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MARKS & SPENCER

ANNUAL REVIEW AND SUMMARY FINANCIAL STATEMENT 1999

MARKS & SPENCER

An international retailer with 718 locations across 34 countries. Our chief market is the UK where we sell through 294 stores, representing a total of some 12,000,000 sq ft of retail footage, and through growing mail order operations. Overseas, around half of our stores are franchised to local partners. In the United States we also own the clothing retailer Brooks Brothers and the Kings Super Markets chain. Our operations are structured into three parts: UK Retail, Overseas Retail, and Financial Services.

Founded in 1884, Marks & Spencer is best known for clothing and food products, but we also operate considerable businesses in financial services, homeware and other general merchandise. All Marks & Spencer goods are made to our specification and sold under our exclusive brand name. We differentiate ourselves by serving the mass market with innovative, high-quality goods at competitive prices.

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www.marks-and-spencer.co.uk

Front cover: Bluewater, Kent
New store opened 16 March 1999

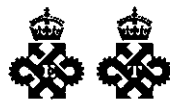
CHILDREN'S PROMISE
THE MILLENNIUM FINAL HOUR APPEAL



Registered Charity No. 1073741



Made possible by
**MARKS
&
SPENCER**



THE QUEEN'S AWARD FOR
EXPORT ACHIEVEMENT 1995-1997
THE QUEEN'S AWARD FOR
TECHNOLOGICAL ACHIEVEMENT 1998



Chairman's statement

THE GROUP HAS THE RESOURCES TO MEET THE CHALLENGES AHEAD

IN THE YEAR JUST ENDED, the Group suffered a major setback, interrupting our record of consistent and profitable progress over many previous years. Pre-tax profits (before exceptional items and a new accounting treatment) were £655.7m compared with last year's record figure of £1,114.8m. Nevertheless, due to the underlying strengths of the business, our balance sheet and our confidence in the future, the directors are recommending a dividend for the year of 14.4p per share, slightly ahead of last year. ♦ The year started well with excellent sales progress being made in the Spring of 1998 which encouraged us to budget boldly for the Autumn. Unfortunately, and notably over the all-important Christmas trading period, clothing sales fell away very badly and significant quantities of fashionable merchandise needed to be reduced in the post Christmas sale. The demand for food was also flat with extremely competitive prices, whilst our Home Furnishings Group suffered from the cyclical downturn in demand for such products. ♦ As I forewarned, the ambitious expansion programme in prime selling footage, infrastructure developments, property acquisitions and the Catalogue, has significantly cut into our operating profits. Nevertheless, the benefit of these investments will pay off in the long term, albeit less rapidly than we had anticipated. ♦ Overseas, economic turmoil and the consequent worsening trading conditions in the Far East coincided with the continued strength of the pound, which affected us particularly in Europe, and led to a severe fall in operating profits. ♦ A major issue and an important key to improving our product values, both at home and abroad, is sourcing more of our requirements in those parts of the world with cost-competitive advantages, particularly if the value of sterling remains high. We are addressing this issue mainly through the overseas investments of UK-based suppliers, but also the many world-class manufacturers anxious to provide us with high-quality merchandise. ♦ Financial Services performed well, with strong growth in personal loans and the establishment of a profitable life assurance business.

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CHAIRMAN'S STATEMENT
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Reflecting previous Company practice, when I was appointed Chairman in 1991, I also held the role of Chief Executive. The business is now too big and complex for these roles to be combined in one person. Accordingly, we have now implemented the Board's unanimous decision to separate these roles and I am confident that Peter Salsbury is the right person to lead the team into the new Millennium as Chief Executive. Moreover, he has an outstanding team of executive directors to support and help him through these challenging times.

I will remain as non-executive Chairman of the Board until the AGM of 2000. This process of change allows continuity of leadership and experience whilst handing over control to those who must be responsible for bringing about the changes needed in our business.

Consequent upon these changes, and the introduction in January of a new Senior Management structure, Keith Oates, Derek Hayes, Chris Littmoden and John Sacher have taken early retirement. Paul Smith has also retired and I would like to thank them all for their very real contribution to the Company.

It has been an exceptionally difficult year for our staff so I would particularly like to thank them on behalf of the Board for their continuing loyalty and commitment to the business. The very professional way in which they have dealt with our customers, at a time of considerable media attention, has been exemplary and they have continued to give our customers excellent service.

I would also like to express my gratitude to our suppliers of goods and services. Their fortunes are bound up with our own.

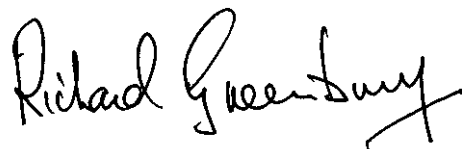
Their sustained efforts to meet the needs of our customers during a very difficult time are much appreciated and underline the partnership we enjoy with them.

The outlook remains very challenging. Trading conditions in the immediate future are likely to remain extremely tough, due to the combination of low economic and earnings growth, in highly competitive and mature product markets. Moreover, the retail environment is changing at an unprecedented pace, with new retail formats emerging all the time and impacting on all that we do. It is central to our policy to continue to deliver outstanding value against the background of fierce competition.

Nevertheless, the Group has the resources, particularly in respect of people, to meet the challenges ahead and the fundamental strengths of Marks & Spencer, the integrity of the brand, and the tried and tested Company trading principles are still robust. Moreover, the strategy outlined in the Chief Executive's Review should begin to bear fruit during the current year and he has excellent people throughout the business firmly behind the change he is bringing about, and indeed, already starting to implement. I wish Peter and his team every success, which I am confident they will deliver.



SIR RICHARD GREENBURY CHAIRMAN



Financial summary

- Group sales remained level at £8.22bn (1998: £8.24bn)
- Group profit before tax, exceptional items and a new accounting treatment fell by 41% to £655.7m (1998: £1,114.8m)
- Wide-ranging recovery programme initiated to restore profitability and shareholder value
- 1.5m sq ft of new footage opened worldwide
- Profits from Financial Services rose by 24% to £110.7m (1998: £89.4m)

FIVE YEAR RECORD

	1999	1998	1997	1996	1995
GROUP TURNOVER	£8,224.0m	£8,243.3m	£7,841.9m	£7,233.7m	£6,809.9m
GROUP PROFIT BEFORE TAX AND EXCEPTIONAL ITEMS†	£634.6m	£1,101.8m	£1,086.1m	£977.4m	£916.6m
EARNINGS PER SHARE*‡	15.8p	27.3p	26.1p	23.7p	22.1p
DIVIDEND PER SHARE	14.4p	14.3p	13.0p	11.4p	10.3p
RETAIL SPACE (SQ FT)	15.4m	13.9m	13.3m	12.8m	12.6m

*Adjusted for exceptional items

†Restated for 1998 and prior years for the change in accounting policy relating to the depreciation of fit out.

UK RETAIL

	1999 £m	1998 £m
TURNOVER	6,601.1	6,695.8
OPERATING PROFIT (before exceptional items)	478.9	871.5†

- Turnover down by 1.4% to £6.6bn
- Profits down by 45% to £478.9m
- Store chain expanded by nearly 1m sq ft of new footage
- Significant restructuring of head office and store management
- Creation of central marketing division
- £109m investment in IT to improve efficiency and support direct mail business.

OVERSEAS RETAIL

	1999 £m	1998 £m
TURNOVER	1,274.3	1,272.7
OPERATING (LOSS)/PROFIT (before exceptional items)	(14.6)	66.9†

- Turnover level at £1.27bn, footage increased by 525,000 sq ft
- £33m (£32m in Europe) impact of strength of sterling contributed to operating loss of £14.6m
- Strategic response to downturn includes withdrawal from the Canadian market, closure of Zaragoza and Parinor stores in Continental Europe and refocusing of local management
- Varied results from franchise businesses: success in the Middle East, continued recession in the Far East.

FINANCIAL SERVICES

	1999 £m	1998 £m
TURNOVER	348.6	274.8
OPERATING PROFIT	110.7	89.4

- Operating profit of £110.7m represents 18% of total Group operating profits (before exceptional items)
- Strong growth across all product areas, particularly personal lending. Profits flowing from life and pensions, ahead of expectations
- Significant scope for future expansion through existing and new products.

Chief Executive's review

FEW YEARS IN OUR LONG HISTORY have been as difficult as this one. Set against our strong recent growth and our largest ever expansion programme, the downturn was sudden and sharp. What went wrong? The simple answer is that, despite our recent success, we have not kept pace with the tremendous changes taking place in the retail market. While our competitors strengthened, we were busy developing new stores. So when markets tightened in the second half of the year, we were hit by falling sales, loss of market share and declining profitability. The year's results are unacceptable. We have now reviewed every part of our operations and started a radical programme of recovery. We remain committed to the values which have always set us apart – innovation, quality, value-for-money and service – but we are finding new ways to deliver them to customers. Our appetite for change is enormous. In the future, I am sure we will view this year as the turning point in reshaping our business for the 21st Century.

Recovery programme

We have four priorities for restoring the value of your shares:

- 1. We must create clear profit centres with simpler management structures, faster decision-making and distinct targets for shareholder value.**
- 2. We must change the way we buy goods, both in the UK and overseas, by giving our selling and marketing functions more say in what we offer.**
- 3. We must restore profitability overseas by reorganising our local businesses to serve their local customers.**
- 4. We must build on the success of our financial services business.**

In short, we must aim every part of our organisation towards the customers it serves.

Before outlining our actions against each of these priorities, I will first explain what happened during the year.

REVIEW OF THE YEAR

Profits before tax, exceptional items and a new accounting treatment were £655.7m, compared with £1,114.8m last year. Three main factors contributed to this fall. When sales fell short of expectation, we lost margin in clearing goods. In the first half, the contribution from sales and margins was up £12m on the year, but the shortfall in the second half amounted to £140m. Poor results overseas cost us £82m (including £33m through the continued strength of sterling). Thirdly, investment in the Littlewoods stores, new till technology and direct mail reduced profits by £90m.

UK Retail

Trading was disappointing in the UK, our main retail market. While turnover was roughly constant at £6.6bn (1998: £6.7bn), like-for-like sales, which exclude the effect of new footage, were down 4.1% on the year. Operating profit before exceptional items fell by 45% to £478.9m.

After a satisfactory first quarter, clothing and footwear performed very poorly in the second half. Our market share fell from 15.1% last year to 14.3% (source: ONS). We had based our buying decisions for Autumn 1998 and Spring 1999 on buoyant trading in the first quarter and the anticipation of significant new footage. But we did not anticipate the severity of the market downturn nor the level of disruption caused to customers by our expansion programme.

When sales fell, we immediately reduced forward orders of product. This damaged the balance of ranges because, as popular goods sold out, we lacked the usual injection of fresh merchandise and still had to clear unsold goods. Hence drearier shelves and higher costs of clearance. Our classic merchandise was hit hardest.

At the same time, our competitors became stronger. Powerful entrants were emerging, traditional names were recovering and new clothing channels

were appearing through mail order or supermarkets. Display standards were rising. Aggressive marketing and discounting were becoming commonplace. Further pressure came from the strength of sterling. This benefited our competitors, but disadvantaged us through our heavy reliance on the UK as a supply base.

This combination of adverse factors was exacerbated by unprecedented levels of expansion. During the year, we extended our UK store chain by nearly 1m sq ft or 9%. Most growth came from the prime sites we bought from Littlewoods. These have enabled us to expand in locations where we were already trading intensively. We also opened new stores such as Bluewater in Kent (146,000 sq ft) and Covent Garden in London (19,000 sq ft). From the medium term this new footage will bring value to shareholders. But in the short term this unique scale of expansion led our management to focus on property and processes, just at a time when we needed crucially to increase market share by focusing on the customer.

Sales of home furnishings were down, while food sales were flat within a more competitive sector. Although we maintained our 4.3% share of the food market, our profitability dropped as we invested in butchers' shops, delicatessens and bakeries and in more space to make our food halls more attractive; again, a short term hit should bring medium and long term gain.

Overseas Retail

It was a very tough year for our overseas retail businesses. Sales stayed level despite increased footage, and we made an operating loss of £14.6m before exceptional items compared with a profit of £66.9m last year.

Trading in Europe fell significantly below estimate, particularly in France, Germany and Spain where sales were disappointing from both existing and new stores. With sterling still strong, our measures to retain value hit

margins hard. We estimate currency issues to have reduced profits by £32m. The Republic of Ireland remains a strong part of our European operations.

In the Far East, continued fall out from the recent economic collapse led sales at our directly-owned stores in Hong Kong to drop by £20m on the previous year. However, we believe Hong Kong will remain a vital base within the region.

In the US, Brooks Brothers returned level profits with sales below plan in retail stores. Kings Super Markets traded satisfactorily within its niche food retail market in New Jersey.

Recent consolidation has failed to bring our Canadian business into profit. Recognising the operation has no role in our future strategy, we have announced our intention to withdraw from this market at an estimated cost of £25m before write-offs for goodwill.

Results varied for our international franchise operations. The Middle East was very strong with sales far exceeding estimates in Dubai, Bahrain and our new store in Kuwait. We have a new partner in Turkey and are reopening stores. In the Far East, however, franchise businesses inevitably suffered in the difficult economic conditions.

Financial Services

Financial Services continued to perform strongly. Operating profits rose by 24% to £111m.

In personal lending – as with unit trusts, pensions and life assurance – we are successfully marketing ourselves as a low-cost alternative to traditional providers. As a result, new loan advances increased by 35% to £1.3bn. Sales of unit trusts rose by 27% and funds under management increased by 32%. Considerable growth in life assurance came from offering the most competitive prices in the market.

The M&S Account Card remains highly popular. Although growth was slowed by our withdrawal of account card incentives, we now have 5.2 million account holders whose use of the card represents 27% of total retail sales.

RECOVERY PROGRAMME

Clearly, such weak results demand radical remedy. We have reviewed our business rigorously and started a programme to recover the value of your shares. This programme has already brought profound change to Marks & Spencer – and there is much more to come. I will now outline the four main areas of focus.

1. Create clear profit centres

We have restructured ourselves into three profit centres – UK Retail, Overseas Retail, and Financial Services. By managing these businesses separately, rather than across product lines, we can better shift focus from how we buy to how we sell. Similarly we have regrouped our UK stores into four units which reflect our categories of store – departmental, regional centre, high street and small.

This will help us perfect our different store concepts to meet varying customer expectations.

We are also decentralising control so that stores have more choice in what they stock and how they serve customers. This will make us more

responsive to customers, cut administrative costs and release more talent among our staff. In short, we are spreading new priorities and ways of working throughout the organisation.

This restructuring has inevitably brought job losses. In February we reduced senior management by 25% and we anticipate a further 350-400 job losses at other levels within head office. To cover the costs of this we have set aside £24.5m this year. We have also removed some 300 managerial positions from our stores. These changes together are estimated to save us £40m in 2000/2001. Moreover, restructuring gives staff a more personal role in our operations. By cutting administration and devolving responsibility, we are freeing up staff to make more decisions. This is a radical change for Marks & Spencer. It should help customers and staff alike.

Restructuring also enables us to define – and monitor – the contribution made by each business unit to the value of your shares. Internally, we are creating a separate property division to ensure we gain the maximum value from our asset of mainly freehold property.

2. Changing the way we buy goods

Our challenge is not just to buy more efficiently, but to buy more effectively – to reorient our vast supply structure so that decisions are driven by what customers actually want. This is why we have created a central marketing division to gather and use all we know about our customers and our competitors.

