	50.0
Finance lease liabilities	**2.6**	2.3
	879.5	320.6
Non-current		
Medium term notes[4]	**779.1**	1,476.9
Finance lease liabilities	**44.3**	45.9
	823.4	1,522.8
Total financial liabilities	**1,702.9**	1,843.4

[1] Last year comparatives have been prepared under UK GAAP.

[2] Bank loans and overdrafts includes a £5.0m (last year £5.0m) loan from the Hedge End Park Ltd joint venture.

[3] Relates to a number of floating rate medium term notes set to mature throughout the 2006/07 financial year linked to sterling and euro LIBOR for periods ranging from one to six months.

[4] Relates to fixed rate bonds of £375m at a rate of 6.375% repayable on 7 November 2011 and £400m at a rate of 5.625% repayable on 24 March 2014.

Maturity of borrowings

The maturity of borrowings is as follows:

	2006 £m	2005 £m
Repayable within one year or on demand:		
Bank loans and overdrafts	**90.0**	68.3
Syndicated bank facility	**–**	200.0
Medium term notes	**786.9**	50.0
Finance leases	**2.6**	2.3
	879.5	320.6
Repayable between one and two years:		
Medium term notes	**–**	708.9
Finance leases	**1.3**	2.2
	1.3	711.1
Repayable between two and five years:		
Finance leases	**0.3**	0.9
	0.3	0.9
Repayable in five years or more:		
Medium term notes	**779.1**	768.0
Finance leases	**42.7**	42.8
	821.8	810.8
	1,702.9	1,843.4

Company notes to the financial statements continued

C12 BORROWINGS AND OTHER FINANCIAL LIABILITIES continued

Borrowing facilities

At 1 April 2006, the Company had a five-year committed syndicated bank facility of £1.2bn set to mature on 27 March 2011, which contains only one financial covenant being earnings before interest, tax, depreciation, amortisation and rents payable to fixed charge cover. The Company also has a number of undrawn uncommitted facilities available to it. At 1 April 2006, these amounted to £175m (last year £190m), all of which are due to be reviewed within a year. All committed and uncommitted bank facilities were undrawn as at the balance sheet date.

Financial liabilities

After taking into account the various interest rate swaps entered into by the Company, the currency and interest rate exposure of the Groups' financial liabilities is as set out below. There are no financial liabilities other than short term payables excluded from this analysis:

			2006
Currency	Fixed rate £m	Floating rate £m	Total £m
Sterling	**826.0**	**876.9**	**1,702.9**

The floating rate sterling and euro borrowings are linked to interest rates related to LIBOR. These rates are for periods ranging from one month to six months. Excluding finance leases, the fixed rate Sterling borrowings are at an average rate of 6.0% and the weighted average time for which the rate is fixed is 6.8 years.

Interest rate analysis

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

	2006 %
Medium term notes	**5.8**
Finance leases	**4.4**

Finance leases

The minimum lease payments under finance leases fall due as follows:

	2006 £m	2005 £m
Not later than one year	**4.6**	4.4
Later than one year but not more than five	**8.9**	10.4
More than five years	**181.3**	183.0
	194.8	197.8
Future finance charges on finance leases	**(147.9)**	(149.6)
Present value of lease obligations	**46.9**	48.2

It is the Company's policy to lease certain of its properties and equipment under finance leases. The average lease term for equipment is four 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.

Company notes to the financial statements continued

C13 FINANCIAL INSTRUMENTS

The Company has taken advantage of the exemption under IFRS 1 from the requirement to restate comparatives in accordance with IAS 32 and IAS 39. The comparative figures have therefore been measured and presented in accordance with previously adopted UK GAAP. The main adjustment that would be required to make the comparative information comply with IAS 32 and IAS 39 is the inclusion of derivative assets and liabilities on the balance sheet.

Treasury Policy and Financial Risk Management
The Company utilises a centralised treasury function (Group Treasury) to manage the external/internal funding requirements and financial risks in line with the Board approved treasury policies and procedures, and delegated authorities therein given.

The Company's financial instruments, other than derivatives, comprise borrowings, cash and liquid resources and various items, such as trade debtors and trade creditors, that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Company's operations.

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

It remains Company policy not to hold or issue financial instruments for trading purposes, nor to engage in speculative trading.

