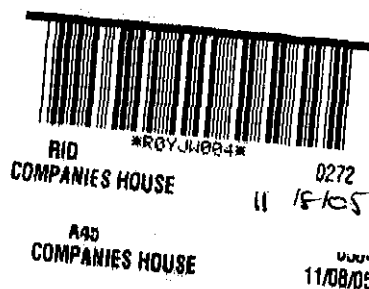


21/4/06

# Marks and Spencer plc

ANNUAL REPORT AND FINANCIAL STATEMENTS 2005



# Directors' report

## Principal activities

During the year, the principal activities of the Group were Retailing and Financial Services. Financial Services activities were discontinued during the period.

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

## Review of activities and future performance

	2005 52 weeks £m	2004 53 weeks £m
<b>Summary of results</b>		
Continuing operations before exceptional items		
Turnover (ex VAT)	7,710.3	7,971.5
Operating profit	677.1	809.4
Net interest expense	(104.1)	(45.8)
Other finance income/(charges)	11.4	(15.2)
Profit before tax from continuing operations before exceptional items	584.4	748.4
Operating profit from discontinued operations	32.3	56.6
Profit before tax and exceptional items	616.7	805.0
Exceptional income/(charges)	126.8	(23.4)
<b>Group profit before tax</b>	<b>743.5</b>	<b>781.6</b>

Turnover from continuing operations decreased by 3.3% to £7,710.3m. Within this, UK Retail turnover decreased by 3.6%.

Operating profit from continuing operations (before exceptional charges) decreased by 16.3% to £677.1m.

Net interest expense was £104.1m compared to £45.8m last year. The average rate of interest on borrowings during the period was 5.7%.

Profit before tax was £743.5m compared to £781.6m last year.

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

## Profit and dividends

The profit for the financial year, after taxation and minority interests, amounts to £585.7m (last year £552.3m). The directors have declared dividends as follows:

	£m
Ordinary shares	
Paid interim dividends of 81.1p per share (last year nil)	2,311.4
Proposed final dividend of 7.2p per share (last year 9.2p per share)	205.2
<b>Total dividend, 88.3p (last year 9.2p per share)</b>	<b>2,516.6</b>

## Changes in share capital

There were no changes to share capital during the period.

## Directors and their interests

On 20 July 2005, the directors were Stuart Rose, Charles Wilson, Ian Dyson and Graham Oakley.

Luc Vandewelde retired as Chairman and Roger Holmes retired as Chief Executive on 31 May 2004. Alison Reed retired as Group finance director on 30 April 2005. Vittorio Radice retired as an executive director on 11 June 2004. Laurel Powers-Freeling and Maurice Helfgott retired as executive directors on 9 November 2004. Mark McKeon was appointed as executive director on 5 April 2004 and later retired from that position on 9 November 2004. Ian Dyson was appointed as Finance director on 27 June 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.

# Directors' report continued

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

	Ordinary shares	B shares
At 3 April 2004	122,446	3,110
At 2 April 2005	104,927	—
	Options	Exercisable options
At 3 April 2004	1,028,784	364,611
Granted in the period	129,682	
Exercised/lapsed in the period	(288,669)	
At 2 April 2005	869,797	416,156

## Employee involvement

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

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

The tenth meeting of the European Council took place last September. 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.

## 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.

## 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 Company 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 the Company for the year ended 2 April 2005 were 12.0 days, or 8.0 working days (last year 12.3 days, or 8.3 working days), based on the ratio of company trade creditors at the end of the year to the amounts invoiced during the year by trade creditors.

# Directors' report continued

## Market value of properties

The directors are of the opinion that market value of the Group's properties at 2 April 2005 exceeded the net book value by approximately £1.3bn.

## Charitable and political donations

During the year, the Group made charitable donations to support the community of £9.8m (last year £7.2m). These principally consisted of cash donations of £3.0m (last year £5.1m) which includes the cost of our flagship community programme Marks & Start, Breakthrough Breast Cancer and other charitable donations, £2.0m (last year £1.2m) of employee time principally for the Marks & Start programme and local community projects, and stock donations of £4.3m (last year £0.4m) to a variety of charities including Shelter, Fareshare, Birth Defects Foundation as well as to the local community.

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

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

## Directors' responsibilities for preparing the financial statements

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

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

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

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

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

## International Financial Reporting Standards

For the next financial year, the Group will be required to adopt International Financial Reporting Standards. We have identified that the greatest impact on the Group arises from changes in the accounting treatment for property, share-based payments, financial instruments and software. The Group has restated the results for the period ended 2 April 2005 to reflect these changes and a summary of the impact is set out below:

	2004/05		Change	Change %
	UK GAAP	IFRS		
Turnover (£m)	7,942.3	7,942.3	–	–
Operating profit before exceptional items (£m)	709.4	689.2	(20.2)	(2.8)
Profit before tax and exceptional items (£m)	616.7	594.2	(22.5)	(3.6)
Net assets at 2 April 2005 (£m)	2,545.0	2,962.2	417.2	16.4

## Auditors

Resolutions to reappoint PricewaterhouseCoopers LLP as auditors of the Company will be proposed at the Annual General Meeting.



By order of the Board

**Charles Wilson**, Executive director

London

20 July 2005

## Auditors' report

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

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

### **Respective responsibilities of directors and auditors**

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

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

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

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

### **Basis of audit opinion**

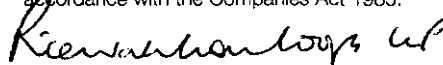
We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and Group's circumstances, consistently applied and adequately disclosed.

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

### **Opinion**

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group at 2 April 2005 and of the profit of the Group for the period then ended, and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.



**PricewaterhouseCoopers LLP**

Chartered Accountants and Registered Auditors  
London  
20 July 2005

# Consolidated profit and loss account

	Notes	52 weeks ended 2 April 2005			53 weeks ended 3 April 2004		
		Before exceptional items £m	Exceptional items (note 4) £m	After exceptional items £m	Before exceptional items £m	Exceptional items (note 4) £m	After exceptional items £m
<b>Turnover</b>							
Continuing operations		7,710.3	–	7,710.3	7,971.5	–	7,971.5
Discontinued operations		232.0	–	232.0	330.0	–	330.0
<b>Total turnover</b>	2, 3	<b>7,942.3</b>	<b>–</b>	<b>7,942.3</b>	<b>8,301.5</b>	<b>–</b>	<b>8,301.5</b>
<b>Operating profit</b>							
Continuing operations		667.6	(91.4)	576.2	809.4	(42.1)	767.3
Acquired operations		9.5	–	9.5	–	–	–
		677.1	(91.4)	585.7	809.4	(42.1)	767.3
Discontinued operations		32.3	–	32.3	56.6	–	56.6
<b>Total operating profit</b>	2, 3	<b>709.4</b>	<b>(91.4)</b>	<b>618.0</b>	<b>866.0</b>	<b>(42.1)</b>	<b>823.9</b>
(Loss)/profit on sale of property and other fixed assets	4B	–	(0.4)	(0.4)	–	18.7	18.7
Profit on sale/closure of operations:	4C						
Profit/(loss) arising on sale/closure		–	208.9	208.9	–	(26.8)	(26.8)
Release/utilisation of prior year provision		–	9.7	9.7	–	26.8	26.8
Net profit on sale/closure of operations		–	218.6	218.6	–	–	–
Net interest expense	5	(104.1)	–	(104.1)	(45.8)	–	(45.8)
Other finance income/(charges)	10C	11.4	–	11.4	(15.2)	–	(15.2)
<b>Profit/(loss) on ordinary activities before taxation</b>		<b>616.7</b>	<b>126.8</b>	<b>743.5</b>	<b>805.0</b>	<b>(23.4)</b>	<b>781.6</b>
Analysed between:							
Continuing operations (including acquired operations)		584.4	(91.8)	492.6	748.4	(23.4)	725.0
Discontinued operations		32.3	218.6	250.9	56.6	–	56.6
Taxation on ordinary activities	6	(176.0)	18.2	(157.8)	(242.0)	12.7	(229.3)
<b>Profit/(loss) attributable to shareholders</b>		<b>440.7</b>	<b>145.0</b>	<b>585.7</b>	<b>563.0</b>	<b>(10.7)</b>	<b>552.3</b>
Dividends	8	(2,516.6)	–	(2,516.6)	(262.0)	–	(262.0)
<b>Retained (loss)/profit</b>		<b>(2,075.9)</b>	<b>145.0</b>	<b>(1,930.9)</b>	<b>301.0</b>	<b>(10.7)</b>	<b>290.3</b>
Dividend per share	8			<b>88.3p</b>			9.2p