But we are also pursuing cost savings. Restructuring has enabled us to bring greater efficiency and flexibility to our supply chain, particularly in clothing and home furnishings. We now source more goods abroad and we are setting up a sophisticated global network for distributing goods between factories and stores. Once again, our long-standing relationships with suppliers have borne fruit as we eliminate duplicated functions and co-operate to exploit economies of scale.

Turning to food, we will remain a specialist retailer of innovative, high-quality food products that give more value and convenience to customers. But to succeed in the future, we must distinguish ourselves further from the major chains and improve profitability by getting more return from our space.

A step change in how we organise ourselves

Marks & Spencer has outgrown the highly centralised structure which drove much of our past expansion and success. While retaining the efficiencies and scale of a large organisation, we are radically restructuring our business to be more responsive to the needs of our customer.

- For the first time our UK Retail business will be managed as a whole, rather than along product lines.
- We are streamlining central management and giving store and regional managers more control over operating decisions.
- We are uniting the organisation's extensive knowledge of our customers into a single marketing function.
- We are establishing clearer lines of accountability, empowering individuals at the point of best expertise and, where possible, measuring staff performance by results.
- We are pursuing operating efficiencies by re-examining our buying processes, space requirements, IT and logistics.

Serving customers better by maximising the value of our brand

Our brand is well established. It's versatile too, stretching from ready meals to jewellery, underwear to unit trusts. Our challenge is to utilise this asset for the benefit of customers and shareholders – by interpreting the vast variety of information we gather from our operations to make our buying more accurate and our selling more attractive. Our new marketing division will help to ensure:

- **Better ranges at local store level with more consistent availability of popular items. This tackles a particular criticism of the past year.**
- **Better presentation throughout the chain, by showing our products with bolder, more co-ordinated displays.**
- **Better use of customer information, whether from chargecard and mail order databases or sales reporting systems, to target promotions more effectively. For example, homeware sales multiply where we raise local awareness of what we offer.**
- **Better communication of our core values. Spring 1999 saw the launch of a major advertising campaign to highlight 'hero' products which exemplify our innovation, quality and value.**

To achieve these aims, we are accelerating our introduction of attractive new ranges which set us apart, such as our Café specials; we are enhancing services such as coffee shops; and we are developing our chain of food-dominant neighbourhood stores.

We will reinvest the gains from buying efficiencies in several key areas: better prices for customers, improved promotional techniques, more innovative products, better customer service and more frequent upgrading of store fittings.

We are steadily building our direct mail business. Selling 'off the page' is clearly different to running stores, but with a strong infrastructure in place and a year of experience under our belt, we are well placed to boost this business with our new, integrated approach to marketing. This resource, expertise and knowledge of our customers will also support our move into e-commerce. The popularity of our website suggests vast potential for buying our products on-line. We are actively, but cautiously, developing this new channel for serving customers.

3. Restoring overseas profitability

We remain committed to building a profitable retail business overseas. To achieve this we are identifying what each country needs to restore profitability.

In Europe we have closed unprofitable stores in Zaragoza and Parinor; reconsidered expansion plans and taken total control of our Spanish business.

Also we are changing the way we operate. Local managers now have more autonomy in prices and processes so we can better target goods for local customers. In the Far East we have halted development plans and will renegotiate several of our leases in the coming year. During May 1999, Brooks Brothers (North America) opened a new flagship store in Fifth Avenue, New York. Kings Super Markets is set to open five stores in the coming year, while we have announced our intention to withdraw from Canada.

4. Building financial services

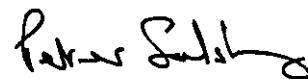
Financial Services is a great success story, but this is just the beginning. There are considerable markets for us to tap with our combination of low-cost, value-for-money products, trusted brand and high-quality service. Through our chargecard we have access to one of the most valuable databases of UK customers. We will particularly seek to increase share in the important market for unsecured personal lending – and we will build on our success in the savings market. For example, two thirds of our regular PEP savers have already

transferred to our new individual savings accounts (ISAs). This shows both the loyalty of our customers and the power of our brand across new product areas.

THE FUTURE

I joined Marks & Spencer in 1970 and I have never seen trading as difficult as now. But neither have I ever seen such determination to change within the Company. While this is a tough time to take the reins, it is also an exhilarating time. We have the chance to open up the organisation, release our talents and rethink everything we do. My job is to ensure we retain the best of our heritage – our distinguishing values – while embracing the best new ideas. Recovery will take some time.

Shares may not regain their recent value within the next year. But I hope you agree that this is a unique and sturdy business which will grow back stronger than ever.



PETER SALSBUURY CHIEF EXECUTIVE



CONSISTENT PRODUCT BREAKTHROUGHS

Recent product innovations from Marks & Spencer include woven wool suits which can be washed; non-polish shoes; Bodysensor opaque tights which react automatically to body temperature; easy-to-iron linen; low-cost life assurance; and children's coats with reflective strips to improve roadside visibility. Our food halls benefit from new themed ranges such as children's specialities and our 'Cafe' selection of modern, brasserie-style ready meals.

MILLENNIUM PRODUCTS

Marks & Spencer has been recognised as Britain's most innovative retailer in the prestigious Millennium Product Awards recognised by the UK Design Council. Some of our awards came for customer products, such as our gift vouchers which are virtually impossible to counterfeit. But they also include operational innovations, such as gas-powered lorries, in-store bakery ovens, refrigeration display cases – and our unique Image Master system for digitally specifying shades of garment colour.

NEW IT SUPPLIER

INTERFACE Knowledge is strength. That's the reasoning behind our new high tech sales and stocking system. Cataloguing remarkable levels of detail in our supplier relationships – even down to the number of stitches per inch in garments – the system will help us bring new products more swiftly to market, improve quality control, cut administrative costs and enhance customer service.

READY FOR THE EURO

On 1 January 1999 Marks & Spencer attracted considerable publicity as one of the few UK retailers ready for the launch of the euro. Thanks to the successful roll-out of our new high tech tills, backed up by extensive staff training, each of our stores in the UK and Continental Europe can accept non-cash euro payments – and we will be equally prepared for the arrival of euro cash in 2002.

innovation

OUR NEW STORE WITHIN THE BLUEWATER

DEVELOPMENT in Kent combines a light, spacious design with an easily navigable layout. Along with new features such as a juice bar and fresh fish counter, customers appreciate imaginative product displays, 70 fitting rooms, uncluttered till points and a ground-breaking attitude for service. As the UK's Sunday Telegraph commented, "It's the M&S of your dreams."

Marks & Spencer has a long pedigree of innovation. From washable woollens to chilled ready meals, we've created major new markets by aligning our retail and technological skills. These breakthroughs continue – as shown by our success with high-quality Italian tailoring at high street prices – but our pursuit of innovation must now run wider. So we are developing fresh strategies for every part of our business. At locations like Bluewater, Kent and Covent Garden, London you will discover the next generation of M&S store, tuned more precisely to the needs of the modern shopper. In our buying departments there are new priorities – to react faster to changing trends and store demands. On sales floors you will see staff more focused on serving the customer. From our marketing division is emerging a more accurate understanding of our different types of customer. And across the world we are devising new ways to manage a global supply chain. We are changing. By loosening our organisation and encouraging innovation in all who work for us, we are determined to retain our prominence as a dynamic retailer.

E-COMMERCE IS COMING TO M&S and we are carefully assembling the elements which will underpin a major move into Internet trading. Our website is viewed over three million times each month. Our direct and mail order businesses are progressing vital skills in fulfilment and distribution, while our marketing division is sharpening our grasp of potential customers. What's more, our brand is trusted for quality, sizing consistency and exchangeability. With all these advantages, we are well positioned for future developments in Internet shopping.

TECHNICAL INNOVATION such as this non-iron tumble dry shirt, underpins our product ranges. A major promotion in the Spring of 1999 featured popular products which also demonstrate style, high quality and value for money, this campaign emphasised our brand values and our strategy for more concerted marketing. It is particularly aimed to show customers the difference we bring to everything we sell.

quality

Customers must be confident they can turn to Marks & Spencer for products which perform well. Our obsession with quality – whether in materials, product design or finishing – is central to the appeal of our brand. The task now is both to sustain this excellence and also to communicate it more clearly to customers. By selling only our own goods and overseeing the entire supply chain from raw material to finished product, we can offer greater assurance to customers. We continue to invest heavily in technical innovation to make our products safer and more hard-wearing – and we carefully track customer concerns, whether they be safety of ingredients or ease of laundry. We are also making progress in the way we communicate our quality and value proposition, particularly through more advertising. Undoubtedly, retail in the 21st Century will be more competitive than ever, but we are confident that our reputation for quality and fair dealing will continue to give Marks & Spencer a valuable edge.

NATURAL STRETCH We have revolutionised the durability and comfort of pure wool tailoring with a development called Natural Stretch. Harnessing new techniques in yarn and fabric construction, this allows material to stretch more easily at critical points such as elbows and knees. The result: suits which retain their shape better, last longer and fit more comfortably.

CONSTANT UPGRADING Our new range of bath towels is made from a higher grade of Egyptian cotton for the finest quality, fibre and absorbency. Yet it is priced no higher than our existing range, which is already the UK's best seller. In the same way we upgrade much of our food range each year; for example, our chicken sandwiches now contain only breast meat.

LEARNING FROM THE US Insight from Brooks Brothers, our up-market US clothing subsidiary, is helping us improve the quality of our service, particularly in serving customers personally and encouraging multi-item purchases. We are also benefiting from the skills of Kings, our specialist US supermarket chain, in developing our delicatessen, bakery and fresh fish counters.

GM INGREDIENTS We are committed to removing genetically modified (GM) ingredients from our food products. As all the food we sell is made under our own brand, Marks & Spencer will be the only major UK retailer whose customers can be fully confident that no GM ingredients or derivatives have been used in the products on our shelves. Moreover, we are working with other major retailers across Europe to isolate such ingredients internationally.

CLOTHING FIT AND COMFORT of the highest standard means we are currently conducting the UK's most comprehensive survey of customer measurements. This, coupled with our wide choice of sizes and constant monitoring of customer needs, will ensure that our jackets, trousers, skirts and even jumpers fit more comfortably than ever before. Other recent advances in customer comfort include more relaxed waistbands, single-sized cup swimwear, more age-specific sizing for toddlers and extended sizing in our lingerie.

BEING VOTED BEST LIFE ASSURANCE PROVIDER by 'Your Money Direct' magazine in 1999 underlines our aim to set industry-leading quality standards in every area we enter. This award was based as much on quality of customer service as on price competitiveness. In 1998 the same magazine voted us Best Direct Pension Provider.

ANIMAL WELFARE IS IMPORTANT TO M&S and we stand out by employing industry specialists in animal welfare who check on vital issues such as the use of antibiotics, transportation and the abattoir. Through their help, M&S was the first major retailer to announce a worldwide ban on stalls and tethers for pigs across its entire product range.

EFFICIENT USE OF ASSETS Marks & Spencer has a massive property base in the UK and Continental Europe. To ensure we derive the greatest value from this substantial asset, a separate property division has been created to allow us to assess and manage each retailing location. The trading activities will be charged at market rates for the space they occupy. This approach will accelerate a more efficient use of the Group's asset base.

BETTER GLOBAL LOGISTICS With £2.7bn of goods sourced overseas and £1.3bn sales outside the UK, we aim to achieve considerable efficiencies through a bold new distribution and logistics network. This long-term project is now underway, linking major distribution and storage centres by air for delivery of goods from anywhere to anywhere in our operations within three days. Maximising the benefits of our dedicated supply base and single brand, this will bring better value, choice and availability to our customers worldwide.

COMPETITIVE PRICING Commodity products such as loans and life assurance are distinguished largely by price. Our unbeatable value here comes from offering some of the cheapest rates on the high street – and aggressively marketing ourselves as the low-cost option. This strategy works well. Strong growth in our personal lending and life pension business helped Financial Services increase profits by 24% during the year.

value

MORE EFFICIENT SOURCING is behind our drive to offer greater value to customers while retaining sufficient margins. Our aim is always to get the best product at the best price. Often this means manufacturing in the UK, but increasingly we are going overseas for manufacture that is cost-effective, flexible and high quality. Mostly we secure these benefits through facilities set up by our existing UK-based suppliers, so sustaining the expertise built up over years of partnership.

KIDS WILL BE KIDS, which is one of the reasons why our sofas include Scotchguarding[™] at no extra cost. Features like this also demonstrate that building value into our products is driven by quality. For example, M&S sofas also feature hardwood in all load-bearing areas and the price includes delivery with a convenient choice of drop-off times. And all our fabrics are exclusively developed for us and strive to exceed British performance standards.

Our value proposition is based on selling excellent products at competitive prices. We succeed when our products offer customers more than they will find elsewhere, whether in terms of fit, quality, choice, style or innovation. But today's tastes are more complex. So we are surveying customers' needs more extensively and making our buying operations more responsive to market trends. The strength of our own-label brand lies in our ability to translate the vast variety of the marketplace into an attractive choice of dependable goods. But price counts too, so we have lowered prices selectively across our general merchandise from Spring 1999. Our buying power drives value, while new systems enable us to source and distribute goods more efficiently. This demonstrates our paramount aim is to build value for customers and shareholders alike.

THE WORLD'S BEST SUPPLIERS are at the heart of our products. Italian woolmills, for example, are renowned for producing excellent fabrics, and we work closely with several of the country's mills to produce fine wool for our men's and women's tailoring. Though the quality matches that of many designer labels, we can sell suits at very competitive prices. This demonstrates our strength at sourcing the best and then creating products with mainstream appeal.

service

However customers approach us – whether by phone, catalogue, e-mail or, most likely, visiting our stores – we are determined they enjoy the same high level of service. This past year our expansion programme, though vital for improving service, has been disruptive in the short-term. We have always placed great emphasis on our ability to source good product. So we are changing the way we serve customers. There will be more staff on the floor, supported by the most modern training and equipment. We are cutting away bureaucracy to give staff more freedom of action. We are streamlining distribution to improve availability of stock. We are making our stores easier to navigate and displaying our product with more versatility and style. And we are gathering all the knowledge we have about our customers so we can better market our Company to them. Transformation will not come overnight, but we believe we have set the right course for matching the excellence of our product with the excellence of our service.

MORE POWER TO STORES

Central to our reorganisation is devolving responsibility to where decisions can best be made. For example, take our Oxford store, the staff understand their customers' needs. Staff, management and head office buying groups then work collectively to ensure the customers' requirements are fully met. Of course Oxford differs from Leeds, Cologne differs from Paris. By increasing local autonomy and improving links between buyers and sellers, we can better deliver what suits particular locations.

BOOST FROM IT Investment in Information Technology (IT) is helping boost service levels. Recent system upgrades mean our store managers can produce much more detailed trading profiles charting, for example, not just the quantity, but also the timing, of sandwich sales. Such local information – and more decision-making at a local level – helps managers to plan and replenish stock more effectively. Also, our newly-installed tills speed up transactions by 10%, so freeing up staff to give more personal attention to our customers.

BETTER UNDERSTANDING OF CUSTOMERS Over 40% of the UK adult population shops with us each month. Their buying patterns are recorded by the systems we have developed for our five million chargecard account holders, our financial services and direct mail operations – and through our state-of-the-art tills. We are now actively using this rich data resource. Distinguishing different groups of customers and their needs means we can more accurately develop ranges, target promotions and respond to changing demand.

BETTER FOOD DISPLAY M&S food halls are changing. We are introducing a new format which gives customers a logical, easy-to-shop layout based around a long central aisle. Fixed locations for most products, clearer signage and a central information desk reflect what customers tell us they want, while upgraded units elevate display to match the high quality of product.