The principal financial risks to which the Group is exposed relate to liquidity/funding, interest rates, foreign exchange rates and counterparty risk. The policies and strategies for managing these risks are summarised as follows:

(a) Liquidity/funding risk
The funding strategy is to ensure a mix of financing methods offering flexibility and cost effectiveness to match the requirements of the Company. In addition to the existing borrowings, the Group has a Euro Medium Term Note programme of £3 billion, of which £1.5 billion was in issuance as at the balance sheet date. Furthermore, short-term borrowings are backed by a £1.2 billion five-year committed syndicated bank facility, which was undrawn at the balance sheet date.

(b) Interest rate risk
Interest rate risk primarily occurs with the movement of sterling interest rates in relation to the Company's floating rate financial assets and liabilities. Company policy for interest rate management is to maintain a mix of fixed and floating rate borrowings. Interest rate risk in respect of debt on the balance sheet is reviewed on a regular basis against forecast interest costs and covenants. A number of interest rate swaps have been entered into to redesignate fixed and floating debt. The structure and maturity of these swaps 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 £826m representing two public bond issues and finance leases.

(c) Foreign currency risk
Transactional foreign currency exposures arise from both the export of goods from the UK to overseas subsidiaries, also from the import of materials and goods directly sourced from overseas suppliers. Group Treasury hedge these exposures principally using forward foreign exchange contracts covering between 80% and 100% out to 15 months.

As at the balance sheet date the gross value in Sterling terms of forward foreign exchange sell or buy contracts amounted to £270m for external trades and £339m for intercompany trades, both of which have a weighted average maturity date of six months.

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

Where funding has been sourced in currencies other than sterling, the Company has swapped these exposures back into sterling debt through cross currency swaps matching the underlying terms. The gross notional value of cross currency swaps as at the balance sheet date was £528.9m with a weighted average maturity of 0.7 years.

The Company also hedges foreign currency intercompany loans where these exist. As at the balance sheet date, the gross notional value of intercompany loan hedges was £38.9m.

Company notes to the financial statements continued

(d) Counterparty risk
Counterparty risk exists where the Company has the potential to experience loss through default or non-performance by financial institutions in relation to outstanding financial instruments. Counterparty exposures for these instruments are managed through approved Group Treasury policy that limits the value that can be placed with each approved counterparty to minimise the risk of loss. These limits are based on a combination of short-term credit ratings of A-1/P-1 and long-term credit ratings of AA-/Aa3 or better. The monetary limit will apply to the aggregate of investments and the mark to market value of foreign exchange and interest rate derivatives. Limits are reviewed regularly by senior management. Dealing mandates and derivative agreements are entered into with counterparty banks prior to deals being arranged.

The maximum exposure to credit risk at 1 April 2006 was as follows: trade receivables £29m, other receivables £23m, cash and cash equivalents £278m and derivatives £71m. The Group does not have any material exposures to concentrations of credit risk with any one counterparty.

Derivative financial instruments

	2006	
	Assets	**Liabilities**
Current		
Interest rate swaps – fair value hedges	**1.6**	**–**
Cross currency – fair value hedges	**65.2**	**(2.7)**
Forward foreign exchange contracts – cash flow hedges	**1.1**	**(1.4)**
Forward foreign exchange contracts – cash flow hedges with Group undertakings	**3.3**	**–**
Forward foreign exchange contracts – held for trading	**0.3**	**–**
	71.5	**(4.1)**

As at the balance sheet date gross outstanding interest rate swaps amounted to £523.9m with a weighted average maturity of 0.7 years.

Forward foreign exchange contracts in relation to the Company's forecast currency requirements are designated as cash flow hedges with fair value movements recognised directly in equity. To the extent that these hedges cover actual currency payables or receivables then associated fair value movements previously recognised in equity are recorded in the income statement in conjunction with the corresponding asset or liability.

Forward foreign exchange contracts in relation to the hedging of the Company's foreign currency intercompany loans are designated as held for trading with fair value movements being recognised in the income statement. The corresponding fair value movement of the intercompany loan balance results in an overall nil impact on the income statement.

Gains and losses in equity on forward foreign exchange contracts as of 1 April 2006 will be released to the income statement at various dates over the following 15 months from the balance sheet date.

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

The carrying value of the Group's fixed rate bond debt was £779.0m, the fair value of this debt was £796.5m.