## NOTE OF GROUP HISTORICAL COST PROFITS AND LOSSES

	Notes	52 weeks ended 2 April 2005 £m	53 weeks ended 3 April 2004 £m
<b>Profit on ordinary activities before taxation</b>		<b>743.5</b>	<b>781.6</b>
Revaluation surplus realised on disposals	25	28.6	0.5
Revaluation element of depreciation charge	25	1.0	1.0
<b>Historical cost profit on ordinary activities before taxation</b>		<b>773.1</b>	<b>783.1</b>
<b>Historical cost retained (loss)/profit for the period</b>		<b>(1,901.3)</b>	<b>291.8</b>

## CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Notes	52 weeks ended 2 April 2005 £m	53 weeks ended 3 April 2004 £m
<b>Profit attributable to shareholders</b>		<b>585.7</b>	<b>552.3</b>
Exchange differences on foreign currency translation	25	0.2	(15.9)
Unrealised surplus on revaluation of investment properties	25	4.0	7.3
Impairment of previously revalued properties		–	(20.0)
Actuarial (losses)/gains net of taxation	25	(55.1)	150.4
<b>Total recognised gains and losses relating to the period</b>		<b>534.8</b>	<b>674.1</b>

## Balance sheets

	Notes	Group		Company	
		2 April 2005 £m	3 April 2004 £m	2 April 2005 £m	3 April 2004 £m
<b>Fixed assets</b>					
Intangible assets	12	122.4	-	-	-
Tangible assets	13	3,316.1	3,497.6	2,641.7	2,752.2
Investments	14	12.7	14.0	454.1	429.7
		<b>3,451.2</b>	<b>3,511.6</b>	<b>3,095.8</b>	<b>3,181.9</b>
<b>Current assets</b>					
Stocks		339.7	398.0	279.5	336.0
Debtors:					
Receivable within one year	15A	2,312.0	3,141.5	2,580.6	3,374.1
Receivable after more than one year	15B	6.2	1,779.3	4.2	6.7
Investments	16	67.0	325.9	-	-
Cash at bank and in hand	17	212.6	394.7	129.8	86.3
		<b>2,937.5</b>	<b>6,039.4</b>	<b>2,994.1</b>	<b>3,803.1</b>
<b>Current liabilities</b>					
Creditors: amounts falling due within one year	19	(1,369.4)	(1,985.8)	(1,925.5)	(1,170.2)
<b>Net current assets</b>		<b>1,568.1</b>	<b>4,053.6</b>	<b>1,068.6</b>	<b>2,632.9</b>
<b>Total assets less current liabilities</b>		<b>5,019.3</b>	<b>7,565.2</b>	<b>4,164.4</b>	<b>5,814.8</b>
Creditors: amounts falling due after more than one year	20	(1,919.7)	(2,519.6)	(1,495.1)	(1,530.3)
Provisions for liabilities and charges	22	(80.4)	(49.3)	(64.0)	(32.0)
<b>Net assets before net post-retirement liability</b>		<b>3,019.2</b>	<b>4,996.3</b>	<b>2,605.3</b>	<b>4,252.5</b>
Net post-retirement liability	10	(474.2)	(469.5)	(467.9)	(465.7)
<b>Net assets</b>		<b>2,545.0</b>	<b>4,526.8</b>	<b>2,137.4</b>	<b>3,786.8</b>
<b>Capital and reserves</b>					
Called up share capital	24,25	712.5	712.5	712.5	712.5
Share premium account	25	386.1	386.1	386.1	386.1
Capital redemption reserve	25	8.0	8.0	8.0	8.0
Revaluation reserve	25	330.8	356.4	238.3	285.0
Profit and loss account	25	1,107.6	3,063.8	792.5	2,395.2
<b>Shareholders' funds</b>	25,26	<b>2,545.0</b>	<b>4,526.8</b>	<b>2,137.4</b>	<b>3,786.8</b>

Approved by the Board  
**Ian Dyson**, Finance director  
 20 July 2005



# Notes to the financial statements

## 1 ACCOUNTING POLICIES

### Basis of preparation

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

A summary of the more important Group accounting policies, which have been consistently applied, is given below.

### Accounting convention and basis of consolidation

The Group financial statements incorporate the financial statements of Marks and Spencer plc and all its subsidiaries for the 52 weeks ended 2 April 2005.

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

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

### Turnover

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

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

### Operating leases

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

### Pensions

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

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

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

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

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

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

### Goodwill

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

### Fixed assets

#### a Capitalised interest

Interest is not capitalised.

#### b Depreciation

Depreciation is provided to write off the cost or valuation of tangible fixed assets, less residual value, by equal annual instalments as follows:

- land: not depreciated;
- freehold and leasehold buildings over 50 years; depreciated to their estimated residual value over their estimated remaining economic lives;
- leasehold land and buildings under 50 years: over the remaining period of the lease;
- fit out: 10-25 years according to the estimated life of the asset; and
- fixtures, fittings and equipment: 3-15 years according to the estimated life of the asset.

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

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



# Notes to the financial statements continued

## 1 ACCOUNTING POLICIES continued

### c Land and buildings

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

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

### d Investment properties

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

### Current asset investments

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

### Stocks

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

### 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.

### Foreign currencies

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

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

### Deferred taxation

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

### Policies relating to discontinued operations

#### Loans and advances to customers

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

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

#### Long-term assurance business

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

# Notes to the financial statements continued

## 2 SEGMENTAL INFORMATION

### A Classes of business

During the year, the Group had two classes of business: Retailing and Financial Services. Financial Services activities were discontinued during the period.

	Turnover		Operating profit		Operating assets	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
<b>Retailing activities</b>						
Continuing operations:	<b>7,710.3</b>	7,971.5	<b>576.2</b>	767.3	<b>3,066.6</b>	3,071.5
Before exceptional operating charges			<b>667.6</b>	809.4		
Exceptional operating charges			<b>(91.4)</b>	(42.1)		
Acquired operations	-	-	<b>9.5</b>	-	<b>(2.8)</b>	-
<b>Discontinued operations<sup>1</sup></b>	<b>232.0</b>	330.0	<b>32.3</b>	56.6	-	601.2
<b>Total</b>	<b>7,942.3</b>	8,301.5	<b>618.0</b>	823.9	<b>3,063.8</b>	3,672.7
(Loss)/profit on sale of property and other fixed assets			<b>(0.4)</b>	18.7		
Profit on sale/closure of operations			<b>218.6</b>	-		
Net interest expense			<b>(104.1)</b>	(45.8)		
Other finance income/(charges)			<b>11.4</b>	(15.2)		
<b>Profit on ordinary activities before taxation</b>			<b>743.5</b>	781.6		
Net operating assets					<b>3,063.8</b>	3,672.7
Non-operating net (liabilities)/assets					<b>(518.8)</b>	854.1
<b>Net assets</b>					<b>2,545.0</b>	4,526.8

### B Geographical split

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

	Turnover		Operating profit		Operating assets	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
<b>United Kingdom</b>						
Continuing operations:	<b>7,034.7</b>	7,293.7	<b>511.2</b>	719.9	<b>2,869.2</b>	2,954.2
Before exceptional operating charges			<b>602.6</b>	762.0		
Exceptional operating charges			<b>(91.4)</b>	(42.1)		
Acquired operations	-	-	<b>9.5</b>	-	<b>(2.8)</b>	-
<b>Discontinued operations<sup>1</sup></b>	<b>232.0</b>	330.0	<b>32.3</b>	56.6	-	601.2
	<b>7,266.7</b>	7,623.7	<b>553.0</b>	776.5	<b>2,866.4</b>	3,555.4
<b>International Retail</b>	<b>675.6</b>	677.8	<b>65.0</b>	47.4	<b>197.4</b>	117.3
	<b>7,942.3</b>	8,301.5	<b>618.0</b>	823.9	<b>3,063.8</b>	3,672.7

<sup>1</sup>Discontinued operations relate entirely to Financial Services activities. Operating profit for Financial Services includes £1.6m (last year £9.3m) arising on Marks & Spencer Chargecard transactions. This fee is payable by UK Retail and has been deducted in arriving at UK Retail operating profit. Operating profit for the comparative period has been restated to reflect the results of the Bureau de Change being reclassified from UK Retail to be included within the Financial Services results.