M&S MAGAZINE, our quarterly publication with over five million* readers in the UK, is a powerful channel for communicating to customers. Its editorial skill at linking our products with lifestyle and trends will also prove critical to our e-commerce offer – whose success will depend on creating an inspirational resource which shows customers how our products can work for them.

*Source: NRS
October 98-March 99

TRAINING PROGRAMMES are helping to enhance service with a range of schemes that addresses both motivation and working practices. Investors in People stresses accountability and the reduction of hierarchy, which are key priorities for the organisation. National Vocational Qualifications (NVQs) raise individual skills. But our immediate priority is to give all store staff the training opportunity to develop new approaches to helping customers.

COOKERY DEMONSTRATIONS in the CookZone at our Bluewater store, see shoppers greeted by entertaining demonstrations, often by celebrity chefs. Temporary blue footprints guide shoppers through the aisles to the main ingredient being demonstrated. Such events promote specific ranges and make shopping more lively and fun.

WE ARE FINDING FRESH WAYS to display our products. Here you can see our luxury outfits, accented with striking, more minimal presentation. But accessibility counts too. New store layouts balance our classic products with more contemporary ranges, our popular single items with co-ordinated outfits. This way we can steer customers more easily towards what they want.

social responsibility

We continue to play an active role in the world that surrounds our operations. During the year we contributed over £10m to the community, mainly through cash donations, staff secondments and matching pound-for-pound the funds raised by employees. Additionally, we have committed £12m to the Children's Promise, a fund-raising event to mark the Millennium. Our environmental policies also made progress, not just in specific measures such as lowering the fuel emissions of our lorries, but also in the strategies that define our business as a whole; for example, we updated our important code of practice for suppliers involved in fabric dyeing and finishing processes. And our social responsibility goes further – ensuring our premises are safe for staff and customers, enabling all groups within the community to have equal access to our operations and working with suppliers worldwide to make sure their own employees are well treated. Of course, these measures also benefit shareholders. They make our operations more efficient, our workforce more inspired, our brand more respected and our customers better served.

EQUAL OPPORTUNITIES

Both our employees and our customers reflect the diversity of the communities served by Marks & Spencer. We therefore extend our commitment to equal opportunities beyond our employment practices to the ways we welcome customers to our stores. New training is helping staff to understand the specific needs of people from ethnic minority groups or those with disabilities. This also supports our commercial objective of responding to every group within the complex modern marketplace.

HEALTH & SAFETY

Our investment in training many of our store safety officers towards an NVQ in health and safety is paying off for staff and organisation alike. Overall safety standards have risen even higher, meaning less time and money is lost through accident or ill health. We are also partnering public authorities in agreeing common safety standards for our buildings. This too brings business benefits, by speeding up local planning procedures for our widely located property base.

ETHICAL TRADING

Agreeing good working standards has always been important to our partnership with suppliers. This presents more of a challenge now that our global supply base has become so vast and complex. But we are determined to do what we can. So we have joined the Ethical Trading Initiative and are enforcing a set of Global Sourcing Principles. These cover areas such as workforce rights, accurate labelling of country of origin and environmental responsibility.

HELPING HAND

Through our Helping Hand Initiative, staff who volunteer within their local community can now boost their contribution with a cheque from Marks & Spencer for up to £250. This new scheme has proved very popular, helping playgroups, charities, health trusts and other deserving causes. Such an approach broadens our reach, by linking our corporate donations with the personal involvement of employees.

ENVIRONMENTAL ADVANCE

Each year we become more sophisticated in minimising the environmental impact of our operations. During 1998 we were the first UK retailer to test an advanced software system called 'Greencode'. Managers at our Leicester store used this system to co-ordinate the building's heating, lighting, transport, waste disposal and other activities to cut waste and minimise its overall impact on the surrounding environment. This trial is enabling us to consider implementing this system more widely across our stores.

*All children featured are models

CHILDREN'S PROMISE, OUR MILLENNIUM FUND-RAISING INITIATIVE, is on target to be the UK's largest ever fund-raising event for children's charities. It is the simple idea that working people donate their final hour's salary of 1999 to the children of the next Millennium. Marks & Spencer is making this event possible as part of our £12m investment in marking the Millennium. This support, which complements our existing community involvement, will not only have lasting social benefits; it also reinforces our reputation as a committed force of integrity within the community.

If you would like more information on the Children's Promise you can contact us on 0870 607 1999 or e-mail us at childrens.promise@newmill.co.uk or visit our website at www.marks-and-spencer.co.uk/promise/

PHOTOGRAPHY BY LARRY BRAY FOR CHILDLINE

BOARD OF DIRECTORS

Left to right
Standing: Brian Baldock, Sir Michael Perry, David Sieff
and Sir Ralph Robins.
Seated: Dame Stella Rimington, Sir Richard Greenbury
and Sir Martin Jacomb.

Left to right
Andrew Stone, Peter Salisbury and Guy McCracken.

Left to right
Joe Rowe, Robert Colvill, Barry Morris, Roger Aldridge,
James Benfield and Clara Freeman.

SIR RICHARD GREENBURY

CHAIRMAN
Appointed director in 1970.
Reinquished the role of
Chief Executive and became
Chairman (non-executive) on
1 February 1999. Member of
the Supervisory Board of Philips
Electronics N.V. Age 62
◆ (Chairman)

PETER SALSBURY

CHIEF EXECUTIVE
Appointed director in 1990.
Non-executive director of TR
Property Investment Trust plc.
Member of the Government's
'Better Regulation Task Force'
and of the Institute for
Employment Studies. Age 49

GUY MCCrackEN

MANAGING DIRECTOR
Appointed director in 1990.
**Overseas Retail,
Group Estates,
Store Development,
IT & Logistics**
Director of CORDA.
Non-executive Chairman of
Duchy Originals Ltd. Age 50

LORD STONE OF BLACKHEATH

MANAGING DIRECTOR
Appointed director in 1990.
UK Retail
Governor of Weizmann
Institute of Science. Member
of the National Advisory
Committee on Culture and
Creativity in Education. Age 56

ROGER ALDRIDGE

DIRECTOR
Appointed in 1993.
**Group Estates,
Store Development,
HO Premises & Services**
Director of National Retail
Planning Forum. Age 52

JAMES BENFIELD

DIRECTOR
Appointed in 1993.
**Marketing & Operations,
Stores & M&S Direct**
Member of the Advisory Board
of Frowein & Co GmbH. Age 49

ROBERT COLVILL

DIRECTOR
Appointed in 1990.
**Group Finance & Financial
Services**
Non-executive director of
Witan Investment Co plc.
Chairman of Money
Advice Trust. Age 58

CLARA FREEMAN

DIRECTOR
Appointed in 1996.
**Group Personnel &
Corporate Affairs**
Director of Roffey Park
Management College.
Non-executive director of
Focus Central London TEC.
Age 46

BARRY MORRIS

DIRECTOR
Appointed in 1994.
Foods & Home
Chairman of British-Israel
Chamber of Commerce.
Chairman of the British Friends
of the Shenkar College. Age 51

JOE ROWE

DIRECTOR
Appointed in 1993.
Clothing
Age 51

BRIAN BALDOCK

NON-EXECUTIVE DIRECTOR
Appointed in 1996. Chairman
of PIC International Group plc.
Wellington Investments Ltd and
Mencap. Director of Cornhill
Insurance plc.
Age 64 *◆◆◆ (Chairman)

SIR MARTIN JACOMB

NON-EXECUTIVE DIRECTOR
Appointed in 1991. Chairman
of Prudential Corporation plc
and Delta plc, and director of
Rio Tinto plc and Canary Wharf
Group plc. Age 69 †
*◆◆◆ (Chairman)

SIR MICHAEL PERRY

NON-EXECUTIVE DIRECTOR
Appointed in 1996. Chairman
of Centrica plc and Dunlop
Slazenger Group Ltd. Deputy
Chairman of Bass plc and a
member of the Supervisory
Board of Royal Ahold. Age 65
*◆◆◆

DAME STELLA RIMINGTON DCB

NON-EXECUTIVE DIRECTOR
Appointed in 1997. Worked for
the Security Service (MIS) for
27 years and was Director
General from 1992 to April
1996. Chairman of the Institute
of Cancer Research, a director
of B.G. plc and GKR Associates
Ltd. Age 63 *◆◆◆

SIR RALPH ROBINS

NON-EXECUTIVE DIRECTOR
Appointed in 1992. Chairman
of Rolls-Royce plc, Cable and
Wireless plc and the Defence
Industries Council. Director
of Standard Chartered plc and
Schroders plc. Age 66
*◆◆◆

THE HON DAVID SIEFF

NON-EXECUTIVE DIRECTOR
Relinquished his executive
director responsibilities when
he became a non-executive
director on 1 April 1997.
Chairman of the British Retail
Consortium. Age 60 ◆◆

Derek Hayes (Age 50)	Retired 31 May 1999
Chris Littmoden CBE (Age 55)	Retired 31 May 1999
John Sacher (Age 58)	Retired 31 May 1999
Paul Smith (Age 58)	Retired 31 March 1999

† Senior independent director
* Independent
● Audit Committee
■ Remuneration Committee
◆ Nomination Committee

Independence

In view of their previously held executive positions in the Company the Board does not consider Sir Richard Greenbury or David Sieff as independent for the purposes of the Combined Code.

SUMMARY REPORTS

THE SUMMARY FINANCIAL STATEMENT on pages 20 to 23, the Summary Remuneration Report on page 24 and the Summary Directors' Report on this page are a summary of information contained in the Annual Report and Financial Statements. The aim is to provide shareholders with the key financial information in a clear and concise manner. For this reason the Summary Financial Statement does not contain sufficient information to give a full understanding of the results of the Group and state of affairs of the Company and the Group.

The Directors' Report, the full accounts and the Auditors' Report on those accounts, which is unqualified, are contained in a separate publication entitled Annual Report and Financial Statements 1999. Copies may be obtained free of charge by telephoning Freephone 0800 591 697.

SUMMARY REPORT OF THE DIRECTORS

Principal activities

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

Financial Services includes the operations of the Group's Retail Financial Services companies, which provide account cards, personal loans, unit trust management, life assurance and pensions.

Review of activities and future performance

A review of the Group's activities and of the future development of the Group is contained in the Chairman's Statement on pages 1 and 2 and the Chief Executive's Review on pages 4 to 7.

Dividends

The directors have declared dividends as follows:

	£m
Ordinary shares	
Interim paid, 3.7p per share (last year 3.6p)	106.1
Proposed final, 10.7p per share (last year 10.7p)	307.2
Total ordinary dividends, 14.4p per share (last year 14.3p)	413.3

The final dividend will be paid on 30 July 1999 to shareholders whose names are on the Register of Members at the close of business on 28 May 1999.

Post balance sheet events

On 28 April, the Group announced the closure of its Canadian operations. As a consequence, its subsidiary, Marks & Spencer Canada Inc, will cease to operate during the financial year ended 31 March 2000. The total cost of closure is estimated to be £25m, excluding goodwill of £24.4m previously written off to reserves.

On 10 May, the Group announced the rationalisation of its UK store management. The total cost of this is estimated to be £14m.

Directors

Current members of the Board are shown on page 18, with details of membership of principal Board committees.

Mr J K Oates and Mr P P D Smith retired as executive directors on 31 January 1999 and 31 March 1999 respectively. Mr D K Hayes, Mr S J Sachse and Mr C Littmoden will retire as executive directors on 31 May 1999.

In accordance with Article 85 of the Company's Articles of Association, Sir Richard Greenbury, Mr R Aldridge OBE, Mr R W C Colvill, Sir Ralph Robins and Mr J T Rowe retire by rotation and, being eligible, offer themselves for re-election. Brief biographical details are given on page 18.

SUMMARY CORPORATE GOVERNANCE

The Company believes in and is committed to high standards of Corporate Governance.

A detailed statement of how the Company applies the principles and complies with the provisions of the Combined Code is set out in the Annual Report and Financial Statements.

REPORT OF THE AUDITORS

to the members of Marks and Spencer p.l.c.

We have examined the Summary Financial Statement set out on pages 20 to 23 and the amounts disclosed relating to directors' remuneration on page 24.

Respective responsibilities of directors and auditors

The Summary Financial Statement is the responsibility of the directors. Our responsibility is to report to you our opinion on its preparation and consistency with the annual financial statements and directors' report.

Basis of opinion

We conducted our work in accordance with the Auditing Guidelines 'The Auditors' Statement on the Summary Financial Statement', adopted by the Auditing Practices Board.

Opinion

In our opinion the Summary Financial Statement is consistent with the annual financial statements and directors' report of Marks and Spencer p.l.c. for the year ended 31 March 1999 and complies with the requirements of section 231 of the Companies Act 1985 and the regulations made thereunder.

PricewaterhouseCoopers
PricewaterhouseCoopers

Chartered accountants and registered auditors

London

17 May 1999

SUMMARY PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MARCH 1999

	1999 £m	1998 As restated £m
TURNOVER	8,224.0	8,243.3
OPERATING PROFIT		
Before exceptional operating (charges)/income	600.5	1,050.5
Exceptional operating (charges)/income	(88.5)	53.2
TOTAL OPERATING PROFIT	512.0	1,103.7
Profit/(loss) on sale of property and other fixed assets	6.2	(2.8)
Net interest income	27.9	54.1
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	546.1	1,155.0
Analysed between:		
Profit on ordinary activities before taxation and exceptional items	634.6	1,101.8
Exceptional operating (charges)/income	(88.5)	53.2
Taxation on ordinary activities	(176.1)	(338.7)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	370.0	816.3
Minority interests (all equity)	2.1	(0.4)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	372.1	815.9
Dividends	(413.3)	(409.1)
RETAINED (LOSS)/PROFIT FOR THE YEAR	(41.2)	406.8
BASIC EARNINGS PER SHARE	13.0p	28.6p
ADJUSTED EARNINGS PER SHARE	15.8p	27.3p
DIVIDENDS PER SHARE	14.4p	14.3p

FINANCIAL REVIEW

This financial review amplifies the Chief Executive's review (pages 4 to 7) with analysis of the Group's performance (based on the organisation's new profit centres), balance sheet, cash flow, capital expenditure and footage. A more detailed version of this review appears in the full Annual Report and Financial Statements.

PROFIT AND LOSS ACCOUNT (see above)

Group profit before tax Group profit before tax and exceptional items of £634.6m (last year £1,101.8m) is after an additional charge of £21.1m (last year £13m) following the early adoption of FRS15, 'Tangible Fixed Assets'. Adjusting for this additional charge gives a profit before tax and exceptional items of £655.7m (last year £1,114.8m) which compares to the range of £625m-£675m set out in the trading statement published in January.

UK Retail performance

UK Retail sales growth	First quarter Inc %	Second quarter Inc %	15 weeks to 9 Jan Inc %	11 weeks to 27 March Inc %	Total Inc %
Clothing, footwear & gifts	4.9	(0.3)	(6.1)	(7.5)	(2.6)
Home furnishings	5.0	(7.1)	(6.3)	(5.3)	(3.9)
Foods	3.6	0.5	(1.1)	(0.8)	0.4
Total	4.4	(0.3)	(4.4)	(4.6)	(1.5)

UK Retail sales fell by 1.5% (including VAT) during the year. Sales growth over the four reporting periods for the year is shown in the table. Expressed on a like-for-like basis, total sales were 4.1% below last year, representing a 5.6% decrease across clothing and home furnishings and a 1.4% decrease in foods.