Company notes to the financial statements continued

C14 PROVISIONS

	Total £m
At 4 April 2004	30.7
Provided in the period	26.0
Released in the period	(1.4)
Utilised during the period	(26.0)
At 2 April 2005	29.3
At 2 April 2005	29.3
Provided in the period	5.7
Released in the period	(3.5)
Utilised during the period	(16.3)
At 1 April 2006	**15.2**

Analysis of total provisions:

	2006 £m	2005 £m
Current	**3.8**	13.9
Non-current	**11.4**	15.4
	15.2	29.3

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

The non-current provisions relate to closure costs of the closure of Lifestore operations and the restructuring of Direct operations and are expected to be utilised over a period of 15 years.

C15 DEFERRED INCOME TAX

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 30% (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) 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 asset/(liabilities):

	Fixed assets temporary differences £m	Accelerated capital allowances £m	Pension temporary differences £m	Other short-term temporary differences £m	Total £m
At 4 April 2004	(140.0)	(76.6)	267.8	30.0	81.2
(Charged)/credited to the income statement	1.3	1.1	(49.4)	(5.1)	(52.1)
Credited to equity	–	–	22.5	1.9	24.4
At 2 April 2005	(138.7)	(75.5)	240.9	26.8	53.5
At 2 April 2005	(138.7)	(75.5)	240.9	26.8	53.5
Charged to the income statement	3.2	15.7	(42.4)	(17.6)	(41.1)
Credited/(charged) to equity	5.0	–	52.7	21.8	79.5
At 1 April 2006	**(130.5)**	**(59.8)**	**251.2**	**31.0**	**91.9**

In arriving at the deferred tax on fixed asset revaluations, credit has been taken for capital losses with a tax value of £56.1m (last year £56.1m).

Company notes to the financial statements continued

C16 STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital					
	Ordinary shares £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Retained earnings £m	Total £m
At 4 April 2004	712.5	386.1	8.0	–	3,145.3	4,251.9
Profit for the year attributable to shareholders	–	–	–	–	639.9	639.9
Dividends	–	–	–	–	(2,338.4)	(2,338.4)
Actuarial loss on post-retirement liability	–	–	–	–	(75.0)	(75.0)
Deferred tax on post-retirement liability	–	–	–	–	22.5	22.5
Deferred tax on share schemes	–	–	–	–	1.9	1.9
Charge for share-based payments	–	–	–	–	22.2	22.2
At 2 April 2005	712.5	386.1	8.0	–	1,418.4	2,525.0
At 2 April 2005	712.5	386.1	8.0	–	1,418.4	2,525.0
First time adoption of IAS 32 and IAS 39	–	–	–	(0.2)	(0.3)	(0.5)
At 3 April 2005	**712.5**	**386.1**	**8.0**	**(0.2)**	**1,418.1**	**2,524.5**
Profit for the year attributable to shareholders	–	–	–	–	494.7	494.7
Dividends	–	–	–	–	(205.2)	(205.2)
Actuarial loss on post-retirement liability	–	–	–	–	(175.7)	(175.7)
Deferred tax on post-retirement liability	–	–	–	–	52.7	52.7
Deferred tax on share schemes	–	–	–	–	21.8	21.8
Deferred tax on revalued properties	–	–	–	–	5.0	5.0
Charge for share-based payments	–	–	–	–	24.7	24.7
Cash flow hedges						
Fair value movement	–	–	–	(0.1)	–	(0.1)
Amount recognised in inventories	–	–	–	0.3	–	0.3
At 1 April 2006	**712.5**	**386.1**	**8.0**	**–**	**1,636.1**	**2,742.7**

Company notes to the financial statements continued

C17 CONTINGENCIES AND COMMITMENTS

	2006 £m	2005 £m
A Commitments in respect of properties in the course of construction	**57.4**	34.2
B Guarantees by the Company in respect of debt instruments issued by subsidiaries	**136.9**	289.8

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

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

	2006 £m	2005 £m
Total commitments under non-cancellable operating leases expiring:		
Not later than one year	**0.9**	0.5
Later than one year and not later than five years	**29.5**	31.3
Later than five years and not later than 25 years	**1,631.0**	1,571.8
Later than 25 years	**1,456.1**	1,497.4
	3,117.5	3,101.0

The total future sublease payments to be received are £58.9m (last year £47.1m).