<sup>2</sup>UK Retail turnover including VAT comprises Clothing £3,837.3m (last year £4,032.6m); Home £407.6m (last year £526.6m) and Foods £3,509.7m (last year £3,490.2m). VAT on UK Retail turnover was £719.9m (last year £755.7m).

<sup>3</sup>Turnover from continuing operations originates in the following geographical segments: United Kingdom £7,208.9m (last year £7,453.4m) and International £501.4m (last year £518.1m).

<sup>4</sup>The value of goods exported from the UK, including shipments to international subsidiaries, amounted to £319.9m (last year £293.0m).

Notes to the financial statements *continued*

## 3 OPERATING PROFIT

	2005			2004		
	Continuing operations <sup>1</sup> £m	Discontinued operations £m	Total £m	Continuing operations <sup>1</sup> £m	Discontinued operations £m	Total £m
<b>Turnover</b>	<b>7,710.3</b>	<b>232.0</b>	<b>7,942.3</b>	7,971.5	330.0	8,301.5
Cost of sales	(5,029.5)	(94.0)	(5,123.5)	(5,153.9)	(106.0)	(5,259.9)
<b>Gross profit</b>	<b>2,680.8</b>	<b>138.0</b>	<b>2,818.8</b>	2,817.6	224.0	3,041.6
Employee costs (see note 9)	(1,014.3)	(36.5)	(1,050.8)	(1,023.5)	(68.0)	(1,091.5)
Occupancy costs	(320.4)	(2.9)	(323.3)	(280.0)	(5.6)	(285.6)
Repairs, renewals and maintenance of fixed assets	(74.9)	(0.9)	(75.8)	(91.3)	(1.9)	(93.2)
Depreciation	(265.5)	(1.8)	(267.3)	(243.1)	(3.0)	(246.1)
Goodwill amortisation	(3.1)	-	(3.1)	-	-	-
Other costs <sup>2</sup>	(416.9)	(63.6)	(480.5)	(412.4)	(88.9)	(501.3)
Total net operating expenses <sup>3</sup>	(2,095.1)	(105.7)	(2,200.8)	(2,050.3)	(167.4)	(2,217.7)
<b>Operating profit</b>	<b>585.7</b>	<b>32.3</b>	<b>618.0</b>	767.3	56.6	823.9

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

<sup>1</sup>Included within continuing operations is operating profit derived from acquisitions and exceptional charges as analysed below:

	2005		2004	
	Acquired operations £m	Exceptional charges £m	Acquired operations £m	Exceptional charges £m
<b>Turnover</b>	-	-	-	-
Cost of sales	17.3	(3.3)	-	-
<b>Gross profit</b>	17.3	(3.3)	-	-
Employee costs (see note 9)	(4.0)	(7.2)	-	(24.5)
Occupancy costs	(0.2)	(10.6)	-	(5.2)
Repairs, renewals and maintenance of fixed assets	-	(0.3)	-	-
Depreciation	(0.1)	(15.1)	-	(4.2)
Goodwill amortisation	(3.1)	-	-	-
Other costs	(0.4)	(54.9)	-	(8.2)
Total net operating expenses	(7.8)	(88.1)	-	(42.1)
<b>Operating profit</b>	9.5	(91.4)	-	(42.1)

All turnover from acquired operations is to another group company. The reduction in cost of sales of £17.3m is attributable to the lower cost of purchases in the post-acquisition period.

<sup>2</sup>Included in 'Other costs' is the auditors' remuneration including expenses for audit and non-audit services as follows:

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
<b>Statutory audit services</b>				
Annual audit	1.0	1.0	0.5	0.5
<b>Non-audit related services</b>				
Further assurance services	1.5	0.1	1.5	0.1
Tax advisory services	0.4	0.9	0.3	0.8
Other services	0.2	0.4	0.2	0.1
	2.1	1.4	2.0	1.0

Included in the above are fees paid to the Group's auditors in the UK in relation to the sale of Financial Services of £0.5m, the acquisition of per una of £0.1m and Bid Defence of £0.8m. Of these costs, £1.2m is included within further assurance services and £0.2m within tax advisory services.

<sup>3</sup>Included in 'Total net operating expenses' are rentals under operating leases, comprising £3.9m for hire of plant and machinery (last year £4.1m) and £139.6m of other rental costs (last year £108.9m).

Notes to the financial statements continued

## 4 EXCEPTIONAL ITEMS

**A Exceptional operating charges**

	2005 £m	2004 £m
Head office relocation	8.8	19.6
Head office restructuring programme	6.3	22.5
Board restructure	8.4	–
Closure of Lifestore	29.3	–
Defence costs	38.6	–
	<b>91.4</b>	<b>42.1</b>

**B (Loss)/profit on sale of property and other fixed assets**

	2005 £m	2004 £m
(Loss)/profit on sale of property and other fixed assets	<b>(0.4)</b>	18.7

**C Profit on sale/closure of operations**

	2005 £m	2004 £m
Profit/(loss) arising on sale/closure	<b>208.9</b>	(26.8)
Release/utilisation of prior year provision	<b>9.7</b>	26.8
	<b>218.6</b>	–

	Financial Services £m	Continental Europe £m	Total £m
Net sale proceeds less net assets	208.9	–	208.9
Release of prior year provision	–	9.7	9.7
<b>Net profit on sale/closure of operations</b>	<b>208.9</b>	<b>9.7</b>	<b>218.6</b>

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

On 9 November 2004, the Group completed the sale of Marks and Spencer Retail Financial Services Holdings Limited to HSBC Holdings plc. The net sale proceeds were £533.6m (see note 27B) after accounting for a pre-sale dividend of £235.0m together with associated disposal costs. At the same time, the Group and HSBC entered into a relationship under which the Group will continue to share in the success of the business. Under this relationship, the Group will receive 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 period since 9 November 2004, the fees received were £16.4m.

In addition, the Group has also received £15.1m for costs incurred as part of the transition of M&S Money to HSBC and £1.1m for rent. The Group also conducts 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.

Notes to the financial statements continued

## 5 NET INTEREST EXPENSE

	2005		2004	
	£m	£m	£m	£m
Bank and other interest income	168.1		248.5	
Less: amounts included in turnover of Financial Services	(153.2)		(235.2)	
		14.9		13.3
Interest expenditure	(183.6)		(136.1)	
Less: interest charged to cost of sales of Financial Services	64.6		77.0	
		(119.0)		(59.1)
<b>Net interest expense</b>		<b>(104.1)</b>		<b>(45.8)</b>
Interest expenditure comprises:				
Amounts repayable within five years:				
Bank loans, overdrafts and other borrowings	(43.5)		(22.2)	
Syndicated bank facility	(7.8)		-	
Medium term notes	(64.6)		(68.1)	
Securitised loan notes	(1.4)		(1.2)	
		(117.3)		(91.5)
Amounts repayable after five years:				
Medium term notes	(47.2)		(24.8)	
Securitised loan notes	(19.1)		(19.8)	
		(66.3)		(44.6)
		<b>(183.6)</b>		<b>(136.1)</b>

## 6 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

## A Taxation charge for the period

	2005		2004	
	£m	£m	£m	£m
Current taxation				
UK corporation tax at 30% (last year 30%):				
Current year	114.9		205.7	
Prior years	(17.5)		(3.6)	
		97.4		202.1
Overseas taxation		6.0		3.7
Total current taxation		103.4		205.8
Deferred taxation (see note 22)				
Current year	44.0		26.0	
Prior years	10.4		(2.5)	
Total deferred taxation		54.4		23.5
		157.8		229.3

Included in the tax charge for the year is a credit of £18.2m (last year £12.7m credit) which is attributable to exceptional charges.

## B Taxation reconciliation

	2005	2004
	£m	£m
Profit before taxation	743.5	781.6
Taxation at the standard UK corporation tax rate of 30% (last year 30%)	223.1	234.5
Permanent differences	6.2	6.0
Capital allowances less than/(in excess of) depreciation	3.1	(1.8)
Other timing differences	(47.1)	(24.2)
Net effect of restructuring charges	-	1.9
Net effect of different rates of tax in overseas businesses	(8.1)	(7.0)
Adjustments to tax charge in respect of prior periods	(17.5)	(3.6)
Profit on sale of Financial Services	(61.8)	-
Other exceptional charges	5.5	-
Total current taxation	103.4	205.8

# Notes to the financial statements continued

## 7 PROFIT FOR THE FINANCIAL YEAR

The profit and loss account of the Company is not presented as part of these financial statements. A profit after tax of £919.7m (last year £511.2m) is dealt with in the financial statements of the Company.