UK Retail operating profit before exceptional items fell from £871.5m to £478.9m. Several major factors contributed to this decrease:

- A significant shortfall from expected sales, and the subsequent margin impact to clear the goods led to a profit contribution £128m below last year.
- The net impact on profits of the investment programme announced in 1997/98 has been estimated as £90m (last year £15m). This included developing the Littlewoods stores, building our direct mail business and installing new tills.
- Depreciation charges rose to £193m from £141m last year. £14.9m of the increase comes from a change in the accounting treatment of depreciation which we chose to make this year. It also includes £8.3m of accelerated depreciation on store equipment to be replaced next year in revising store formats. The balance of the increase stems from our capital investment programme.

SUMMARY BALANCE SHEET

AT 31 MARCH 1999

	1999 £m	1998 As restated £m
FIXED ASSETS		
Tangible assets	4,387.5	3,964.8
Investments	61.2	69.7
	4,448.7	4,034.5
CURRENT ASSETS		
Stocks	514.7	500.2
Debtors	2,355.7	2,044.1
Cash and investments	485.5	857.2
	3,355.9	3,401.5
CURRENT LIABILITIES		
Creditors: amounts falling due within one year	2,029.8	2,345.0
NET CURRENT ASSETS	1,326.1	1,056.5
TOTAL ASSETS LESS CURRENT LIABILITIES	5,774.8	5,091.0
Creditors: amounts falling due after more than one year	772.6	187.2
Provisions for liabilities and charges	105.0	31.0
NET ASSETS	4,897.2	4,872.8
SHAREHOLDERS' FUNDS (all equity)	4,883.9	4,853.7
Minority interests (all equity)	13.3	19.1
TOTAL CAPITAL EMPLOYED	4,897.2	4,872.8

Approved by the Board 17 May 1999

Sir Richard Greenbury, Chairman P L Salsbury, Chief Executive R W C Colvill, Group Finance Director

Richard Greenbury

P L Salsbury

R W C Colvill

Overseas Retail performance

Overseas results	Sales		Operating Profit (before exceptional items)	
	1999 £m	1998 £m	1999 £m	1998 £m
Europe	552.1	538.2	(26.9)	31.8
The Americas	631.4	606.2	15.8	16.8
Far East	90.8	128.3	(3.5)	18.3
Total	1,274.3	1,272.7	(14.6)	66.9

In Europe, the continued strength of sterling cost us £32m in profit. This arose from the need to maintain competitive values despite the increased cost of merchandise sourced in the UK. In the USA, profits at Brooks Brothers remained on target in outlet stores but slipped below estimate in retail stores. Sales at Brooks Brothers outlets in Japan were heavily affected by the country's economic downturn. Operating losses in the Far East reflected the poor state of economies across the region.

In April 1999 we announced that our Canadian operations would cease trading during the coming financial year. The estimated costs of closure, which will be included in our 2000 results, amount to £25m as well as goodwill write-offs of £24.4m.

Financial Services performance Financial Services operating profits rose by 24% to £110.7m. The scale and nature of this growth is reflected in the following figures:

Growth in Financial Services		Account cards	Personal lending	Unit trusts	Life & pensions
Number of accounts/ policyholders 000s	1999	5,166	548	171	30
	1998	5,049	449	134	15
Volume of customer outstandings/funds under management £m	1999	652	1,283	1,101	n/a
	1998	617	955	831	n/a

Exceptional items This year exceptional items totalling £88.5m have been charged against our operating profit:

- Costs of £24.5m in the UK resulting from redundancies and restructuring. This includes £10m for the cost of rationalising senior management. The remaining £14.5m relates to job losses at other levels within head office.
- Following the recent deterioration in the European performance the book values of our European properties were reviewed in accordance with the accounting standard FRS11, 'Impairment of Fixed Assets and Goodwill'. This resulted in a provision of £64m being made against their value.

SUMMARY CASH FLOW INFORMATION

FOR THE YEAR ENDED 31 MARCH 1999

	1999 £m	1998 As restated £m
OPERATING ACTIVITIES		
Received from customers	7,884.1	7,974.3
Payments to suppliers	(5,464.2)	(5,376.8)
Payments to and on behalf of employees	(1,153.9)	(989.3)
Other payments	(793.1)	(693.7)
Exceptional operating cash flows	(0.6)	53.2
CASH INFLOW FROM OPERATING ACTIVITIES	472.3	967.7
Returns on investments and servicing of finance	29.0	56.1
Taxation	(345.9)	(342.3)
Capital expenditure and financial investment	(628.1)	(788.3)
Acquisitions and disposals	1.0	2.6
Equity dividends paid	(412.6)	(325.8)
CASH OUTFLOW BEFORE FUNDING	(884.3)	(430.0)

Last year's exceptional income of £53.2m related to reclaimed VAT which had been overpaid during previous years. This followed the Court of Appeal decision in a case brought by Littlewoods Home Shopping.

Net interest income Net income from interest fell to £27.9m from £54.1m in the previous year. This was caused by the fall in interest rates and a reduction in average sterling cash balances (including interest-bearing investments) to £820m (last year £1,200m).

Earnings per share The adjusted earnings per share figure excludes exceptional items to give a clearer picture of our trading performance.

BALANCE SHEET (see page 21)

Tangible fixed assets These include land, buildings, fit out and equipment (including computers). Our capital investment programme of £683m offset by depreciation of £300m has increased the current year book value to nearly £4.4bn.

The change in accounting policy relating to the depreciation of fit out has been accounted for as a prior year adjustment. As a consequence, the net book value of tangible fixed assets as at 31 March 1998 has been reduced by £210.9m.

Impact of Financial Services Debtors include the £1.9bn advanced to our Financial Services customers (last year £1.6bn). To fund this, the Group has borrowed £1.5bn, which appears within Creditors for both less and more than one year.

Provisions for liabilities and charges The figure of £105m includes £24m to cover the job losses at head office referred to earlier. It also includes a deferred taxation liability of £51m. Last year's deferred taxation liability of £43m was offset within Debtors.

CASH FLOW (see above)

Cash outflow before funding The figure of £884.3m has been managed by increasing borrowings by £483m and using cash, short-term investments

and deposits of £379m together with a receipt of £22m from the issue of shares under employee share schemes. The net debt of the Group has therefore increased by £862m (£483m + £379m) to £1,182m. This is made up of net funds within retailing of £290m and net debt of Financial Services of £1,472m.

Cash inflow from operating activities The fall of 51% to £472.3m reflects the decline in retailing operating profits. Retailing generated £704m from operating activities which was partly offset by an operating cash outflow of £232m from Financial Services. The outflow from Financial Services includes a £363m increase in loans and advances to customers.

Taxation As corporation tax is paid in arrears, this year's payment covered our liability for the previous year.

Capital expenditure and financial investment The reduction in capital expenditure through cash flow this year is greater than the actual drop in capital expenditure because of the varying timing of payments.

Equity dividends paid The figure represents the previous year's final dividend and this year's interim dividend.

CAPITAL EXPENDITURE

Capital expenditure 1998/99	£m	% to total
UK - Littlewoods related developments	150	22
UK - Other new footage	217	32
UK - IT	109	16
UK - Other	87	13
Overseas	120	17
Total	683	100

FIVE YEAR GROUP FINANCIAL SUMMARY

	1999 £m	1998 £m	1997 £m	1996 £m	1995 £m
SALES					
UK Retail	6,601.1	6,695.8	6,349.5	5,858.3	5,596.2
Overseas Retail	1,274.3	1,272.7	1,276.3	1,194.4	1,074.6
Financial Services	348.6	274.8	216.1	181.0	139.1
OPERATING PROFIT (before exceptionals)†					
UK Retail*	478.9	871.5	855.6	793.4	773.8
Overseas Retail*	(14.6)	66.9	90.7	71.6	64.7
Financial Services	110.7	89.4	75.7	59.0	48.7
PROFIT BEFORE TAXATION*	546.1	1,155.0	1,086.1	952.4	916.6
BALANCE SHEET					
Net assets*	4,897.2	4,872.8	4,348.9	3,959.0	3,565.9
Net(debt)/funds	(1,181.6)	(319.3)	61.5	97.0	101.3
Capital expenditure*	683.1	750.2	431.6	309.0	376.6
FOOTAGE (000 sq ft)					
Retail footage – UK	11,960	10,977	10,576	10,325	10,011
Retail footage – Overseas	3,467	2,939	2,727	2,475	2,615
STAFFING (full-time equivalent)					
UK Retail	40,814	38,349	36,854	35,272	34,158
Overseas Retail	9,422	8,723	7,981	7,693	6,460
Financial Services	1,070	1,014	848	714	641

*Restated for 1998 and prior years for the change in accounting policy relating to the depreciation of fit out.

†Excess interest charged within Financial Services of £25.5m (1998 £22.7m; prior years nil) should be added back to arrive at total operating profit (before exceptionals).

Capital expenditure during the year totalled £683m (last year £750m). Most of this came from opening new footage. The £150m spent on Littlewoods-related developments also included the cost of modernising existing stores in the same location.

Next year capital expenditure is expected to fall to around £475m. £200m of this will be spent overseas, where the figure includes the purchase of the freehold interest in our flagship store in Paris. Elsewhere, overseas investment will be considerably below 1998/99 levels.

FOOTAGE

Worldwide footage expansion 1998/99	000 sq ft	% to total
UK – Littlewoods purchase	536	35
UK – Other new footage	447	30
Continental Europe	274	18
Republic of Ireland	116	8
North America	91	6
Hong Kong	47	3
Total	1,511	100

NB – this does not include franchise stores

Store footage worldwide increased by 1.5m sq ft during the year. Opening 16 of the 19 Littlewoods stores, which were bought last year, accounted for over a third of this expansion. Other notable developments in the UK were Bluewater (146,000 sq ft), Newton Breda (34,000 sq ft) and Covent Garden (19,000 sq ft).

We opened nine new stores in Europe. Four stores in Germany – at Dortmund, Essen, Wuppertal and Frankfurt – around 150,000 sq ft. We opened others in Spain, France and Luxembourg. In the Republic of Ireland we opened one new store at Liffey Valley and extended one of our Dublin stores. Brooks Brothers US opened 19 new stores representing around 100,000 sq ft. Two new stores opened in Hong Kong.

During the year we traded on an average 6.7% more footage in the UK and 12.2% more footage overseas. Next year we plan to open a further 580,000 sq ft of new retail space, around half of this in the UK. The bulk of our new overseas footage – 180,000 sq ft – will be in North America, including a new flagship store for Brooks Brothers at Fifth Avenue in New York.

Our UK footage breaks down into four categories of store. These form the four units which comprise our new structure for managing UK stores:

UK store categories	No. of stores	000 sq ft	%
Departmental , such as Bluewater or Newcastle, average size 101,000 sq ft	44	4,435	37
Regional centres , such as Blackpool or Exeter, average size 54,000 sq ft	62	3,323	28
High street , such as Southampton, average size 34,000 sq ft	68	2,280	19
Small , such as Mill Hill, average size 16,000 sq ft	120	1,922	16
Total	294	11,960	100

Figures as of 31 March 1999.

SUMMARY REMUNERATION REPORT

The full report on directors' remuneration complies with the Combined Code and is set out on pages 8 to 15 of the 1999 Annual Report and Financial Statements. Copies of this can be obtained, free of charge, from the Company as noted on page 19.

The responsibility of the Remuneration Committee is to reward senior management competitively, taking account of both Company and individual performance. The aggregate remuneration, shown below, comprises salary, benefits and profit sharing. No bonus was earned by participants in the year under review due to Company performance below set targets. Executive directors also participate in a long-term incentive scheme in the form of a Senior Staff Share Option Scheme. Performance related elements form a significant proportion of the total package.

Targets, required to meet the thresholds of payment under both the bonus and long-term incentive schemes, are considered to be challenging and motivating.

During the year the non-executive directors have participated in the senior management succession plans and the subsequent restructure. The existing policy for Early Retirement Pension facilitated the implementation of the new business structure.

The following table shows the aggregate remuneration for this year compared to last year, of the Chairman, executive and non-executive directors. In addition, pensions, share option gains and the number of shares held by each director are identified.

DIRECTORS' EMOLUMENTS

	Aggregate remuneration 1999 £000	Aggregate remuneration 1998 £000	Increase in remuneration 1999 £000	Gains made in directors' share options 1999 £000	Ordinary shares in the Company (beneficial and family interests) pension earned 1999 (No. of shares)	share options	as at 31 March
Chairman							
Sir Richard Greenbury ⁽¹⁾				810	969	n/a	71,800
Executive directors							
P L Salsbury (Chief Executive) ⁽²⁾				439	435	31	62,836
P G McCracken				409	435	21	58,101
Lord Stone of Blackheath				416	427	20	35,760
R Aldridge				312	300	22	41,770
J R Benfield				275	286	19	29,905
R W C Colvill				342	344	14	21,761
Mrs C E M Freeman				230	229	17	59,147
B S Morris				230	226	9	3,753
J T Rowe				302	292	22	29,795
Non-executive directors							
B F Baldock				50	50	n/a	50,000
Sir Martin Jacomb				34	34	n/a	21,845
Sir Michael Perry				34	34	n/a	8,357
Dame Stella Rimington				34	34	n/a	3,086
Sir Ralph Robins				34	34	n/a	2,514
The Hon David Sieff				45	43	n/a	308,322
Retired directors (with effect from)							
D K Hayes (31 May 1999) ⁽³⁾				275	275	20	18,419
C Littmoden (31 May 1999) ⁽⁴⁾⁽⁵⁾				587	595	n/a	9,387
S J Sacher (31 May 1999) ⁽⁵⁾				293	310	2	297,143
P P D Smith (31 March 1999) ⁽⁴⁾⁽⁵⁾				679	624	15	2,000
J K Oates (31 January 1999) ⁽⁶⁾				545	646	27	n/a
Retired year ended 31 March 1998				n/a	391	n/a	n/a
TOTAL	6,375	7,013	n/a	116⁽⁶⁾	n/a		

Notes

- (1) The roles of Chairman and Chief Executive were split from 1 February 1999. Sir Richard Greenbury, the Chairman and Chief Executive, relinquished the role of Chief Executive on 31 January 1999. As Chairman, he receives a salary of £450,000 pa. As a non-executive director he no longer participates in the profit share or bonus schemes, but retains share options previously granted under the Senior Staff Share Option Scheme and SAYE Option Scheme.
- (2) P L Salsbury, formerly Managing Director, was appointed Chief Executive from 1 February 1999, on a salary of £560,000 pa.
- (3) J K Oates resigned from the Board and took early retirement on 31 January 1999. Terms concerning the termination of employment have been implemented in accordance with his contract of employment amounting to £587,000. This relates to salary and benefits for the 11 months outstanding on his employment contract. Additionally, should a senior management bonus be payable for the 31 March 2000 financial year, he will receive a further amount equal to 9/12ths of that bonus (maximum £85,000), which will be shown in next year's Annual Report. He has been awarded an Early Retirement Pension of £166,000 pa payable for three and a half years until the normal senior management retirement age of 60.
- (4) Expatriate directors carrying out their duties overseas have their remuneration adjusted to take account of local living costs. Benefits of £336,000 and £361,000 have been included in relation to C Littmoden and P P D Smith respectively.
- (5) In addition to J K Oates the following have been awarded an Early Retirement Pension payable until the normal senior management retirement age of 60: D K Hayes, £62,000 pa; C Littmoden, £84,000 pa; S J Sacher, £53,000 pa; and P P D Smith, £65,000 pa.
- (6) In the year ended 31 March 1998, gains made on directors' share options were £3.4m.