C18 ANALYSIS OF CASH FLOWS GIVEN IN THE CASH FLOW STATEMENT

	52 weeks ended 1 April 2006 £m	52 weeks ended 2 April 2005 £m
A Cash flows from operating activities – continuing		
Profit on ordinary activities after taxation	**494.7**	639.9
Income tax expense	**177.3**	116.8
Interest payable and similar charges	**109.7**	107.2
Interest receivable	**(26.3)**	(24.7)
Sale of business	**65.1**	(429.9)
Exceptional operating charges	**-**	85.0
Operating profit before exceptional operating charges	**820.5**	494.3
(Increase)/decrease in inventories	**(2.6)**	53.9
Decrease/(increase) in receivables	**0.4**	(27.6)
Sale of leasehold properties	**20.9**	1.7
Increase/(decrease) in payables	**68.0**	(47.6)
Exceptional operating cash outflow (see note C18D)	**(11.8)**	(87.4)
Depreciation and amortisation	**251.4**	225.7
Share-based payments	**24.7**	22.2
Profit on property disposals	**(66.4)**	(0.1)
Cash generated from operations – continuing	**1,105.1**	635.1

Company notes to the financial statements continued

C18 ANALYSIS OF CASH FLOWS GIVEN IN THE CASH FLOW STATEMENT continued

	52 weeks ended 1 April 2006 £m	52 weeks ended 2 April 2005 £m
B Capital expenditure and financial investment		
Purchase of property, plant and equipment	**(236.3)**	(345.6)
Proceeds from sale of property, plant and equipment	**703.9**	75.3
Purchase of intangible fixed assets	**(10.6)**	(10.1)
Purchase of non-current financial assets	**(3.0)**	–
Sale of non-current financial assets	**–**	0.3
(Purchase)/sale of shares held in employee trusts	**(6.1)**	0.6
Purchase of investment in subsidiary company	**(392.1)**	(59.7)
	55.8	(339.2)
C Other debt financing		
(Repayment)/drawdown of syndicated bank facility	**(200.0)**	200.0
Redemption of medium term notes	**(49.9)**	1.0
Decrease in obligations under finance leases	**(2.5)**	(1.1)
Movement in intercompany loans treated as financing	**(404.1)**	1,513.4
	(656.5)	1,713.3
D Exceptional operating cash flows		
UK restructuring costs	**(4.8)**	(27.1)
Closure of Lifestore	**(6.7)**	(3.1)
Defence costs	**(0.2)**	(36.2)
Board restructure	**–**	(7.7)
Head office relocation	**–**	(12.6)
Restructuring of general merchandise logistics operations	**–**	(0.7)
Closure of European operations	**(0.1)**	–
	(11.8)	(87.4)

Additions to property, plant and equipment during the year amounting to £1.3m were financed by new finance leases.

C19 CASH AND CASH EQUIVALENTS

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

	2006 £m	2005 £m
Cash at bank and in hand	**88.6**	94.9
Short-term deposits	**189.8**	34.9
	278.4	129.8
Bank loans and overdrafts	**(90.0)**	(68.3)
Bank loans and overdrafts treated as financing	**5.2**	5.1
	193.6	66.6

Company notes to the financial statements continued

C20 RELATED PARTY TRANSACTIONS

A Subsidiaries

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

	2006 Transactions £m	2006 Outstanding balances £m	2005 Transactions £m	2005 Outstanding balances £m
Trading	**164.5**	**1,946.6**	150.6	1,538.1
Interest	**(6.2)**	**–**	10.9	–
Dividends paid	**(205.2)**	**–**	(2,573.4)	–

For investments in subsidiaries please see note C6.

B M&S Money

Marks and Spencer Retail Financial Services Holdings Limited was sold to HSBC Holdings plc on 9 November 2004. At the same time the Company and HSBC entered into a relationship under which the Company receives income in the form of fees representing an amount equivalent to costs incurred, 50% of the profits of M&S Money (after a notional tax charge and after deducting agreed operating and capital costs) together with an amount relating to sales growth. The fees received in the period from 10 November 2004 to 2 April 2005 were £16.4m.

In addition the Company also received in the same period £1.1m for rent and £15.1m for costs incurred as part of the transition of M&S Money to HSBC. The Company also conducted settlement transactions with M&S Money in the normal course of business. At 2 April 2005, the amount owed by M&S Money was £16.2m.

C 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 31 December 2005. Interest was charged on the loan at 3% from 1 January 2004 to 31 December 2004 and at 5% thereafter.