## 8 DIVIDENDS

	2005 £m	2004 £m
Paid interim dividends of 81.1p per share (last year nil)	<b>2,311.4</b>	–
Proposed final dividend of 7.2p per share (last year 9.2p per share)	<b>205.2</b>	262.0
<b>Total dividend, 88.3p per share</b> (last year 9.2p per share)	<b>2,516.6</b>	262.0

## 9 EMPLOYEES

### A Aggregate remuneration

The aggregate remuneration and associated costs of Group employees were:

	2005			2004		
	Continuing operations <sup>1</sup> £m	Discontinued operations £m	Total £m	Continuing operations <sup>1</sup> £m	Discontinued operations £m	Total £m
Wages and salaries	821.9	27.3	849.2	815.6	52.7	868.3
Social security costs	56.2	2.0	58.2	52.9	2.9	55.8
Pension costs (see note 10)	100.7	2.5	103.2	118.4	5.4	123.8
Employee welfare and other personnel costs	35.5	4.7	40.2	36.6	7.0	43.6
<b>Employee costs</b>	<b>1,014.3</b>	<b>36.5</b>	<b>1,050.8</b>	<b>1,023.5</b>	<b>68.0</b>	<b>1,091.5</b>

<sup>1</sup>Included within continuing operations is operating profit derived from acquisitions and exceptional items as analysed below:

	2005		2004	
	Acquired operations £m	Exceptional charges/ (income) £m	Acquired operations £m	Exceptional charges/ (income) £m
Wages and salaries	3.2	15.0	–	23.0
Social security costs	0.3	0.9	–	0.1
Pension costs (see note 10)	0.1	(11.0)	–	–
Employee welfare and other personnel costs	0.4	2.3	–	1.4
<b>Employee costs</b>	<b>4.0</b>	<b>7.2</b>	<b>–</b>	<b>24.5</b>

### B Average number of employees

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

		2005	2004
UK stores	Management and supervisory categories	<b>4,863</b>	4,901
	Other	<b>56,269</b>	55,526
UK head office	Management and supervisory categories	<b>2,525</b>	2,755
	Other	<b>807</b>	919
Acquired operations		<b>173</b>	–
Overseas		<b>4,399</b>	4,381
Discontinued operations		<b>1,514</b>	1,619
		<b>70,550</b>	70,101

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 46,962 (last year 45,222) and for discontinued operations 1,340 (last year 1,432). Comparatives for UK store staffing have been recategorised to reflect the reclassification of divisional staff.

### C United Kingdom Share Incentive Plan

The Company adopted the free share element of the new all-employee Share Incentive Plan, which is approved by the Inland Revenue. This is a discretionary plan and the Company decides each year whether an award is to be made, depending upon the year-end profits. No award will be made in July 2005 in respect of the financial year ended 2 April 2005. The last award under this scheme was made in July 2003.

Notes to the financial statements continued**10 RETIREMENT BENEFITS**

The Group adopted FRS 17 – 'Retirement Benefits' in full in 2004.

The total cost of retirement benefits for the Group was £84.8m (last year £139.0m) of which £103.2m (last year £123.8m) has been charged against operating profit, £7.0m (last year £nil) has been credited within profit on sale of operations and £11.4m (last year a charge of £15.2m) has been credited within other finance charges.

The charge against operating profit this year includes a £14.0m credit (of which £11.0m has been included within exceptional items) in respect of curtailment gains in the UK defined benefit pension scheme. Excluding these curtailment gains, the charge against operating profit would have been £117.2m.

Within the total Group retirement benefit cost of £84.8m, £74.0m relates to the UK defined benefit pension scheme. The Group also operates small defined benefit pension schemes in the Republic of Ireland and at Kings Super Markets in the USA. Retirement benefits also include a UK post-retirement healthcare scheme and unfunded pension plans.

Contributions to non-defined benefit pension schemes in the year were £6.5m (last year £2.3m).

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

**A 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 demographic assumptions were reviewed and updated at that time. 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 FRS 17 in order to assess the liabilities of the schemes at 2 April 2005:

	2005 %	2004 %	2003 %
Rate of increase in salaries	3.7	3.5	3.5
Rate of increase in pensions in payment <sup>1</sup>	2.6	2.7	2.5
Discount rate	5.5	5.6	5.5
Inflation rate	2.9	2.7	2.5
Long-term healthcare cost increases	7.9	7.7	7.5

<sup>1</sup>For 2005 it has been assumed that pension increases will not be above the increases guaranteed in the scheme rules.

**B Market value of assets and expected rates of return**

The market value of the assets in the Group defined benefit pension schemes and the expected long-term rates of return as at year end were:

	Expected long-term rate of return p.a.			Value		
	2005 %	2004 %	2003 %	2005 £m	2004 £m	2003 £m
UK equities	8.1	8.1	8.7	1,025.1	974.7	757.0
Overseas equities	8.4	8.6	9.0	1,065.1	1,011.4	777.2
Government bonds	4.8	4.8	4.6	1,249.0	833.4	500.2
Corporate bonds (Triple B or above)	5.5	5.6	5.5	503.3	483.3	561.1
Other	3.8	3.7	4.0	114.3	331.4	43.0
Total market value of assets <sup>1</sup>	6.7	6.8	7.3	3,956.8	3,634.2	2,638.5
Present value of scheme liabilities				(4,611.0)	(4,280.1)	(3,888.1)
Pension scheme deficit				(654.2)	(645.9)	(1,249.6)
Unfunded pension plans				(2.5)	(3.2)	(3.9)
Post-retirement healthcare				(19.3)	(20.4)	(24.7)
Total post-retirement liabilities				(676.0)	(669.5)	(1,278.2)
Less: related deferred tax asset				201.8	200.0	382.4
Net post-retirement liability				(474.2)	(469.5)	(895.8)

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

Notes to the financial statements continued**10 RETIREMENT BENEFITS** continued**C Analysis of the amount charged against profits**

	2005 £m	2004 £m
<b>Operating cost</b>		
Current service costs	117.2	123.8
Curtailment gain	(14.0)	–
	103.2	123.8
<b>Profit on sale/closure of operations</b>		
Curtailment gain on disposal of Financial Services	(7.0)	–
<b>Finance cost</b>		
Expected return on scheme assets	(248.9)	(196.9)
Interest on scheme liabilities	237.5	212.1
Net finance (income)/charges	(11.4)	15.2
Total cost of retirement benefits	84.8	139.0

**D Analysis of the amount recognised in the consolidated statement of total recognised gains and losses**

	2005 £m	2004 £m
Actual return less expected return on scheme assets	77.4	401.9
Experience losses arising on scheme liabilities	(24.0)	(30.3)
Changes in assumptions underlying the present value of scheme liabilities	(131.5)	(157.8)
Actuarial (loss)/gain recognised in the consolidated statement of total recognised gains and losses	(78.1)	213.8

**E Movements in liability during year**

	2005 £m	2004 £m
Post-retirement liability at beginning of year	(669.5)	(1,278.2)
Current service cost <sup>1</sup>	(117.2)	(123.8)
Curtailment gain	21.0	–
Cash contribution <sup>2, 3</sup>	156.4	533.7
Net finance income/(charges)	11.4	(15.2)
Actuarial (loss)/gain	(78.1)	213.8
Exchange movement	–	0.2
Post-retirement liability at end of year	(676.0)	(669.5)

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

<sup>2</sup>The cash contribution for 2005 includes an additional contribution of £64.0m paid into the UK defined benefit pension scheme in March 2005. The cash contribution for 2004 of £533.7m includes £400.0m paid to the UK defined benefit pension scheme in respect of the deficit identified at the time of the full actuarial valuation of the scheme at 31 March 2003.

<sup>3</sup>Future contributions to the UK scheme will be made at the rate of 15.8% of pensionable salaries up to the next full actuarial valuation.

**F History of experience gains and losses**

	2005 £m	2004 £m	2003 £m
Actual return less expected return on scheme assets:			
Amount	77.4	401.9	(713.3)
% of scheme assets at end of year	2.0%	11.1%	(27.0%)
Experience (losses)/gains arising on scheme liabilities:			
Amount	(24.0)	(30.3)	16.0
% of scheme liabilities at end of year	(0.5%)	(0.7%)	0.4%
Total amount recognised in statement of total recognised gains and losses:			
Amount	(78.1)	213.8	(893.4)
% of scheme liabilities at end of year	(1.7%)	5.0%	(23.0%)



# Notes to the financial statements continued

## 11 DIRECTORS

### A Emoluments

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

	2005 £000	2004 £000
Highest paid director	2,119	693
Aggregate emoluments of other directors	3,812	3,079
Termination payments	3,651	754
Gains made on exercise of options	631	11

Five directors (last year six) accrued retirement benefits under a defined benefit scheme. Two directors (last year two) realised a gain on the exercise of share options.