SHAREHOLDER INFORMATION

ANNUAL GENERAL MEETING of Marks and Spencer p.l.c. will be held on Thursday 15 July 1999 at the Grosvenor House Hotel, Park Lane, London W1 at 11.00 am. Shareholders should enter by The Great Room entrance on Park Lane. The Notice of Meeting, together with explanatory notes, is attached to your Form of Proxy. Special facilities for disabled people have been arranged. Shareholders who need assistance should contact a member of Marks & Spencer staff on arrival. To help those who are hard of hearing to participate in the Annual General Meeting there is an induction loop system at the Grosvenor House Hotel and a sign-language interpreter will be present at the meeting.

FINANCIAL CALENDAR

Record date to be eligible for final dividend	28 May 1999
Final ordinary dividend for the year to 31 March 1999 to be paid	30 July 1999
Interim results to be announced	2 November 1999
Record date to be eligible for interim dividend	12 November 1999
Interim ordinary dividend to be paid	14 January 2000

ORDINARY SHARES

There are 358,505 holders of ordinary shares analysed as follows:

Size of shareholding	Number of shareholders	Percentage of total number of shareholders	Number of ordinary shares 000s	Percentage of ordinary shares
Over 1,000,000	316	0.1	1,886,394	65.7
100,001 – 1,000,000	866	0.2	274,054	9.6
10,001 – 100,000	9,721	2.7	214,714	7.5
5,001 – 10,000	17,871	5.0	125,106	4.4
2,001 – 5,000	56,845	15.9	179,294	6.2
1,001 – 2,000	71,390	19.9	104,563	3.6
501 – 1,000	75,548	21.1	58,193	2.0
1 – 500	125,948	35.1	28,305	1.0
	358,505	100.0	2,870,623	100.0

Shareholders are further analysed as follows:

Type of owner	Number of shareholders	Percentage of total number of shareholders	Number of ordinary shares 000s	Percentage of ordinary shares
Private holders	318,524	88.9	675,176	23.5
Corporate holders	39,981	11.1	2,195,447	76.5
	358,505	100.0	2,870,623	100.0

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CAPITAL GAINS TAX

For the purposes of Capital Gains Tax the price of ordinary shares on 31 March 1982 was 153.5p each which, when adjusted for the 1-for-1 scrip issue in 1984, gives a figure of 76.75p each.

DIVIDEND REINVESTMENT PLAN

In 1998 the Group introduced a scheme to enable shareholders to buy shares in the market twice a year using their dividends. Details of the scheme can be obtained from Lloyds TSB Registrars at the address below.

SHARE DEALING FACILITY

A postal share dealing facility is available through the Company's stockbroker for the purchase and sale of Marks & Spencer shares. Further information may be obtained by writing to the following address: Cazenove and Co 12 Tokenhouse Yard London EC2R 7AN

INDIVIDUAL SAVINGS ACCOUNT (ISA)

The Group offers a range of ISAs in which you can hold cash, shares or unit trusts. For further details please contact: Marks & Spencer Financial Services Limited Kings Meadow Chester Business Park Chester CH99 9UT Freephone 0800 01 11 11 Regulated by the Personal Investment Authority for investment business.

REGISTRARS AND TRANSFER OFFICE

Lloyds TSB Registrars
54 Pershore Road South
Kings Norton
Birmingham B22 1AD
Telephone: 0121 433 8000

REGISTERED OFFICE AND HEAD OFFICE

Michael House
Baker Street
London W1A 1DN
Telephone: 0171 935 4422

Registered Number
214436

Company Secretary and Chief Legal Adviser
Graham Oakley

AUDIO TAPE

An audio tape for visually impaired people, giving the highlights of this annual report, can be obtained from freephone number 0800 591 697

MARKS & SPENCER

ANNUAL REPORT AND FINANCIAL STATEMENTS 1999

MARKS & SPENCER

This publication includes the Financial Review, the Corporate Governance Statement, the Remuneration Report, the Directors' Report, the Financial Statements and the Auditors' Report for the year ended 31 March 1999. The Chairman's Statement and Chief Executive's Review are contained in a separate report entitled Annual Review and Summary Financial Statement 1999.

This publication, together with the Annual Review and Summary Financial Statement 1999, comprise the full Annual Report and Accounts of Marks and Spencer p.l.c. for 1999, prepared in accordance with the Companies Act 1985.

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THE QUEEN'S AWARD FOR
EXPORT ACHIEVEMENT 1996 1997
THE QUEEN'S AWARD FOR
TECHNOLOGICAL ACHIEVEMENT 1996



FINANCIAL REVIEW

The business has been restructured around three major profit centres:

- UK Retail
- Overseas Retail
- Financial Services

For the purposes of internal assessment and performance measurement, a separate property division is being established to allow the rent or own decisions to be evaluated separately from the retailing result.

For this purpose, internal charges will be made on the profit centres to reflect market rental values. Where held, investment properties will continue to be evaluated by reference to their open market value.

The contribution which the profit centres make to the Group return will be based on the Value Created over the Group's weighted average cost of capital (WACC). For the purposes of assessing performance in 1999/2000, the Group's WACC will be taken as 10%.

GROUP SUMMARY

	1999	1998 As restated
Summary of results	£m	£m
Turnover (ex VAT)	8,224.0	8,243.3
Operating profit (before exceptional items)	600.5	1,050.5
Exceptional operating (charges)/income	(88.5)	53.2
Operating profit (after exceptional items)	512.0	1,103.7
Profit on ordinary activities before tax	546.1	1,155.0
Basic earnings per share	13.0p	28.6p
Adjusted earnings per share (see below)	15.8p	27.3p
Dividend per share	14.4p	14.3p

	1999	1998
Group turnover	£m	£m
UK Retail	6,601.1	6,695.8
Overseas Retail	1,274.3	1,272.7
Financial Services	348.6	274.8
Total	8,224.0	8,243.3

Operating profit (before exceptional items) has fallen to £600.5m. It can be analysed as follows:

	1999	1998 As restated
Operating profit (before exceptional items)	£m	£m
UK Retail	478.9	871.5
Overseas Retail	(14.6)	66.9
Financial Services	110.7	89.4
Excess interest (see below)	25.5	22.7
Total	600.5	1,050.5

Profit on ordinary activities before tax is shown after charging £88.5m for exceptional items (last year, income of £53.2m) and a net additional cost of £21.1m (last year, £13.0m) following the early

adoption of FRS15, 'Tangible Fixed Assets'. Adjusting for this additional charge gives a profit before tax and exceptional items of £655.7m (last year £1,114.8m) which compares to the forecast range of £625m-£675m set out in the Trading Statement published in January.

REVIEW OF PERFORMANCE BY BUSINESS SEGMENT

- UK RETAIL

Sales

An analysis of the 1.5% fall in UK retail sales (including VAT) for the year is given below, divided between the three product groups and the four reporting periods for the year:

	First quarter Inc %	Second quarter Inc %	15 weeks to 9 Jan Inc %	11 weeks to 27 March Inc %	Total Inc %
Clothing, footwear & gifts	4.9	(0.3)	(6.1)	(7.5)	(2.6)
Home furnishings	5.0	(7.1)	(6.3)	(5.3)	(3.9)
Foods	3.6	0.5	(1.1)	(0.8)	0.4
Total	4.4	(0.3)	(4.4)	(4.6)	(1.5)
Like for like sales	2.4	(2.1)	(7.2)	(7.4)	(4.1)

Expressed on a like-for-like basis, total sales are 4.1% below last year, representing a 5.6% decrease in clothing and home furnishings and a 1.4% decrease in foods. (Like-for-like sales have been calculated by comparing total sales with new and developed stores excluded, and sales deflected from existing stores added back.)

Cost of sales

A significant shortfall from expected sales, and the subsequent margin impact to clear the goods, led to a contribution £128m below last year.

Operating expenses

(i) Investment programme

The net adverse impact on profits of the investment programme announced in 1997/98 has been estimated as £90m (last year £15m). This comprises:

- £30m (net of additional revenues generated) relating to the redevelopment of the Littlewoods stores acquired in February 1998 and the accompanying modernisation of the existing Marks & Spencer stores in the same locations.
- £20m loss of interest income.
- £20m on the development of the clothing mail order business net of revenues generated.
- £20m on the installation of Point-of-Sale equipment in UK and European stores.

The new Point-of-Sale tills are Year 2000 compliant and have the facility to allow transactions in multiple currencies, including the euro.

FINANCIAL REVIEW

(ii) Pension fund

This year's triennial valuation of the UK pension fund has confirmed that the annual pension cost has increased by approximately £20m per annum, the amount estimated and provided for in the 1997/98 accounts (see note 9A on page 29 for further details). This increase is mainly due to the abolition of recoverable ACT.

(iii) Depreciation

Depreciation charges have increased by 37% to £193m (last year £141m). Although this relates in part to the investment programme, a significant proportion of the increase relates to the following:

- As a result of the publication of FRS15, 'Tangible Fixed Assets', the Board has reviewed the Group's accounting policy in respect of properties and their cost of fit out and has amended it as follows:
 - (a) Freehold and long-leasehold buildings are depreciated down to their estimated residual value over their estimated remaining economic lives (no depreciation was charged previously on grounds of immateriality – see note 11B on page 32).
 - (b) Fit out, which was previously accounted for on a replacement basis, has been identified separately from buildings and is depreciated over periods ranging from 10-25 years depending on its nature. In accordance with FRS15 this change has been dealt with as a prior year adjustment.

The effect of the above changes is to increase the depreciation charge for the year by £37.4m (last year £22.5m) and reduce the charge for repairs and renewals by £18.3m (last year £10.5m). The net effect on the UK is to decrease operating profits for the years ended 31 March 1999 and March 1998 by £19.1m and £12.0m respectively.

- As part of our strategy to develop and implement revised store formats we have charged accelerated depreciation on certain items of store equipment which are to be replaced next year. This has resulted in an additional £8.3m depreciation charge.

– OVERSEAS RETAIL

A full analysis of sales and operating profits is given in the segmental analysis on page 24. The movements in exchange rates used for translation, compared to the same period last year, have reduced overseas sales by £4.7m and overseas operating profit by £0.8m.

Europe has made an operating loss of £26.9m before impairment (see below) compared to a profit of £31.8m last year. This result includes the additional cost of £2.0m (last year £1.0m) following the adoption of FRS 15. The strength of sterling has led to an increase in the cost of UK sourced M&S merchandise. This has reduced European margins by approximately £32m.

Operating profit in the Americas is £1m below last year. Within this, Brooks Brothers has been affected by the recession in Japan.

The operating loss in the Far East of £3.5m is £21.8m below last year's operating profit, reflecting the poor state of economies across the region.

Closure of Canadian operations

As part of the Company's ongoing strategic review, the Group announced (in April 1999) the closure of its Canadian operations which will cease trading during the financial year ending 31 March 2000. The total cost of closure, which will be included in the results for next year, is estimated at £25m, excluding goodwill of £24.4m previously written off to reserves.

– FINANCIAL SERVICES

This profit centre consists of five different business units:

Marks & Spencer Store Cards
Personal Lending
Unit Trusts
Life Assurance
MS Insurance in Guernsey

The overall results are given in the segmental analysis on page 24.

The first four of the five businesses are based in Chester and managed as a single business with four profit centres (the results for the Life Assurance company being aggregated on an Embedded Value basis). The Guernsey Captive insurance company derives the majority of its underwriting business from the Chester-based activities.

The scale and value of current business levels is indicated below:

	Account Cards	Personal Lending	Unit Trusts	Life Assurance	
Number of accounts/ policy holders (000s)	1999 1998	5,166 5,049	548 449	171 134	30 15
Value of customer outstandings/funds under management (£m)	1999 1998	652 617	1,283 955	1,101 831	n/a n/a

The credit activities are carried out within Marks and Spencer Financial Services Limited, a bank regulated by the FSA. The Unit Trust, Life Assurance and Corporate PEP/ISA businesses are carried out by companies regulated by IMRO, PIA and the FSA.

EXCEPTIONAL ITEMS

– Business restructuring

We have charged £24.5m against the profits of the UK Retail profit centre in respect of job losses at head office as a result of business restructuring. This includes £10m in relation to the rationalisation of senior management. The balance of £14.5m relates to head office job losses at other levels.

FINANCIAL REVIEW

– Impairment of European Fixed Assets

Following the recent deterioration in the performance of our European business we reviewed the book values of our European properties in accordance with FRS 11, 'Impairment of Fixed Assets and Goodwill'. This resulted in a provision of £64m being made against the value of European properties in the first half of the year.

– Recovery of overpaid VAT

£53.2m was received last year in respect of VAT overpaid on sales in earlier accounting periods. This followed the Court of Appeal decision in a case brought by Littlewoods Home Shopping.

INTEREST

Net interest income fell to £27.9m from £54.1m last year. This was caused by the fall in sterling interest rates and a reduction in average sterling cash balances (including interest-bearing investments) to £820m (last year £1,200m).

Interest payments on intra group and external borrowings for the Financial Services business are charged to that business as cost of sales. The operating profit for Financial Services is shown in the segmental analysis on page 24. The total interest cost incurred by Financial Services was £102.3m. In the consolidated accounts, the excess of intra group interest over third party interest payable, has been added back in the segmental analysis to arrive at total operating profit.

TAXATION

The Group tax charge for the year is £176.1m, giving an effective rate of 32% after exceptional charges. This is an increase on the previous year's rate of 29%. The increase results from exceptional charges and unrelieved losses arising overseas, both of which are not allowable for UK tax purposes. The amount is offset by capital allowances in excess of depreciation and a reduction in the rate applicable to deferred tax.

EARNINGS PER SHARE

An adjusted earnings per share figure of 15.8p (last year 27.3p) has been calculated to give a clearer understanding of the trading performance of the Group. It excludes the effect of the exceptional items noted above. Details of the calculation are given in note 8 on page 27.

CASH FLOW

The analysis of the increase in net debt shows the operating cash flows within retailing and Financial Services activities. The cash outflow from Financial Services operating activities includes a £363m increase in loans and advances to customers.

Of the resulting net debt of £1,182m, £1,472m relates to Financial Services. (See Balance Sheet commentary on page 4.)

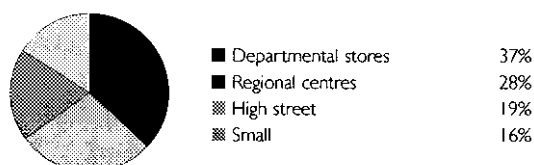
Cash flow analysis	£m
Net debt at 31 March 1998	(319)
Cash inflow from retail operating activities	704
Cash outflow from Financial Services operating activities	(232)
Capital expenditure (net of disposals)	(638)
Dividends	(413)
Tax	(346)
Other non-operating cash inflows	62
Increase in net debt	(863)
Net debt at 31 March 1999	(1,182)

NEW FOOTAGE

During 1998/99 there was an unprecedented increase in footage both in the UK and overseas. Total worldwide footage increased by 1.5 million sq ft as shown below:

**Worldwide footage expansion 1998/99
1.5 million sq ft**

Total UK footage increased by nearly 1 million sq ft. Of this additional footage, 536,000 sq ft related to the opening of 16 of the 19 Littlewoods stores, which were acquired during 1998. New store openings account for a further 219,000 sq ft including Bluewater in Kent (146,000 sq ft), Newton Breda in Northern Ireland (34,000 sq ft) and Covent Garden, London (19,000 sq ft). The resulting shape of the UK chain is shown below:

UK shape of the chain (based on footage)

Nine European stores were opened. Four new stores in Germany – Dortmund, Essen, Wuppertal and Frankfurt – added around 150,000 sq ft. We also opened stores in Spain, France, Eire and Luxembourg.