D Marks & Spencer Pension Scheme

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

E Key management compensation

Payments and benefits relating to key management are set out in the Group note 31E.

C21 ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

		As at 2 Apr 2005 £m	As at 3 Apr 2004 £m
Net assets and equity under UK GAAP		2,137.4	3,786.8
Adjustments (after taxation)			
IFRS 1 – 'Property Revaluation'	a	304.7	303.4
IFRS 2 – 'Share Schemes'	b	9.8	6.1
IAS 10 – 'Dividend Recognition'	c	205.2	262.1
IAS 17 – 'Leases'		–	–
Treatment of leasehold land	d	(86.6)	(62.7)
Finance leases	e	(0.7)	(0.5)
Lease incentives	f	(18.7)	(15.5)
Fixed rental uplifts	g	(13.5)	(10.4)
IAS 19 – 'Employee Benefits'	h	(25.5)	(29.3)
IAS 38 – 'Intangible Assets'		–	–
Software assets	i	13.0	12.0
Goodwill and brands	j	–	–
Other		(0.1)	(0.1)
Net assets and equity under IFRS		2,525.0	4,251.9

Company notes to the financial statements continued

C21 ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS continued

		Year ended 2 Apr 2005 £m
Net income under UK GAAP		684.7
Adjustments (before taxation)		
IFRS 1 – 'Property Revaluation'	a	0.9
IFRS 2 – 'Share Schemes'	b	(23.0)
IAS 17 – 'Leases'		
Treatment of leasehold land	d	(23.9)
Finance leases	e	(0.2)
Lease incentives	f	(4.6)
Fixed rental uplifts	g	(4.6)
IAS 19 – 'Employee Benefits'	h	5.4
IAS 38 – 'Intangible Assets'		
Software assets	i	1.4
		(48.6)
Taxation		3.8
Net income under IFRS		639.9

a) IFRS 1 – 'Property Revaluation'
Under UK GAAP, property was stated at historical cost, subject to certain properties having been revalued as at 31 March 1988. A property revaluation was prepared on an existing use basis by external valuers DTZ Debenham Tie Leung as at 2 April 2004. The Company has elected under IFRS 1 to reflect this valuation, in so far as it relates to freehold land and buildings, as deemed cost on transition at 4 April 2004.

b) IFRS 2 – 'Share Schemes'
The Company operates a range of share-based incentive schemes. Under UK GAAP, where shares (or rights to shares) were awarded to employees, UITF 17 required that the charge to the profit and loss account should be based on the difference between the market value of shares at the date of grant and the exercise price (i.e. an intrinsic value basis) spread over the performance period. Save As You Earn (SAYE) schemes were exempt from this requirement and no charge was made. IFRS 2 requires that all shares or options (including SAYE) awarded to employees as remuneration should be measured at fair value at grant date, using an option pricing model, and charged against profits over the period between grant date and vesting date, being the vesting period. This treatment has been applied to all awards granted but not fully vested at the date of transition.

c) IAS 10 – 'Events after the Balance Sheet Date'
Under UK GAAP, dividends are recognised in the period to which they relate. IAS 10 requires that dividends declared after the balance sheet date should not be recognised as a liability at that balance sheet date as the liability does not represent a present obligation as defined by IAS 37 – 'Provisions, Contingent Liabilities, and Contingent Assets'. Accordingly the final dividends for 2003/04 (£262.0m) and 2004/05 (£205.2m) are derecognised in the balance sheets for April 2004 and April 2005 respectively.

d) IAS 17 – 'Leases – Treatment of Leasehold Land'
The Company previously recognised finance leases under the recognition criteria set out in SSAP 21. IAS 17 requires the land and building elements of property leases to be considered separately, with leasehold land normally being treated as an operating lease. As a consequence, payments made to acquire leasehold land, previously treated as fixed assets, have been recategorised as prepaid leases and amortised over the life of the lease. In addition, the revaluation previously attributed to the land element has been derecognised.