### B Transactions with directors

During the year, transactions entered into by Marks and Spencer Financial Services plc with directors and connected persons resulted in the following outstanding balances on their combined credit and loyalty cards as at 2 April 2005:

	2005	2004
	No. of persons	No. of persons
	Total balances £	Total balances £
	-	6
	-	31,209

Following the disposal during the year of Marks and Spencer Financial Services plc, the directors and connected persons had no balances with any subsidiary of the Group at 2 April 2005.

Interest free loans were made under the employees' loan scheme by the Company to Graham Oakley and Maurice Helfgott prior to their appointments as directors. As at 2 April 2005 the loans to Graham Oakley and Maurice Helfgott were £nil (last year £4,956) and £nil (last year £40,630) respectively.

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

## 12 INTANGIBLE FIXED ASSETS

	Group Goodwill £m
<b>Cost</b>	
Additions	125.5
<b>At 2 April 2005</b>	<b>125.5</b>
<b>Accumulated amortisation</b>	
Charge for the period	3.1
<b>At 2 April 2005</b>	<b>3.1</b>
<b>Net book value at 2 April 2005</b>	<b>122.4</b>

On 4 October 2004, the Company acquired Per Una Group Limited for a consideration of £125.9m (see note 27A). The goodwill arising on the acquisition of Per Una Group Limited is being amortised on a straight-line basis over a period of 20 years.

Notes to the financial statements continued

## 13 TANGIBLE FIXED ASSETS

## A Tangible fixed assets

	Group			
	Land & buildings £m	Fixtures, fittings & equipment £m	Assets in the course of construction £m	Total £m
<b>Cost or valuation</b>				
At 4 April 2004	2,269.2	3,156.8	50.4	5,476.4
Additions	26.6	177.8	15.2	219.6
Transfers	14.3	29.9	(44.2)	-
Revaluation surplus	4.0	-	-	4.0
Disposals	(129.7)	(152.5)	-	(282.2)
Disposal of subsidiaries	-	(50.0)	-	(50.0)
Differences on exchange	1.7	0.1	0.2	2.0
<b>At 2 April 2005</b>	<b>2,186.1</b>	<b>3,162.1</b>	<b>21.6</b>	<b>5,369.8</b>
<b>Accumulated depreciation</b>				
At 4 April 2004	117.3	1,861.5	-	1,978.8
Depreciation for the year	14.0	253.3	-	267.3
Disposals	(4.1)	(150.6)	-	(154.7)
Disposal of subsidiaries	-	(37.5)	-	(37.5)
Differences on exchange	-	(0.2)	-	(0.2)
<b>At 2 April 2005</b>	<b>127.2</b>	<b>1,926.5</b>	<b>-</b>	<b>2,053.7</b>
<b>Net book value at 2 April 2005</b>	<b>2,058.9</b>	<b>1,235.6</b>	<b>21.6</b>	<b>3,316.1</b>
At 3 April 2004	2,151.9	1,295.3	50.4	3,497.6

	Company			
	Land & buildings £m	Fixtures, fittings & equipment £m	Assets in the course of construction £m	Total £m
<b>Cost or valuation</b>				
At 4 April 2004	1,608.0	2,891.6	43.3	4,542.9
Additions	22.2	147.1	12.9	182.2
Transfers	14.3	29.0	(43.3)	-
Disposals	(49.3)	(123.8)	-	(173.1)
<b>At 2 April 2005</b>	<b>1,595.2</b>	<b>2,943.9</b>	<b>12.9</b>	<b>4,552.0</b>
<b>Accumulated depreciation</b>				
At 4 April 2004	96.8	1,693.9	-	1,790.7
Depreciation for the year	11.3	236.2	-	247.5
Disposals	(0.2)	(127.7)	-	(127.9)
<b>At 2 April 2005</b>	<b>107.9</b>	<b>1,802.4</b>	<b>-</b>	<b>1,910.3</b>
<b>Net book value at 2 April 2005</b>	<b>1,487.3</b>	<b>1,141.5</b>	<b>12.9</b>	<b>2,641.7</b>
At 3 April 2004	1,511.2	1,197.7	43.3	2,752.2

Notes to the financial statements continued**13 TANGIBLE FIXED ASSETS** continued**Analysis of land and buildings**

	Freehold £m	Long leasehold £m	Short leasehold £m	Group Total £m
At valuation	607.6	379.1	12.2	998.9
At cost	719.3	392.2	75.7	1,187.2
	1,326.9	771.3	87.9	2,186.1
Accumulated depreciation	(62.5)	(12.9)	(51.8)	(127.2)
<b>Net book value at 2 April 2005</b>	<b>1,264.4</b>	<b>758.4</b>	<b>36.1</b>	<b>2,058.9</b>
At 3 April 2004	1,349.7	779.8	22.4	2,151.9

	Freehold £m	Long leasehold £m	Short leasehold £m	Company Total £m
At valuation	285.6	358.9	12.2	656.7
At cost	602.6	260.2	75.7	938.5
	888.2	619.1	87.9	1,595.2
Accumulated depreciation	(24.5)	(20.2)	(63.2)	(107.9)
<b>Net book value at 2 April 2005</b>	<b>863.7</b>	<b>598.9</b>	<b>24.7</b>	<b>1,487.3</b>
At 3 April 2004	892.7	596.2	22.3	1,511.2

**B Investment properties**

Freehold land and buildings include investment properties as follows:

	Group and Company £m
<b>Cost or valuation</b>	
At 4 April 2004	37.8
Additions	0.8
Revaluation surplus	4.0
<b>At 2 April 2005</b>	<b>42.6</b>

The freehold properties were valued as at 2 April 2005 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 at an aggregate value of £42.6m. All valuations were carried out in accordance with the RICS Appraisal and Valuation Standards.

DTZ Debenham Tie Leung have been carrying out valuations for the Group for a continuous period since 2002. They provide and have provided valuations of the Group's occupational properties and, in addition, have provided ad hoc property advice in connection with various aspects of the Group's property portfolio. DTZ Debenham Tie Leung is a wholly-owned subsidiary of DTZ Holdings Plc (the 'DTZ Group'). In the DTZ Group's financial year to 30 April 2004, the proportion of total fees payable by Marks & Spencer to the total fee income of the DTZ Group was less than 5%.

**C Tangible fixed assets at cost**

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

# Notes to the financial statements continued

## 13 TANGIBLE FIXED ASSETS continued

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

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
At valuation at 31 March 1975 <sup>1</sup>	225.6	227.1	164.5	164.5
At cost	1,330.6	1,402.0	714.0	729.8
	1,556.2	1,629.1	878.5	894.2
Accumulated depreciation	(153.6)	(146.3)	(145.3)	(134.4)
<b>Closing net book value</b>	<b>1,402.6</b>	<b>1,482.8</b>	<b>733.2</b>	<b>759.8</b>

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

## 14 FIXED ASSET INVESTMENTS

### A Investments

	Group		
	Joint venture <sup>1</sup> £m	Other investments <sup>2</sup> £m	Total £m
<b>Cost</b>			
At 4 April 2004	8.5	21.7	30.2
Disposals	–	(1.3)	(1.3)
Share of joint venture's profits	0.2	–	0.2
<b>At 2 April 2005</b>	<b>8.7</b>	<b>20.4</b>	<b>29.1</b>
<b>Accumulated provision and amortisation</b>			
At 4 April 2004	–	16.2	16.2
Provision for impairment	–	0.2	0.2
<b>At 2 April 2005</b>	<b>–</b>	<b>16.4</b>	<b>16.4</b>
<b>Net book value at 2 April 2005</b>	<b>8.7</b>	<b>4.0</b>	<b>12.7</b>
At 3 April 2004	8.5	5.5	14.0

<sup>1</sup>The joint venture represents a 50% equity interest in Hedge End Park Limited, a property investment company incorporated in Great Britain. The partner in the joint venture is J Sainsbury plc. The Group's investment in the joint venture includes accumulated reserves of £2.6m (last year £2.4m).