Brooks Brothers US opened 19 new stores, resulting in net additional footage of around 100,000 sq ft.

On average, we traded on 6.7% more footage in the UK in 1998/99 and on an additional 12.2% footage overseas.

FINANCIAL REVIEW

Next year, we plan to open a further 580,000 sq ft of new selling space of which just over half is in the UK. The bulk of our new overseas footage (180,000 sq ft) will be in North America, including a new flagship store for Brooks Brothers at Fifth Avenue in New York.

CAPITAL EXPENDITURE

Capital expenditure during the year totalled £683m, the main components being:

Capital expenditure 1998/99

The cost of Littlewoods related developments totalled £150m during 1998/99. This included the costs incurred on Littlewoods stores prior to their opening as well as the capital element of the modernisation of existing Marks & Spencer stores in the same locations.

Capital expenditure is expected to reduce next year to around £475m. Of this, £200m is for overseas development including the purchase of the freehold interest in our flagship store in Paris. Apart from this purchase, expenditure overseas will be significantly below 1998/99.

FINANCING

During the year, the US\$450m Promissory note and the £150m Eurobond were repaid. Additional financing was arranged as follows:

- In January 1999, a subsidiary issued a fixed rate \$400m Medium Term Note (MTN) in the public market, maturing in February 2004. The proceeds were swapped into a sterling obligation with interest payments linked to an attractive rate below six months £LIBOR.
- During the financial year the MTN programme was increased to £1.25bn and this has been used as a flexible and cost-effective source of funds. 25 MTNs were issued in various currencies with a sterling equivalent of £1,054m. Maturities ranged from 6 months to 5 years. At the end of the financial year total outstandings within this programme equated to £1,132m.

Other sources of finance were US\$ Commercial Paper and bank borrowings both in the London money market and by individual overseas subsidiaries. A committed facility of \$50m and uncommitted credit facilities of £770m are in place in the UK.

Details of the maturity profile of borrowings are given in note 19B on page 36.

During the year, both the leading credit agencies reduced the Group's long-term credit ratings to AA+ (Standard & Poor's) and Aa1

(Moody's). This is not expected to have a significant effect either on the Group's ability to access the international capital markets or on the interest rates payable.

BALANCE SHEET

The Group balance sheet consolidates retailing and Financial Services businesses which have very different characteristics. The salient figures are disaggregated below:

Retail & Financial Services Balance Sheets 31 March 1999

	Retailing 1999 £m	Financial Services 1999 £m	Total Group 1999 £m
Fixed assets	4,430.9	17.8	4,448.7
Stocks	514.7	—	514.7
Loans & advances to customers	—	1,935.2	1,935.2
Other debtors	366.5	54.1	420.6
Net cash/(debt)	290.3	(1,471.9)	(1,181.6)
Trade & other creditors	(1,093.9)	(146.5)	(1,240.4)
Net assets	4,508.5	388.7	4,897.2

Loans and advances to customers have increased to £1.9bn (last year £1.6bn). Within this, £1.3bn relates to personal lending with the balance representing storecard debt.

TREASURY POLICY AND FINANCIAL RISK MANAGEMENT

The Board approves treasury policies, and senior management directly controls day-to-day operations.

The Group's Treasury uses derivatives and financial instruments to manage risk by altering the interest rates and currency exposures on investment, funding and foreign exchange contracts so that the resulting exposures give greater certainty of future costs. Transactions are only undertaken when there is an underlying commercial justification and with counterparties which fulfil predetermined credit criteria. The main types of instrument used are interest rate and currency swaps, forward rate agreements and forward currency contracts. The Group does not 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.

Interest rate exposure for Financial Services is managed, as far as practical, by matching maturities of borrowings and their interest basis with the terms of the customer debt.

Currency exposure arising from exports from the UK to overseas subsidiaries is managed by the use of forward currency contracts for periods of approximately 10-15 months.

The details of derivatives and other financial instruments required by the new Financial Reporting Standard, FRS13, are shown in notes 16, 19 and 22-24 to the Accounts.

FINANCIAL REVIEW

Y2K

The Year 2000 programme started in 1996. The aim of the programme is to ensure that the business is able to trade in the Millennium without disruption. It is widely understood that Year 2000 compliance cannot be guaranteed and our analysis has confirmed this. Our strategy, therefore, has been to manage the risk of failure to an acceptable level. The objectives of the programme are:

- Where necessary modify or replace IT systems
- Identify and solve problems which could arise from computer chips embedded in non-IT equipment
- Update or create contingency plans for all critical systems and processes
- Create a support framework for the Millennium weekend.

Where replacement of systems has been identified as a necessity, the process will be complete by the autumn. Changes to existing systems, apart from a small percentage of low priority systems, will have been completed by June 1999.

Our work on non-IT equipment has identified some non-compliant items and their correction will be completed by the end of September 1999.

Contingency plans have been in existence for a number of years, as part of a progressive Disaster Recovery policy. These have been reviewed and some require updating to take account of the unusual circumstances of the Millennium. This work, and the complementary Millennium support planning, is progressing well.

The key external risks to Marks & Spencer are its merchandise and logistics suppliers. Since early 1998, a two-way communication programme has been in place, augmented by site visits. Our key suppliers are making satisfactory progress towards compliance. We will continue to work closely with them.

Specific costs related to Year 2000 will be £26m across the Group of which £9m is included in this year and £3m in last year.

Our normal business programmes that are due to be completed by the Millennium, such as the roll out of the new Point-of-Sale systems, will also ensure Year 2000 compliance but are not included in the above costs.

With changes to existing systems, new systems, up-to-date contingency plans and detailed support arrangements, we believe there is little possibility that system failure will significantly affect the ability of the business to trade. Our continuing risk management programme will be used to manage eventualities.

EMU

The Group's preparation for the introduction of the euro on 1 January 1999 ensured that we were able to accept euro denominated transactions in all our Continental European stores and the UK. As for most other retailers the number of transactions in euros during January-March 1999 has been very small.

Although the number is forecast to grow during the transitional period, it is not expected to be significant until the arrival of euro notes and coins in January 2002.

New tills will be in all our European stores by October this year, and will give us the flexibility to accept the euro – and other currencies – as required.

Our two stores in the Netherlands are now displaying euro prices alongside the Guilder, and important lessons are being learnt which will be incorporated in the extension of dual pricing to the other countries in the eurozone.

The planning assumptions we have made for the UK are consistent with the national changeover plan published by the Treasury. While the UK remains outside the eurozone, we will continue to use sterling as our principal trading and accounting currency. Our priority over the next two years will focus on the changes required to IT systems and accounting procedures, and the training of our staff. We will ensure that the changes we make to our European systems can also be applied in the UK, to minimise the costs should the UK join the eurozone in the future.

Costs incurred for the introduction of the euro to date are not significant. Costs associated with UK entry remain difficult to forecast until the timing is more certain.

ACCOUNTING DEVELOPMENTS

The Accounting Standards Board (ASB) has issued five Financial Reporting Standards during the year (FRS11-15), all of which have been adopted in this financial year.

The standards which have had most impact are FRS11, 'Impairment of Fixed Assets and Goodwill' and FRS15, 'Tangible Fixed Assets'. The impact on profits resulting from the adoption of these standards is discussed above.

We held discussions with the ASB during the development of FRS15 and expressed our concern that the existing use value (EUV) basis for the valuation of properties is not appropriate to our circumstances. There is usually a 'special interest' in the sites we seek because of their size and scarcity, and the cost is therefore often in excess of EUV. Our investment in these properties is justified by the cash flow they generate. We have therefore adopted the transitional arrangement under FRS15 and will retain the current book values for our existing properties and record all future additions at cost. We do not intend to adopt a policy of revaluation in the future.

GOING CONCERN STATEMENT

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.

CORPORATE GOVERNANCE

THE COMPANY BELIEVES IN AND IS COMMITTED TO HIGH STANDARDS OF CORPORATE GOVERNANCE.

In June 1998 the Combined Code: Principles of Good Governance and Code of Best Practice ("Combined Code") was published. As reported to shareholders last year, the Board of directors has reviewed its existing standards of Corporate Governance and can now report on how the principles in the Combined Code have been applied:

DIRECTORS

With effect from 1 June 1999 the Marks & Spencer Board will comprise 16 directors, seven of whom are non-executive. The Chairman, Sir Richard Greenbury, relinquished the post of Chief Executive on 31 January 1999 with Peter Salsbury taking on that role with effect from 1 February 1999. There are two Managing Directors, Guy McCracken and Andrew Stone. Sir Martin Jacomb is the Company's senior independent director. In view of their previously held executive positions in the Company the Board does not consider Sir Richard Greenbury or David Sieff as independent for the purposes of the Combined Code.

The Board is supplied with appropriate and timely information and meets monthly. It has adopted a schedule of matters specifically reserved to it for decision. In addition to the formal monthly Board meetings, the executive directors meet weekly to monitor and guide the Group's performance.

All directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring compliance with statutory and regulatory requirements and that board procedures are followed. He assists the Chairman in ensuring that all directors are properly briefed on issues arising at Board meetings. The Board has also established a procedure whereby any directors, wishing to do so in the furtherance of their duties, may take independent professional advice at the Company's expense.

All directors are required to submit themselves for re-election and under the Company's current Articles of Association, one-third of the Board must retire annually, offering themselves for re-election by shareholders. Details of those retiring this year are given in the Report of the Directors on page 19.

PRINCIPAL BOARD COMMITTEES

Audit Committee: comprises six non-executive directors. The Committee is responsible for giving an independent overview of systems of internal financial control and financial reporting processes. It is chaired by Sir Martin Jacomb and meets three times per year. The external auditors and the chief internal auditor attend all meetings. All directors have the right to attend. The minutes of these meetings are circulated to all directors.

Remuneration Committee: comprises five non-executive directors. It is chaired by Brian Baldock and meets at least four times per year. The Remuneration Report to shareholders appears

on pages 8 to 15 which gives details of each director's remuneration together with policy and procedures regarding senior management remuneration. The remuneration of non-executive directors is determined by the Chief Executive together with the executive directors.

Nomination Committee: comprises all the non-executive directors. It is chaired by Sir Richard Greenbury and meets as required to select and propose to the Board suitable candidates for appointment as executive and non-executive directors.

Capital Expenditure Committee: comprises the Chief Executive, the Managing Directors and three executive directors. It is chaired by the Chief Executive and meets monthly. It exercises a delegated authority within financial parameters set by the Board in relation to capital expenditure.

Information Technology Review Committee: comprises the Managing Directors and three executive directors. It is chaired by Guy McCracken and meets five times per year. It exercises a delegated authority within financial parameters set by the Board in relation to information technology expenditure.

Community Involvement Committee: comprises one Managing Director, three executive directors, two non-executive directors and a senior manager. It is chaired by Guy McCracken and meets three times per year. It exercises a delegated authority within financial parameters set by the Board in relation to charitable donations and community involvement.

RELATIONS WITH SHAREHOLDERS

The Company is committed to ongoing communication with its shareholders through the regular interim and annual reports and other trading statements, as well as through the AGM. The Company's website at <http://www.marks-and-spencer.co.uk> contains both corporate and customer information. Regular dialogue and presentations take place with institutional shareholders through the Company's investor relations programme.

The Company holds its AGM in July in London which is well attended by shareholders who are given the opportunity to ask questions of the Board.

INTERNAL FINANCIAL CONTROL

The Board has overall responsibility for the Group's systems of internal financial control and for monitoring their effectiveness.

On behalf of the Board, the Audit Committee examines the effectiveness of these systems. This is achieved primarily through agreeing the scope of the internal audit programme and reviewing its findings, reviews of the half year and annual financial statements, and a review of the nature and scope of the external audit. Any significant findings or identified risks are closely examined so that appropriate action can be taken.

The annual operating and budgetary plans for each operating area are reviewed by the relevant executive directors prior to submission

CORPORATE GOVERNANCE

to the Board for approval. This process includes the identification and assessment of the business and financial risks inherent in each operating area. The process is repeated quarterly and compared with actual results for the previous periods and latest forecasts for the balance of the year. The four-year Group capital plan is similarly reviewed and updated by the Capital Expenditure Committee and then the Board. Treasury and risk management policies are reviewed by the finance director quarterly and policy changes are approved by the Board.

The Board maintains full control and direction over appropriate strategic, financial, organisation and compliance issues, and has put in place an organisation structure with formally defined lines of responsibility and delegation of authority. There are established procedures for planning and capital expenditure, for information and reporting systems, and for monitoring the Group's businesses and their performances. The Board has delegated to executive management the implementation of the systems of internal financial control within an established framework that applies throughout the Group; these systems are monitored and supported by an independent internal audit function which operates internationally.

The systems of internal financial control are designed to provide reasonable, but not absolute, assurance against material misstatement or loss. They include:

- Comprehensive budgeting systems with an annual budget approved by the Board
- Regular consideration by the Board of actual results compared with budgets and forecasts
- Quarterly reviews by the Board of year-end forecasts
- Half-yearly reviews by the Board of the Group capital plan
- Clearly defined capital investment control guidelines and procedures set by the Board
- Regular reporting of legal and accounting developments to the Board.

The Group's control systems address key business and financial risks. The work of the internal audit department is focused on areas of greatest risk as identified by risk analysis and in accordance with an annual audit plan approved each year by the Audit Committee and by the Board. The Board receives a full report from the chief

internal auditor each year on the department's work and findings. The external auditors are engaged to express an opinion on the financial statements. They review and test the systems of internal financial control and the data contained in the financial statements to the extent necessary to express their audit opinion. They discuss with management the reporting of operational results and the financial condition of the Group.

The directors, through the Audit Committee, have reviewed the effectiveness of the Group's systems of internal financial control.

Compliance with the Combined Code

In relation to the year ended 31 March 1999, certain aspects of compliance with corporate governance require explanation:

- Until 31 January 1999 the roles of Chairman and Chief Executive were combined but balanced by non-executive directors who bring strong independent judgement and considerable knowledge and experience to the Board.
- Until 31 January 1999, six of the 21 directors were non-executive, being less than one third of the Board. Since then the one third threshold has been met and with effect from 1 June 1999, seven of the 16 directors will be non-executive.
- Detailed guidance on how to apply the Combined Code in respect of wider aspects of internal control is yet to be finalised. Therefore the confirmation of compliance is restricted to internal financial control as permitted by the London Stock Exchange.
- The Combined Code was published in June 1998 after the AGM Notice of Meeting had been approved and therefore:
 - the Board did not consider whether last year's Remuneration Report should be submitted for approval by shareholders at that AGM;
 - the relevant provision of the Articles of Association of the Company relating to the retirement by rotation of directors does not fully accord with the Combined Code. An appropriate amendment will be proposed when the Company's Articles are next revised. In accordance with the Articles, one third of the Board retired by rotation at the 1998 AGM. This included one director, Paul Smith, who had been in office for four years.

REMUNERATION REPORT

STRATEGY

Marks & Spencer operates in an international trading environment and it is an essential part of our strategy that we continue to attract, train, develop and retain talent at all levels within the Company. The level of remuneration and benefits we are able to offer is a key factor in successfully achieving this objective.

The Company sets out to provide highly competitive salaries and benefits for all its employees consistent with its growth and strategy.

The Board has adopted the principles of good governance relating to directors' remuneration as set out in the Combined Code. This Remuneration Report follows the provisions in Schedule B to the Code.