Company notes to the financial statements continued

C21 ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS continued

e) IAS 17 – 'Leases – Finance Leases'
Also under the provisions of IAS 17, the building elements of certain property leases, classified as operating leases under UK GAAP, have been reclassified as finance leases. The adjustments are to include the fair value of these leased buildings within fixed assets and to set up the related obligation, net of finance charges, in respect of future periods, within creditors.

f) IAS 17 'Leases – Lease Incentives'
Under UK GAAP, leasehold incentives received on entering into property leases were recognised as deferred income on the balance sheet and amortised to the profit and loss account over the period to the first rent review. Under IAS 17, these incentives have to be amortised over the term of the lease. Consequently, as the term of the lease is longer than the period to the first rent review, amounts previously amortised to the profit and loss account are reinstated on the balance sheet as deferred income and released over the term of the lease.

g) IAS 17 – 'Leases – Fixed Rental Uplifts'
The Company has a number of leases that contain predetermined, fixed rental uplifts. Under IAS 17, it is necessary to account for these leases such that the predetermined, fixed rental payments are recognised on a straight-line basis over the life of the lease. Under UK GAAP, the Company accounted for these property lease rentals such that the increases were charged in the year that they arose.

h) IAS 19 – 'Employee Benefits'
Previously no provision was made for holiday pay. Under IAS 19 – 'Employee Benefits' the expected cost of compensated short-term absences (e.g. holidays) should be recognised when employees render the service that increases their entitlement. As a result, an accrual has been made for holidays earned but not taken.

i) IAS 38 – 'Software Assets'
The cost of developing software used to be written off as incurred. Under IAS 38 – 'Intangible Assets' there is a requirement to capitalise internally generated intangible assets provided certain recognition criteria are met. Results have been adjusted to reflect the capitalisation and subsequent amortisation of costs that meet the criteria. As a result expenses previously charged to the profit and loss account have been brought onto the balance sheet as intangible software assets and amortised over their estimated useful lives.

Cash flow statement
The Company was not required to produce a cash flow statement as the Company was a wholly owned subsidiary of an EU company which published a consolidated cash flow statement. This exemption from presenting a cash flow statement is not available under IFRS.

Company notes to the financial statements continued

C22 FIRST TIME ADOPTION OF IAS 32 AND IAS 39

The adoption of IAS 32 – 'Financial Instruments: Disclosure and Presentation' and IAS 39 – 'Financial Instruments: Recognition and Measurement' with effect from 3 April 2005 results in a change in the Company's accounting policy for financial instruments. The impact of these standards on the Company's opening balance sheet is shown below.

The principal impacts of IAS 32 and IAS 39 on the Group's financial statements relate to the recognition of derivative financial instruments at fair value. Any derivatives that do not qualify for hedge accounting are held on the balance sheet at fair value with the changes in value reflected through the income statement. The accounting treatment of derivatives that qualify for hedge accounting depends on how they are designated, as follows:

Fair value hedges
The Company uses interest rate swaps to hedge the exposure to interest rates of its issued debt. Under UK GAAP, derivative financial instruments were not recognised at fair value in the balance sheet.

Under IAS 39, derivative financial instruments that meet the 'fair value' hedging requirements are recognised in the balance sheet at fair value with corresponding fair value movements recognised in the income statement. For an effective fair value hedge, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in the income statement. To the extent that the designated hedge relationship is fully effective, the amounts in the income statement offset each other. As a result, only the ineffective element of any designated hedging relationship impacts the financing line in the income statement.

Cash flow hedges
Under IAS 39, derivative financial instruments that qualify for cash flow hedging are recognised on the balance sheet at fair value with corresponding fair value changes deferred in equity. In addition, the Company hedges the foreign currency exposure on inventory purchases. Under UK GAAP, foreign currency derivatives were held off balance sheet and these are now treated as cash flow hedges.

The adjustments to the opening balance sheet as at 3 April 2005 are as follows:

	Opening balance sheet under IFRS £m	Effect of IAS 32 and IAS 39 £m	Restated opening position at 3 Apr 2005 £m
Non-current assets			
Derivative financial instruments	–	63.8	63.8
Deferred tax asset	19.9	0.1	20.0
Current assets			
Derivative financial instruments	–	4.4	4.4
Inventories	338.9	0.1	339.0
Current liabilities			
Derivative financial instruments	–	(5.1)	(5.1)
Borrowings	(478.8)	(0.5)	(479.3)
Trade and other payables	(733.2)	22.8	(710.4)
Non-current liabilities			
Borrowings	(1,948.5)	(86.1)	(2,034.6)
Impact on net assets		(0.5)	
Hedging reserve		(0.2)	
Retained earnings		(0.3)	
Impact on shareholders' funds		(0.5)	

C23 ULTIMATE PARENT COMPANY

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