<sup>2</sup>Other investments include listed securities held by a subsidiary and shares held for employee share schemes. The difference between their net book value and market value is negligible. The shares held for employee share schemes include 1,526,270 (last year 1,796,970) shares held in employee trusts for the Restricted Share Plan and Long-term Incentive Scheme.

	Company				
	Shares in <sup>1</sup> Group undertakings £m	Loans in Group undertakings £m	Joint venture £m	Other investments £m	Total £m
<b>Cost</b>					
At 4 April 2004	669.1	42.5	6.1	5.8	723.5
Additions	143.0	–	–	0.1	143.1
Disposals	(83.2)	(35.0)	–	(0.6)	(118.8)
<b>At 2 April 2005</b>	<b>728.9</b>	<b>7.5</b>	<b>6.1</b>	<b>5.3</b>	<b>747.8</b>
<b>Accumulated provision and amortisation</b>					
At 4 April 2004	292.0	–	–	1.8	293.8
Provision for impairment	–	–	–	(0.1)	(0.1)
<b>At 2 April 2005</b>	<b>292.0</b>	<b>–</b>	<b>–</b>	<b>1.7</b>	<b>293.7</b>
<b>Net book value at 2 April 2005</b>	<b>436.9</b>	<b>7.5</b>	<b>6.1</b>	<b>3.6</b>	<b>454.1</b>
At 3 April 2004	377.1	42.5	6.1	4.0	429.7

<sup>1</sup>Acquisitions and disposals in the period primarily reflect the acquisition of Per Una Group Limited (see note 12 and 27A) and the disposal of Marks and Spencer Retail Finance Services Holdings Limited (see note 27B).

Notes to the financial statements *continued***14 FIXED ASSET INVESTMENTS** *continued***B Principal subsidiary undertakings**

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

	Principal activity	Country of incorporation and operation	Proportion of voting rights and shares held by:	
			Company	A subsidiary
Marks and Spencer International Holdings Limited	Holding Company	Great Britain	100%	–
Marks and Spencer (Nederland) BV	Holding Company	The Netherlands	–	100%
Marks & Spencer Finance Inc	Holding Company	United States	100%	–
Marks and Spencer (Ireland) Limited	Retailing	Republic of Ireland	–	100%
Kings Super Markets Inc	Retailing	United States	–	100%
Marks and Spencer (Asia Pacific) Limited	Retailing	Hong Kong	–	100%
M&S Card Services Limited	Credit Card Handling	Great Britain	100%	–
M.S. Insurance L.P.	Financial Services	Guernsey	–	100%
M.S. II Insurance L.P.	Financial Services	Guernsey	–	100%
Marks and Spencer Investments Limited	Finance	Great Britain	–	100%
St Michael Finance plc	Finance	Great Britain	100%	–
Marks and Spencer Finance plc	Finance	Great Britain	100%	–
Amethyst Leasing (Properties) Limited	Finance	Great Britain	–	100%
Amethyst Finance plc	Finance	Great Britain	–	– <sup>1</sup>
Marks and Spencer Chester Limited	Property investment	Great Britain	–	100%
Marks and Spencer SCM Limited	Procurement	Great Britain	100%	–
Per Una Group Limited	Procurement	Great Britain	100%	–
The Zip Project Limited	Procurement	Great Britain	100%	–

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

<sup>1</sup>Amethyst Finance plc is a wholly-owned subsidiary of a non-group company but has been consolidated in these accounts as a quasi-subsidary in accordance with FRS 5. The quasi-subsidary has net assets of £0.1m (last year £nil), the material balances being securitised loan notes of £322.9m (last year £325.6m) offset by a receivable from a group company.

**15 DEBTORS**

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
<b>A Amounts receivable within one year</b>				
Trade debtors	27.8	30.5	15.3	30.1
Customer advances	–	740.8	–	–
Amounts owed by Group undertakings	2,100.1	2,170.6	2,391.6	3,181.9
Other debtors <sup>1</sup>	44.7	43.3	39.1	22.3
Deferred tax asset (see note 22)	–	3.5	–	–
Prepayments and accrued income <sup>2</sup>	139.4	152.8	134.6	139.8
	<b>2,312.0</b>	<b>3,141.5</b>	<b>2,580.6</b>	<b>3,374.1</b>
<b>B Amounts receivable after more than one year<sup>3</sup></b>				
Customer advances	–	1,711.6	–	–
Other debtors <sup>1</sup>	6.1	8.8	4.2	6.7
Prepayments and accrued income <sup>2</sup>	0.1	58.9	–	–
	<b>6.2</b>	<b>1,779.3</b>	<b>4.2</b>	<b>6.7</b>

<sup>1</sup>Other debtors include interest-free loans to a director and officer of the Company of £nil (last year £45,586).

<sup>2</sup>Prepayments and accrued income include £65.6m (last year £76.0m) in respect of the UK pension scheme. In addition, prepayments include £nil (last year £61.3m) relating to the long-term assurance business.

<sup>3</sup>Amounts receivable after more than one year include £2.0m (last year £61.1m) of non-financial assets which have been excluded from the analysis in note 18.

# Notes to the financial statements continued

## 16 CURRENT ASSET INVESTMENTS

	Group	
	2005 £m	2004 £m
Listed investments:		
Government securities	–	86.9
Listed in the United Kingdom	51.0	191.8
Listed overseas	11.4	42.6
Unlisted investments	4.6	4.6
	<b>67.0</b>	<b>325.9</b>

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

## 17 CASH AT BANK AND IN HAND

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

## 18 ANALYSIS OF FINANCIAL ASSETS

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

### A Interest rate and currency analysis

	2005				2004			
Currency	Fixed rate £m	Floating rate £m	Non-interest bearing £m	Total £m	Fixed rate £m	Floating rate £m	Non-interest bearing £m	Total £m
Sterling	38.8	118.5	74.5	231.8	624.2	1,633.9	110.5	2,368.6
US dollar	–	12.9	7.2	20.1	–	15.0	3.7	18.7
Euro	–	5.2	12.3	17.5	–	19.6	6.3	25.9
Other	–	9.3	5.4	14.7	–	18.5	8.6	27.1
	<b>38.8</b>	<b>145.9</b>	<b>99.4</b>	<b>284.1</b>	<b>624.2</b>	<b>1,687.0</b>	<b>129.1</b>	<b>2,440.3</b>

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

### B Analysis of fixed interest rate assets

	2005 Weighted average interest rate %	2004 Weighted average interest rate %	2005 Weighted average period for which rate is fixed Years	2004 Weighted average period for which rate is fixed Years
Currency				
Sterling	4.8	5.6	0.3	2.5

### C Analysis of financial assets

	Group	
	2005 £m	2004 £m
Current asset investments	67.0	325.9
Cash at bank and in hand	212.6	394.7
Customer advances falling due in more than one year	–	1,711.6
Fixed asset investments	0.3	1.5
Other amounts receivable after more than one year	4.2	6.6
Financial assets as defined by FRS 13	<b>284.1</b>	<b>2,440.3</b>
Other amounts receivable in less than one year	<b>2,100.1</b>	<b>2,911.4</b>
Financial assets including short-term customer advances	<b>2,384.2</b>	<b>5,351.7</b>

Notes to the financial statements *continued***19 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Bank loans, overdrafts and commercial paper <sup>1</sup>	212.9	126.0	68.3	70.4
Syndicated bank facility	200.0	–	200.0	–
Medium term notes (see note 21B)	58.3	216.5	50.0	–
Securitised loan notes (see note 21B)	3.2	2.7	–	–
Trade creditors	195.3	210.2	159.4	166.0
Amounts owed to Group undertakings	–	–	861.0	211.7
Taxation	14.9	79.7	(20.8)	31.3
Social security and other taxes	40.4	43.1	29.3	35.7
Other creditors <sup>2</sup>	178.7	297.7	148.4	165.4
Customer deposits	–	439.3	–	–
Accruals and deferred income	260.5	308.6	224.7	227.7
Proposed final dividend (see note 8)	205.2	262.0	205.2	262.0
	<b>1,369.4</b>	<b>1,985.8</b>	<b>1,925.5</b>	<b>1,170.2</b>

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

<sup>2</sup>Other creditors include £2.3m (last year £32.6m) which is treated as a financial liability in note 21.

**20 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Medium term notes (see note 21B)	1,588.6	1,980.0	1,476.8	1,525.8
Securitised loan notes (see note 21B)	310.4	313.3	0.1	0.1
Other creditors <sup>1,2</sup>	20.7	226.3	18.2	4.4
	<b>1,919.7</b>	<b>2,519.6</b>	<b>1,495.1</b>	<b>1,530.3</b>

<sup>1</sup>Other creditors include £17.8m (last year £182.1m) of non-financial liabilities which have been excluded from the analysis in note 21B.