REMUNERATION COMMITTEE

The Remuneration Committee comprises Brian Baldock (Chairman), Sir Martin Jacomb, Sir Michael Perry, Dame Stella Rimington and Sir Ralph Robins. It recommends to the Board the Company's framework for rewarding its senior management, ie executive directors, divisional directors and executives. The Committee's approach is consistent with the Company's overall philosophy that all staff should be appropriately rewarded and it keeps itself informed of the developments in best practice in the field of remuneration.

REMUNERATION POLICY

The policy of the Company aims to align the interests of all staff as closely as possible with the interests of shareholders in promoting the Company's progress. Schemes encouraging employees at all levels to acquire and hold shares in the Company are an important element of that policy. Share ownership remains very popular within the Company, illustrated by the fact that over 42,000 staff hold approximately 30 million shares in their own right and 33,000 staff hold options on 61 million shares under the SAYE scheme.

The responsibility of the Remuneration Committee is to reward senior management competitively taking account of both Company and individual performance. The total remuneration is made up of three major components: salary and benefits, annual bonus scheme and a long-term incentive in the form of a Senior Staff Share Option Scheme. The performance related elements form a significant proportion of the total package. Targets required to meet the thresholds of payment under both the bonus and share option schemes are considered to be challenging and motivating.

SALARY AND BENEFITS

Salary should be competitive and appropriate reviews should take place, normally annually, reflecting market conditions and personal performance. In making recommendations on the framework the Remuneration Committee uses information available in specific published job-matched surveys of similar companies and annual reports. As appropriate, specific surveys are commissioned to supplement the published information.

The salaries of the Chairman, Chief Executive, executive directors and divisional directors, are set by the Remuneration Committee in June of each year after reviewing Company and market conditions and the performance of the individual. In the cases of the executive

directors and divisional directors, the Committee is assisted by the Chief Executive in this review.

In July 1998 a repositioning exercise was carried out in order to correct identified anomalies resulting from a comparative review of salaries.

Senior management working in the United Kingdom are entitled to a company car and fuel.

ANNUAL BONUS SCHEME

Bonus payments are based upon actual achievement against challenging Group performance targets set in the annual operating plan approved by the Board. The Group introduced an annual bonus scheme for executive directors and divisional directors in 1988, which was extended in 1995 to include executives. The bonus ranges from 0% to a maximum of 30% of participants' salary when target levels are exceeded. The bonus does not form part of pensionable salary, nor is it eligible for profit sharing. No bonus was earned by participants in the year under review due to Company performance being below set targets.

The Company does not have a long-term bonus scheme.

SENIOR STAFF SHARE OPTION SCHEME

We have looked at alternatives to the share option scheme and after consideration we believe we have a scheme that is readily understood by the participants, fits the culture of the business and has historically delivered an appropriate level of reward. The Remuneration Committee has imposed performance criteria for the exercise of all options granted since 1996. Details of the share schemes are given in section 5 of this report.

SENIOR MANAGEMENT RESTRUCTURE

During the year the non-executive directors have participated in the senior management succession plans and the subsequent restructure. Four executive directors, J K Oates, D K Hayes, C Littmoden and S J Sacher are leaving the business.

The existing policy for Early Retirement Pension, details of which are in section 3(ii), facilitated the implementation of the new Business structure.

SERVICE CONTRACT

No director has a Service Contract with the Company or any of its subsidiaries.

NON-EXECUTIVE DIRECTORS

The remuneration of non-executive directors is determined by the Chief Executive together with the executive directors. Non-executive directors are not invited to participate in the Company's Profit Sharing, Save As You Earn or Senior Staff Share Option Schemes. They do not participate in the annual bonus scheme or the Early Retirement Plan. Their fees are non-pensionable. No increase in fees was made in the year under review.

REMUNERATION REPORT

I DIRECTORS' EMOLUMENTS

	Salary £000	Profit Share £000	Benefits £000	Bonus £000	Total 1999 £000	Total 1998 £000
Chairman		(5)	(6)	(7)		
Sir Richard Greenbury ⁽¹⁾	772	n/a	38	n/a	810	969
Executive directors						
P L Salsbury (Chief Executive) ⁽²⁾	420	12	7	—	439	435
P G McCracken	380	11	18	—	409	435
Lord Stone of Blackheath	393	11	12	—	416	427
R Aldridge	278	8	26	—	312	300
J R Benfield	248	8	19	—	275	286
R W C Colvill	320	10	12	—	342	344
Mrs C E M Freeman	210	6	14	—	230	229
B S Morris	210	6	14	—	230	226
J T Rowe	275	8	19	—	302	292
Non-executive directors						
B F Baldock	50	n/a	n/a	n/a	50	50
Sir Martin Jacomb	34	n/a	n/a	n/a	34	34
Sir Michael Perry	34	n/a	n/a	n/a	34	34
Dame Stella Rimington	34	n/a	n/a	n/a	34	34
Sir Ralph Robins	34	n/a	n/a	n/a	34	34
The Hon David Sieff	34	n/a	11	n/a	45	43
Retired directors (with effect from)						
D K Hayes (31 May 1999)	230	7	38	—	275	275
C Littmoden (31 May 1999) ⁽³⁾	251	n/a	336	—	587	595
S J Sachse (31 May 1999)	262	8	23	—	293	310
P P D Smith (31 March 1999) ⁽⁴⁾⁽⁵⁾	318	n/a	361	—	679	624
J K Oates (31 January 1999) ⁽⁶⁾⁽⁷⁾	510	n/a	35	—	545	646
D G Trangmar (31 March 1998)	n/a	n/a	n/a	n/a	n/a	341
D G Lanigan (31 July 1997)	n/a	n/a	n/a	n/a	n/a	37
The Rt Hon The Baroness Young (31 July 1997)	n/a	n/a	n/a	n/a	n/a	13
Total	5,297	95	983	—	6,375	7,013

- (1) The roles of Chairman and Chief Executive were split from 1 February 1999. Sir Richard Greenbury, the Chairman and Chief Executive, relinquished the role of Chief Executive on 31 January 1999. As Chairman he receives a salary of £450,000 pa. As a non-executive director he no longer participates in the profit share or bonus schemes, but retains share options previously granted under the Senior Staff Share Option Scheme and SAYE Option Scheme.
- (2) P L Salsbury, formerly Managing Director, was appointed Chief Executive from 1 February 1999, on a salary of £560,000 pa.
- (3) J K Oates resigned from the Board and took early retirement on 31 January 1999. Terms concerning the termination of employment have been implemented in accordance with his contract of employment amounting to £587,000. This relates to salary and benefits for the 11 months outstanding on his employment contract. Additionally, should a senior management bonus be payable for the 31 March 2000 financial year, he will receive a further amount equal to 9/12ths of that bonus (maximum £85,000), which will be shown in next year's Annual Report. He has been awarded an Early Retirement Pension (see section 3(ii) of this report) of £166,000 pa payable for three and a half years, until the normal senior management retirement age of 60.
- (4) The highest paid director was Sir Richard Greenbury, whose emoluments were £810,000. No gains were made on his share options this year. His accrued pension entitlement at the end of the year was £465,000. Last year, the highest paid director was J K Oates, whose emoluments, including gains on share options, were £1,393,000 with an accrued pension entitlement at the end of last year of £268,000.
- (5) In line with all other members of staff, executive directors performing their duties mainly in the UK are allocated a profit share based on a percentage of their salary. Further information on profit sharing is given in note 9C to the financial statements.
- (6) Benefits for UK directors relate mainly to the provision of cars, fuel and travel. For expatriate directors see footnote (8).

REMUNERATION REPORT

- (7) A bonus is not payable for the year under review as the Group performance targets were not achieved. (Last year a bonus of 14.5%, amounting to £2.3m was paid).
- (8) Expatriate directors carrying out their duties overseas have their remuneration adjusted to take account of local living costs. This adjustment is to put them in a position, after taking into account taxation differentials, where they are no better or worse off as a result of carrying out their duties overseas. Payments made to them, or on their behalf, such as allowances for working overseas and the provision of accommodation are treated as benefits for the purpose of the above table and are non-pensionable.
- (9) Included in the salary figure for J K Oates and P P D Smith is a non-pensionable payment in lieu of holidays.

2 GAINS MADE ON DIRECTORS' SHARE OPTIONS

	1999 £000	1998 £000
Sir Richard Greenbury	–	242
PL Salsbury	4	30
P G McCracken	7	49
Lord Stone of Blackheath	11	152
R Aldridge	7	309
J R Benfield	7	470
R W C Colvill	–	375
Mrs C E M Freeman	14	240
B S Morris	–	68

	1999 £000	1998 £000
J T Rowe	–	66
D K Hayes	10	0
C Littmoden	–	9
S J Sacher	–	201
P P D Smith	56	188
J K Oates ⁽⁹⁾	–	747
D G Trangmar	n/a	172
The Hon David Sieff	n/a	84

- (1) The total gain made by the directors on the exercise of their share options was £116,000 (last year £3.4m).
- (2) Details of options giving rise to these gains can be found on pages 13 to 15. The gains are calculated as at the date of exercise although the shares may have been retained. (Directors' interests in shares are shown on page 16.)
- (3) J K Oates resigned from the Board and took early retirement on 31 January 1999. His details are calculated to this date.

3 DIRECTORS' PENSION INFORMATION**(i) Pension Scheme**

The executive directors, management and staff all participate in the Company's Pension Scheme. The Scheme is non-contributory, fully funded and the subject of an Independent Trust. With effect from 1 January 1997, the normal retirement age under the Pension Scheme for all staff below age 60 (including executive directors) engaged on or before 31 December 1995, was changed from 60 to 65. Accrued rights of these staff were not affected by the change. For staff engaged on or after 1 January 1996 the normal retirement age is 65.

The Pension Scheme enables members to achieve the maximum pension of two-thirds of their salary in the twelve months ending at normal retirement age after 30 years' service. For staff who joined the Scheme prior to 1 January 1996 no actuarial reduction is applied to pensions payable from the age of 58. Staff who joined the Scheme on or after 1 January 1996 are subject to an actuarial reduction in their pension if payment starts prior to age 65.

In the case of earnings over £100,000 per annum, the pensionable salary is based on an average of the earnings over the last three years to retirement.

Pension commutation to enable participants to receive a lump sum on retirement is permitted within Inland Revenue limits.

For death before retirement, a capital sum equal to four times salary is payable, together with a spouse's pension of two-thirds of the member's prospective pension at the age of 65. For death in retirement, a spouse's pension is paid equal to two-thirds of the member's current pension. In the event of death after leaving service but prior to commencement of pension, a spouse's pension of two-thirds of the accrued preserved pension is payable. In all circumstances, children's allowances are also payable, usually up to the age of 16. Substantial protection is also offered in the event of serious ill health.

Post-retirement pension increases for pension earned before 6 April 1997 are purely discretionary, but the practice has been to award annual increases in line with inflation.

REMUNERATION REPORT

3 DIRECTORS' PENSION INFORMATION (CONTINUED)

	Age at 31 March 1999	Years of service at 31 March 1999	Increase in transfer value in excess of inflation ⁽¹⁾ during the year ended 31 March 1999 £000	Increase in pension earned in excess of inflation ⁽¹⁾ during the year ended 31 March 1999 £000	Accrued entitlement at year end	
					31 March 1999 ⁽²⁾ £000	31 March 1998 £000
Sir Richard Greenbury ⁽³⁾	62	45	n/a	n/a	465	415
P L Salsbury	49	28	421	31	227	189
P G McCracken	50	23	274	21	183	157
Lord Stone of Blackheath	56	31	333	20	230	204
R Aldridge	52	25	315	22	137	111
J R Benfield	49	28	259	19	138	115
R W C Colvill	58	14	247	14	89	73
Mrs C E M Freeman	46	24	205	17	97	78
B S Morris	51	28	130	9	69	59
J T Rowe	51	24	318	22	123	98
D K Hayes	50	29	271	20	135	111
S J Sacher	58	31	34	2	166	159
P P D Smith	58	33	460 ⁽⁵⁾	15	153	135
J K Oates ⁽⁴⁾	56	15	444	27	302	268

- (1) Inflation has been assumed to be equivalent to the actual rate of price inflation which was 3.2% for the year to 30 September 1998. This measurement date accords with the Stock Exchange Listing Rules.
- (2) The pension entitlement shown above is that which would be paid on retirement based on service to 31 March 1999, except for J K Oates who retired on 31 January 1999 and service is calculated to this date. At State Pension Age this will be reduced by a proportion of the Basic State Pension.
- (3) Sir Richard Greenbury has accrued no further benefit in the scheme since taking a lump sum in July 1997. This year's accrued entitlement has increased over last year due to two factors (i) the pension, having been deferred has, in line with normal practice, been increased by a late retirement factor; (ii) a notional increase has been applied in line with the pension increase for all current pensions.
- (4) Although J K Oates retired on 31 January 1999, he has yet to elect to commence drawing a pension. Therefore the amounts shown above are calculated on the assumption that payment of his pension is deferred until aged 60.
- (5) The greater part of the actuarial increase in the transfer value in respect of P P D Smith relates to the effect, on the year, of his full pension being paid immediately following his retirement at 31 March 1999. For the directors retiring on 31 May 1999, a similar effect is likely to be shown next year should they choose to draw their pension immediately.
- (6) C Littmoden is not shown in the above table because he has ceased to accrue benefits in the UK Scheme during his time in North America. His accrued entitlement at the time of his transfer to North America was £64,000.
- (7) The pension entitlement shown excludes any additional pension purchased by the member's Additional Voluntary Contributions.

(ii) Early Retirement Plan

The Board recognises the need to maintain a proper flow of succession to senior management positions. It has therefore decided that although the Company's Pension Scheme is administered assuming a normal retirement age of 65 for all staff, senior management should have a contractual retirement age of 60. To meet the same successional needs, it may be appropriate to ask a member of senior management to retire before the age of 60. To facilitate the smooth implementation of this process the Company has established an Early Retirement Plan for senior management. Where such a request is made by the Company the Remuneration Committee may, at its discretion, offer an unfunded Early Retirement Pension, separate from the Company pension, which will be payable from the date of retirement to age 60. To ensure that early retirement does not confer an advantage over continued employment the value of the Early Retirement Pension may not exceed the value of the individual's total net salary less net Company pension from actual date of retirement to age 60. Each Early Retirement Pension must be approved individually by the Remuneration Committee. The Early Retirement Pension is fully taxable; it is normally fully commutable at the election of the recipient.

REMUNERATION REPORT

3 DIRECTORS' PENSION INFORMATION (CONTINUED)

During the period under review the following directors were awarded an Early Retirement Pension payable until the normal senior management retirement age of 60:

	Date of retirement	Awarded per annum £000	Period of payment
JK Oates	31 January 1999	166	3 years 6 months
PPD Smith	31 March 1999	65	1 year 9 months
DK Hayes	31 May 1999	62*	9 years 6 months
C Littmoden	31 May 1999	84*	4 years 4 months
S J Sacher	31 May 1999	53*	1 year 1 month

* There is still the option for these awards to be commuted.

Payments made during the year under Early Retirement Pension arrangements awarded in previous years:

	Date of retirement	Early Retirement Pension paid during year to 31 March 1999 £000
D G Trangmar	31 March 1998	56
The Hon David Sieff	31 March 1997	51

4 PAYMENTS TO FORMER DIRECTORS

In relation to three former directors, their Pension Scheme entitlement is supplemented by an additional, unfunded, pension paid by the Company. Pensions paid by the Company to former directors were:

	1999 £000	1998 £000
Lord Sieff of Brimpton	63	61
The Lord Rayner ⁽¹⁾	21	83
C V Silver	82	79
	166	223

(1) Payments were made until The Lord Rayner's death on 29 June 1998.