<sup>2</sup>Other creditors include £nil (last year £179.5m) in relation to the long-term assurance business.

**21 ANALYSIS OF FINANCIAL LIABILITIES****A Interest rate and currency analysis**

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

Currency	2005			Group 2004		
	Fixed rate £m	Floating rate £m	Total £m	Fixed rate £m	Floating rate £m	Total £m
Sterling	1,086.7	1,283.4	2,370.1	1,731.6	971.7	2,703.3
US dollar	–	8.3	8.3	–	8.3	8.3
Euro	–	0.2	0.2	–	3.6	3.6
Other	–	–	–	–	0.1	0.1
	<b>1,086.7</b>	<b>1,291.9</b>	<b>2,378.6</b>	<b>1,731.6</b>	<b>983.7</b>	<b>2,715.3</b>

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% (last year 5.5%) and the weighted average time for which the rate is fixed is 11.4 years (last year 8.6 years).

Notes to the financial statements continued**21 ANALYSIS OF FINANCIAL LIABILITIES** continued**B Maturity of financial liabilities**

	2005 £m	Group 2004 £m
Repayable within one year or on demand:		
Bank loans, overdrafts and commercial paper	212.9	126.0
Syndicated bank facility	200.0	–
Medium term notes	58.3	216.5
Securitised loan notes	3.2	2.7
Other creditors	2.3	32.6
	476.7	377.8
Repayable between one and two years:		
Medium term notes	820.7	309.8
Securitised loan notes	3.5	3.2
Other creditors	2.2	22.3
	826.4	335.3
Repayable between two and five years:		
Medium term notes	–	903.4
Securitised loan notes	12.5	11.4
Other creditors	0.7	21.9
	13.2	936.7
Repayable in five years or more:		
Medium term notes <sup>1</sup>	767.9	766.8
Securitised loan notes <sup>2</sup>	294.4	298.7
	1,062.3	1,065.5
	2,378.6	2,715.3

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

<sup>2</sup>Relates to three separate bonds securitised against 45 of the Group's properties. Two are repayable in instalments. The gross amounts before finance costs are £54.6m and £131.0m 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 £140.0m before finance costs. It relates to a fixed rate bond at a rate of 6.282% and is repayable in full on 12 December 2026.

**C Borrowing facilities**

At 2 April 2005, the Group had a five-year syndicated bank facility of £1.2bn, of which £200m had been drawn, and an undrawn committed facility of £60m (last year £405m) linked to its commercial paper programme, which is subject to annual review. The Group also has a number of undrawn uncommitted facilities available to it. At 2 April 2005, these amounted to £190m (last year £415m), all of which are due to be reviewed within a year.



Notes to the financial statements *continued*

## 22 PROVISIONS FOR LIABILITIES AND CHARGES

	UK restructuring <sup>1</sup> £m	Overseas restructuring <sup>2</sup> £m	Deferred tax <sup>3</sup> £m	Group Total £m
At 4 April 2004	32.2	17.1	–	49.3
Transfer from deferred tax asset (see note 15A)	–	–	(3.5)	(3.5)
Provided in the period	30.4	–	54.4	84.8
Net closure profit in Continental Europe	–	1.2	–	1.2
Utilised during the period	(26.0)	–	–	(26.0)
Movement in net post-retirement liability	–	–	(21.2)	(21.2)
Disposal of subsidiaries	–	–	5.8	5.8
Released	(1.4)	(9.7)	–	(11.1)
Exchange differences	–	1.1	–	1.1
<b>At 2 April 2005</b>	<b>35.2</b>	<b>9.7</b>	<b>35.5</b>	<b>80.4</b>

	UK restructuring <sup>1</sup> £m	Deferred tax <sup>3</sup> £m	Company Total £m
At 4 April 2004	30.7	1.3	32.0
Provided in the period	26.0	54.8	80.8
Utilised during the period	(26.0)	(21.4)	(47.4)
Movement in net post-retirement liability	–	–	–
Released	(1.4)	–	(1.4)
<b>At 2 April 2005</b>	<b>29.3</b>	<b>34.7</b>	<b>64.0</b>

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

<sup>2</sup>The provision for Overseas restructuring costs primarily relates to further closure costs in respect of the Group's discontinued operations in Continental Europe.

<sup>3</sup>The deferred tax balance comprises the following:

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Accelerated capital allowances	76.4	72.3	75.5	76.6
Pension prepayment	(40.2)	(67.2)	(40.2)	(67.2)
Other short-term timing differences	(0.7)	(8.6)	(0.6)	(8.1)
Deferred tax liability/(asset)	35.5	(3.5)	34.7	1.3

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

The Group is claiming UK tax relief for losses incurred by some of its current and former European subsidiaries. The case was heard by the European Court of Justice (ECJ) on 1 February 2005 and the judgement of the ECJ should be received later this year. No asset has been recognised in respect of this claim.

# Notes to the financial statements continued

## 23 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### A Fair values of financial instruments

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

Assets/(liabilities)	2005		Group 2004	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Customer advances falling due in more than one year	–	–	1,711.6	1,712.3
Current asset investments <sup>1</sup>	67.0	67.0	325.9	325.9
Fixed asset investments	0.3	0.3	1.5	1.5
Cash at bank and in hand <sup>1</sup>	212.6	212.6	394.7	394.7
Other financial assets due after more than one year	4.2	4.2	6.6	6.6
Borrowings due within one year <sup>2</sup>	(476.7)	(476.4)	(377.8)	(372.0)
Financial liabilities due after more than one year <sup>2</sup>	(1,901.9)	(1,935.8)	(2,337.5)	(2,392.6)
Cross currency swaps <sup>2</sup>	–	56.3	–	24.5
Interest rate swaps <sup>2</sup>	–	3.7	–	11.9
Forward foreign currency contracts <sup>2</sup>	–	(0.4)	–	3.8

<sup>1</sup>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.

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

### B Hedges of future transactions

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

	2005			2004		
	Gains £m	Losses £m	Net total £m	Gains £m	Losses £m	Net total £m
Unrecognised gains/(losses) on hedges at beginning of the period	74.3	(34.1)	40.2	114.8	(57.6)	57.2
(Gains)/losses arising in previous years recognised in the period	(12.7)	25.8	13.1	(26.1)	12.5	(13.6)
Gains/(losses) in previous years not recognised in the period	61.6	(8.3)	53.3	88.7	(45.1)	43.6
Gains/(losses) arising in the period	12.8	(6.5)	6.3	(14.4)	11.0	(3.4)
<b>Unrecognised gains/(losses) on hedges at end of the period</b>	<b>74.4</b>	<b>(14.8)</b>	<b>59.6</b>	<b>74.3</b>	<b>(34.1)</b>	<b>40.2</b>
Of which:						
Gains/(losses) expected to be recognised within one year	2.9	(3.6)	(0.7)	10.4	(12.1)	(1.7)
Gains/(losses) expected to be recognised after one year	71.5	(11.2)	60.3	63.9	(22.0)	41.9

### C Currency risk

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

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

### D Treasury policy and financial risk management

The Board approves treasury policies and senior management directly control day-to-day operations. The Board delegates certain responsibilities to the treasury committee, comprising one executive director, one non-executive director, the director of Corporate Finance, the Group Treasurer and the director, Financial Services. The treasury committee is empowered to take decisions, as necessary, within that delegated authority.

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.

Notes to the financial statements *continued***23 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT** *continued*

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

It has been, and remains, the Group's policy that no trading in financial instruments shall be undertaken, except where financial constraints necessitate the need to liquidate any outstanding investments. The main financial risks faced by the Group relate to interest rates, foreign exchange rates, liquidity and counterparty risks. The policies and strategies for managing these risks are summarised as follows:

**(a) Interest rate risk**

Interest rate risk in respect of debt on the retail balance sheet is reviewed on a regular basis. At the balance sheet date, interest obligations in respect of the property securitisation and the two Public Bond issues in Sterling were at fixed rates.

**(b) Foreign currency risk**

Currency exposure arising from exports from the UK to overseas subsidiaries is managed by using forward currency contracts, out to 15 months forward, to hedge between 80% and 100% of sales. Imports are primarily contracted in Sterling but, where relevant, imports arising in a currency other than Sterling are fully hedged using forward contracts. The Group is increasing the proportion of imports contracted in local currencies and a policy is in place for the hedging of these exposures, principally using forward currency contracts.

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.

**(c) Liquidity risk**

The objective is to ensure a mix of funding methods offering flexibility and cost effectiveness to match the needs of the Group. Operating subsidiaries are financed by a combination of retained profits, bank borrowings, commercial paper, medium-term note issuance and securitised loan notes. Commercial paper issuance and short-term borrowings are backed by committed bank facilities totalling £1,260m.

**(d) Counterparty risk**

The objective is to reduce the risk of loss arising from default by counterparties. The risk is managed by using a number of banks and allocating each a credit limit according to credit rating criteria. These limits are reviewed regularly by senior management. Dealing mandates and derivative agreements are agreed with the banks prior to deals being arranged.

The details of derivatives and other financial instruments required by FRS 13 – 'Derivatives and Other Financial Instruments: Disclosures', are shown in notes 18, 21, 23A and 23B to the financial statements.

**24 CALLED UP SHARE CAPITAL**

	2005 £m	2004 £m
<b>Authorised:</b>		
3,200,000,000 ordinary shares of 25p each (last year 3,200,000,000)	800.0	800.0
<b>Allotted, called up and fully paid:</b>		
2,850,019,827 ordinary shares of 25p each (last year 2,850,019,827)	712.5	712.5

**25 SHAREHOLDERS' FUNDS**

	Ordinary shares £m	Share premium account £m	Capital redemption reserve £m	Revaluation reserve £m	Profit <sup>1,2</sup> and loss account £m	Group Total £m
At 4 April 2004	712.5	386.1	8.0	356.4	3,063.8	4,526.8
Revaluation of investment properties	–	–	–	4.0	–	4.0
Revaluation surplus realised on disposals	–	–	–	(28.6)	28.6	–
Revaluation element of depreciation charge	–	–	–	(1.0)	1.0	–
Actuarial loss on post-retirement liability	–	–	–	–	(55.1)	(55.1)
Exchange differences on foreign currency translation	–	–	–	–	0.2	0.2
Loss for the period	–	–	–	–	(1,930.9)	(1,930.9)
<b>At 2 April 2005</b>	<b>712.5</b>	<b>386.1</b>	<b>8.0</b>	<b>330.8</b>	<b>1,107.6</b>	<b>2,545.0</b>

<sup>1</sup>Included in the profit and loss account reserve is a pension reserve of £474.2m (last year £469.5m) which equates to the net post-retirement liability under FRS 17 (see note 10).

<sup>2</sup>Cumulative goodwill of £62.0m (last year £62.0m) arising on the acquisition of subsidiaries has been written off against the profit and loss account reserve. As permitted by FRS 10, this goodwill has not been reinstated in the balance sheet and remains written off to reserves.

Notes to the financial statements continued25 SHAREHOLDERS' FUNDS continued

						Company
	Ordinary shares £m	Share premium account £m	Capital redemption reserve £m	Revaluation reserve £m	Profit <sup>1</sup> and loss account £m	Total £m
At 4 April 2004	712.5	386.1	8.0	285.0	2,395.2	3,786.8
Revaluation surplus realised on disposals	-	-	-	(45.7)	45.7	-
Revaluation element of depreciation charge	-	-	-	(1.0)	1.0	-
Actuarial loss on post-retirement liability	-	-	-	-	(52.5)	(52.5)
Loss for the period	-	-	-	-	(1,596.9)	(1,596.9)
<b>At 2 April 2005</b>	<b>712.5</b>	<b>386.1</b>	<b>8.0</b>	<b>238.3</b>	<b>792.5</b>	<b>2,137.4</b>

<sup>1</sup>Included in the profit and loss account reserve is a pension reserve of £467.9m (last year £465.7m) which equates to the net post-retirement liability under FRS 17 (see note 9).

## 26 RECONCILIATION OF MOVEMENTS IN GROUP SHAREHOLDERS' FUNDS

	Group	
	2005 £m	2004 £m
Profit attributable to shareholders	585.7	552.3
Dividends	(2,516.6)	(262.0)
	(1,930.9)	290.3
Other recognised gains/(losses) relating to the year	4.2	(28.6)
Actuarial (losses)/gains net of taxation	(55.1)	150.4
New share capital subscribed	-	5.6
<b>Net (decrease)/increase in shareholders' funds</b>	<b>(1,981.8)</b>	<b>417.7</b>
Opening shareholders' funds	4,526.8	4,109.1
<b>Closing shareholders' funds</b>	<b>2,545.0</b>	<b>4,526.8</b>

## 27 ACQUISITION AND DISPOSALS

## A Acquisition of per una

As described in note 12, on 4 October 2004 the Group acquired the per una group of companies for a total consideration of £125.9m.

	£m
<b>Net assets acquired<sup>1</sup></b>	<b>0.4</b>
Goodwill	125.5
<b>Consideration</b>	<b>125.9</b>
<b>Consideration satisfied by:</b>	
Cash	125.9

<sup>1</sup>Net assets acquired include £1.4m of assets offset by £1.0m of liabilities. There were no fair value adjustments. The Group has 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 are 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.

Notes to the financial statements *continued*27 ACQUISITION AND DISPOSALS *continued***B Disposal of Marks and Spencer Retail Financial Services Holdings Limited**

As described in note 4C, on 9 November 2004 the Group disposed of its interest in Marks and Spencer Retail Financial Services Holdings Limited to HSBC Holdings plc.

	£m
Tangible fixed assets	12.5
Debtors	2,517.3
Prepayments	71.6
Cash and current asset investments	225.4
Bank loans and overdrafts	(5.6)
Creditors: amounts falling due within one year	(1,995.1)
Creditors: amounts falling due after more than one year	(501.4)
<b>Net assets disposed<sup>1</sup></b>	<b>324.7</b>
Profit on disposal (see note 4C)	208.9
<b>Disposal proceeds (net of costs)<sup>1</sup></b>	<b>533.6</b>

<sup>1</sup>Profit on disposal is analysed as follows:

	£m	£m
Agreed sale proceeds (net of costs)	768.6	
Less: pre-sale dividend	(235.0)	
<b>Net proceeds</b>		<b>533.6</b>
Net assets (before pre-sale dividend)	559.7	
Less: pre-sale dividend	(235.0)	
<b>Net assets disposed</b>		<b>324.7</b>
<b>Profit on disposal</b>		<b>208.9</b>

## 28 COMMITMENTS AND CONTINGENT LIABILITIES

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
<b>A</b> Commitments in respect of properties in the course of development	<b>34.5</b>	74.9	<b>34.2</b>	58.6
<b>B</b> Guarantees by the Company in respect of debt instruments issued by subsidiaries	-	-	<b>289.8</b>	761.4

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

**D Other material contracts:**

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

**E Commitments under operating leases:**

At 2 April 2005, the Group had annual commitments under operating leases as follows:

	Group			Company
	2005		2004	
	Land & buildings £m	Other £m	Land & buildings £m	Other £m
Expiring within one year	1.7	0.5	1.2	0.4
Expiring in the second to fifth years inclusive	8.6	3.0	14.6	3.1
Expiring in more than five years	114.3	-	99.7	-
	<b>124.6</b>	<b>3.5</b>	<b>115.5</b>	<b>3.5</b>
	Company			2004
	2005		2004	
	Land & buildings £m	Other £m	Land & buildings £m	Other £m
Expiring within one year	0.2	0.3	0.1	0.3
Expiring in the second to fifth years inclusive	0.9	2.9	0.2	2.7
Expiring in more than five years	107.6	-	91.2	-
	<b>108.7</b>	<b>3.2</b>	<b>91.5</b>	<b>3.0</b>

**29 FOREIGN EXCHANGE RATES**

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

	Weighted average sales rate		Weighted average profit rate		Balance sheet rate	
	2005	2004	2005	2004	2005	2004
Euro	<b>1.46</b>	1.44	<b>1.46</b>	1.43	<b>1.46</b>	1.50
US dollar	<b>1.85</b>	1.69	<b>1.86</b>	1.71	<b>1.89</b>	1.85
Hong Kong dollar	<b>14.41</b>	13.23	<b>14.47</b>	13.44	<b>14.73</b>	14.39

**30 RELATED PARTY TRANSACTIONS**

There were no material transactions with related parties as defined by FRS 8 – 'Related Party Transactions', with the exception of transactions with M&S Money (see note 4), the Hedge End joint venture (see notes 14A and 19) and per una (see note 27A).

**31 ULTIMATE PARENT COMPANY**

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