Due to the continuing ill health of Lord Sieff the Company no longer incurs the cost of providing administrative support for the position of Honorary President but has instead met costs relating to his necessary daily care assistant. Payments of this nature in the period under review amount to £73,000 (last year £69,000).

Additional payments amounting to £70,000 (last year £70,000) have been made to C V Silver in respect of consultancy services provided to the Company.

5 LONG-TERM BENEFITS

The Company operates two types of share option scheme:

(i) a Save As You Earn (SAYE) Option Scheme approved by shareholders in 1981 and renewed by shareholders in 1987 and 1997.

The Scheme is open to all employees, including executive directors, who have completed two years' service and who open an approved savings contract. Inland Revenue rules limit the maximum amount which can be saved to £250 per month. When the savings contract is started options are granted to acquire the number of shares that the total savings will buy when the savings contract matures: options cannot normally be exercised until a minimum of three years has elapsed.

(ii) a Senior Staff Share Option Scheme, approved by shareholders in 1997, which is open to executive directors, divisional directors and executives. The Company has operated this type of scheme for over 20 years, following shareholder approval for earlier schemes in 1977, 1984 and 1987.

REMUNERATION REPORT

5 LONG-TERM BENEFITS (CONTINUED)

The 1997 Scheme is a two-tier scheme, comprising first tier options of up to four times annual earnings, and second tier options up to four times annual earnings, with an overall scheme limit of eight times annual earnings. The Remuneration Committee has imposed performance criteria for the exercise of all options granted since 1996. The performance criteria for the 1997 Scheme are:

- First tier options will be exercisable between three and 10 years from grant, and will be exercisable if the growth in the Company's normalised earnings per share, over the three-year period, has exceeded growth in the Retail Price Index over that period, by an average of at least 3% per annum.
- Second tier options will be exercisable between five and 10 years from grant, if the Company's normalised earnings per share growth, over any five year period, would place it in the upper quartile of the FTSE 100 companies.

First tier options may not be granted to an individual if it would cause the aggregate subscription price of shares over which options have been granted in the past 10 years to exceed four times his/her annual earnings. All grants in the past 10 years will count towards the overall limit of eight times earnings.

Participants who hold options granted under the 1984 and 1987 Schemes will continue to be bound by their Maximum Option Value (MOV) of four times earnings, and may only exercise options up to this value. This means that many participants hold more options than they will be able to exercise. At the discretion of the Committee, MOV can be increased in line with earnings. As soon as options have been exercised up to a value of four times earnings, all outstanding options automatically lapse.

Following the 1996 Finance Act, new grants of Inland Revenue Approved Options have been limited to £30,000. Grants in excess of this limit, under the 1997 Scheme, will be Unapproved Options which confer no tax advantage on the participants.

At the discretion of the Remuneration Committee, retiring directors can take their options for all schemes into retirement. Options held under the 1984 and 1987 Schemes continue to be bound by their MOV and can be exercised subject to the option period. For options held under the 1997 Scheme the performance criteria and time restrictions are waived but they will lapse if not exercised within 12 months of retirement.

Directors' long-term benefits

The options detailed in the table below may not be exercisable for any one of the following reasons:

- their value is in excess of the MOV
- the options have not been held for three years and therefore cannot be exercised under scheme rules
- the options have not met the appropriate performance criteria.

The market price of the shares at the end of the financial year was 408p (360.25p on Friday 29 January 1999); the highest and lowest share prices during the financial year were 595p and 333.25p respectively.

	At 1 April 1998	Granted during the year	Exercised/ lapsed during the year	At 31 March 1999	Option price (pence)	Exercise price (pence)	Option period
Sir Richard Greenbury							
Exercisable	30,638			87,458	329.0		May 95 – May 02
Not exercisable	938,110			881,290	390.0 ⁽¹⁾		May 95 – May 05
SAYE	4,434			4,434	389.0		Jan 02 – Jun 02
P.L.Salsbury							
Exercisable	151,135			204,824	323.0 ⁽¹⁾		May 94 – May 04
Not exercisable	333,641			435,134	480.0 ⁽¹⁾		May 97 – Jun 08
SAYE	9,480			5,550	351.0 ⁽¹⁾		Jan 03 – Jun 04
		155,182			557.0		Jun 03 – Jun 08
			3,930 ⁽²⁾		229.0	333.25	
P.G.McCracken							
Exercisable	251			46,386	340.0 ⁽¹⁾		May 95 – May 03
Not exercisable	325,986			472,823	486.0 ⁽¹⁾		May 96 – Jun 08
SAYE	10,554			6,624	346.0 ⁽¹⁾		Jan 00 – Jun 05
		192,972			557.0		Jun 03 – Jun 08
			3,930 ⁽²⁾		229.0	407.5	

(1) Weighted average price.

(2) SAYE grant or exercise.

REMUNERATION REPORT

5 LONG-TERM BENEFITS (CONTINUED)

	At 1 April 1998	Granted during the year	Exercised/ lapsed during the year	At 31 March 1999	Option price (pence)	Exercise price (pence)	Option period
Lord Stone of Blackheath							
Exercisable	34,134			96,335	345.0 ⁽¹⁾		May 97 – May 04
Not exercisable	349,472			442,784	478.0 ⁽¹⁾		May 97 – Jun 08
SAYE	11,324			5,429	359.0 ⁽¹⁾		Jan 02 – Jun 04
		155,513			557.0		Jun 03 – Jun 08
			5,895 ⁽²⁾		229.0	407.5	
R Aldridge							
Exercisable	115,120			170,959	295.0 ⁽¹⁾		May 94 – May 04
Not exercisable	199,992			309,923	506.0 ⁽¹⁾		May 97 – Jun 08
SAYE	10,845			6,915	343.0 ⁽¹⁾		Jan 00 – Jun 05
		165,770			557.0		Jun 03 – Jun 08
			3,930 ⁽²⁾		229.0	407.5	
J R Benfield							
Exercisable	2,431			44,984	329.0 ⁽¹⁾		May 95 – May 02
Not exercisable	210,480			318,190	477.0 ⁽¹⁾		May 95 – Jun 08
SAYE	10,845			6,915	343.0 ⁽¹⁾		Jan 00 – Jun 05
		150,263			557.0		Jun 03 – Jun 08
			3,930 ⁽²⁾		229.0	407.5	
R W C Colvill							
Exercisable	109,353			162,270	300.0 ⁽¹⁾		May 94 – May 03
Not exercisable	257,047			204,130	421.0 ⁽¹⁾		May 96 – May 05
SAYE	10,355			10,355	299.0 ⁽¹⁾		Jan 00 – Jun 01
Mrs C E M Freeman							
Exercisable	27,963			70,949	338.0 ⁽¹⁾		May 95 – May 04
Not exercisable	158,405			223,077	507.0 ⁽¹⁾		May 97 – Jun 08
SAYE	12,588			4,728	374.0 ⁽¹⁾		Jan 02 – Jun 03
		107,658			557.0		Jun 03 – Jun 08
			7,860 ⁽²⁾		229.0	407.5	
B S Morris							
Exercisable	13,996			49,736	335.0 ⁽¹⁾		May 95 – May 03
Not exercisable	197,596			227,414	465.0 ⁽¹⁾		May 96 – Jun 08
SAYE	4,601			4,601	375.0 ⁽¹⁾		Jan 01 – Jun 03
		65,558			557.0		Jun 03 – Jun 08
J T Rowe							
Exercisable	41,142			111,523	337.0 ⁽¹⁾		May 95 – May 03
Not exercisable	214,498			280,066	500.0 ⁽¹⁾		May 96 – Jun 08
SAYE	4,776			4,776	361.0 ⁽¹⁾		Jan 00 – Jun 02
		135,949			557.0		Jun 03 – Jun 08
D K Hayes							
Exercisable	16,261			59,343	333.0 ⁽¹⁾		May 95 – May 03
Not exercisable	230,095			285,151	472.0 ⁽¹⁾		May 96 – May 05
SAYE	11,294			5,399	361.0 ⁽¹⁾		Jun 99 – Nov 99
		98,138			557.0		Jun 99 – May 00
			5,895 ⁽²⁾		229.0	407.5	

(1) Weighted average price.

(2) SAYE grant or exercise.

REMUNERATION REPORT

5 LONG-TERM BENEFITS (CONTINUED)

	At 1 April 1998	Granted during the year	Exercised/ lapsed during the year	At 31 March 1999 ⁽¹⁾	Option price (pence)	Exercise price (pence)	Option period
C Littmoden							
Exercisable	10,870			67,542	265.0 ⁽¹⁾		May 94 – May 02
Not exercisable	275,883			339,690	456.0 ⁽¹⁾		May 95 – May 05
SAYE	5,649			6,852	341.0 ⁽¹⁾		Jun 99 – Nov 99
		120,479			557.0		Jun 99 – May 00
		1,203 ⁽²⁾			324.0 ⁽²⁾		Jun 99 – Nov 99
S J Sacher							
Exercisable	190			190	254.0		May 94 – May 01
SAYE				3,930	229.0		Jan 99 – Jun 99
Not exercisable	356,385			309,436	374.0 ⁽¹⁾		May 94 – May 05
SAYE	11,983			8,053	342.0 ⁽¹⁾		Jan 00 – Jun 05
Lapsed			46,949				
P P D Smith							
Exercisable	2,047			–			
Not exercisable	283,004			–			
SAYE	9,825			–			
			38,041		291.0 ⁽¹⁾	392.0	
			9,825 ⁽²⁾		229.0	407.5	
Lapsed			247,010				
J K Oates							
Exercisable	87,771			132,256	341.0 ⁽¹⁾		May 95 – May 04
Not exercisable	354,212			718,988	509.0 ⁽¹⁾		May 97 – May 05
SAYE	9,336			9,336	296.0 ⁽¹⁾		Feb 99 – July 99
		409,261			557.0		Feb 99 – Jan 00

(1) Weighted average price.

(2) SAYE grant or exercise.

(3) All figures for J K Oates are as at 31 January 1999 when he retired. He took the following senior share options into retirement:

No of options	Option price (pence)	Comments
409,261	557.0	Exercisable for a 12-month period only
132,256	341.0 ⁽¹⁾	Exercisable during the life of the options and representing the full extent of MOV
309,727	446.0 ⁽¹⁾	Will lapse except to the extent that earlier options are sacrificed

(1) Weighted average price.

DIRECTORS' INTERESTS

DIRECTORS' INTERESTS IN SHARES

The beneficial interests of the directors and their families in the shares of the Company, together with their interests as trustees of both charitable and other trusts, are shown below in sections (i) and (ii). These include shares held under the Delayed Profit Sharing Scheme. Options granted under the Save As You Earn (SAYE) Share Option and Senior Staff Share Option Schemes are shown on pages 13 to 15. Further information regarding employee share option schemes is given in note 9D. There has been no change in the directors' interests in shares or options granted by the Company and its subsidiaries between the end of the financial year and one month prior to the notice of the Annual General Meeting. The Register of Directors' Interests (which is open to shareholders' inspection) contains full details of directors' shareholdings and options to subscribe for shares. No director had any interest in any subsidiary at the beginning or end of the year.

(i) Ordinary shares in the Company – beneficial and family interests

	At 31 March 1999	At 1 April 1998		At 31 March 1999	At 1 April 1998
Sir Richard Greenbury	71,800	43,210	B F Baldock	50,000	20,000
P L Salsbury	62,836	56,627	Sir Martin Jacomb	21,845	15,231
P G McCracken	58,101	51,913	Sir Michael Perry	8,357	2,457
Lord Stone of Blackheath	35,760	22,646	Dame Stella Rimington	3,086	2,012
R Aldridge	41,770	35,634	Sir Ralph Robins	2,514	2,514
J R Benfield	29,905	14,103	The Hon David Sieff	308,322	330,273
R W C Colvill	21,761	19,134	D K Hayes	18,419	10,484
Mrs C E M Freeman	59,147	29,819	C Littmoden	9,387	49,732
B S Morris	3,753	2,811	S J Sacher	297,143	295,359
J T Rowe	29,795	28,124	P P D Smith	2,000	8,479

(ii) Ordinary shares in the Company – trustee interests

	At 31 March 1999		At 1 April 1998	
	Charitable Trusts' Shares	Other Trusts' Shares	Charitable Trusts' Shares	Other Trusts' Shares
S J Sacher	20,000	101,095	52,000	147,045
The Hon David Sieff	22,000	43,789	12,000	41,725

DIRECTORS' RESPONSIBILITIES

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 Annual General Meeting.

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

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

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

In addition, the directors are responsible for maintaining adequate accounting records and sufficient internal controls to safeguard the assets of the Group and to prevent and detect fraud or any other irregularities, as described more fully on pages 6 and 7.

REPORT OF THE AUDITORS

**AUDITORS' REPORT TO THE MEMBERS OF
MARKS AND SPENCER p.l.c.**

We have audited the financial statements on pages 20 to 43.

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS
AND AUDITORS**

The directors are responsible for preparing the Annual Report, including, as described on page 16, the financial statements.

Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. 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 or the Listing Rules 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.

We review whether the statement on pages 6 and 7 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not.

We are not required to form an opinion on the effectiveness of the Group's corporate governance procedures or its internal controls.

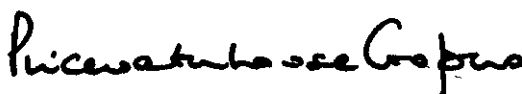
BASIS OF AUDIT OPINION

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 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 31 March 1999 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers

Chartered Accountants and Registered Auditors

London

17 May 1999

REPORT OF THE DIRECTORS

The directors have pleasure in submitting their report and the financial statements of the Company and its subsidiaries for the year ended 31 March 1999.

PRINCIPAL ACTIVITIES

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

Retailing consists of the Group's retail activities under the Marks & Spencer, Brooks Brothers and Kings Super Markets brand names and includes the activity of M&S Direct.

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

REVIEW OF ACTIVITIES AND FUTURE PERFORMANCE

A review of the Group's activities and of the future development of the Group is contained in the Chairman's Statement and the Chief Executive's Review within the Annual Review and Summary Financial Statement.

POST BALANCE SHEET EVENTS

Since the year end, the Group has announced the closure of its Canadian operations and the rationalisation of its UK store management. See note 31 for further details.

PROFIT AND DIVIDENDS

The profit for the financial year, after taxation and minority interests, amounts to £372.1m. The directors have declared dividends as follows:

	£m
Ordinary shares	
Interim paid, 3.7p per share (last year 3.6p)	106.1
Proposed final, 10.7p per share (last year 10.7p)	307.2
Total ordinary dividends, 14.4p per share (last year 14.3p)	413.3

The final dividend will be paid on 30 July 1999 to shareholders whose names are on the Register of Members at the close of business on 28 May 1999.

CHANGES IN SHARE CAPITAL

During the year ended 31 March 1999, 8,323,405 ordinary shares in the Company were issued as follows:

- A** 318,934 under the terms of the 1984 Senior Staff Share Option Scheme at prices between 175p and 341p each.
- B** 79,574 under the terms of the 1987 Senior Staff Share Option Scheme at prices between 329p and 414p.
- C** 7,924,897 under the terms of the United Kingdom Employees' Save As You Earn Share Option Scheme at prices between 182p and 467p.

SUBSTANTIAL SHAREHOLDINGS

As at 10 May 1999, the Company had been notified of the following interests in accordance with sections 198 to 208 of the Companies Act 1985:

- (i) The Prudential Corporation and its subsidiaries were interested in a total of 124,206,359 ordinary shares (representing approximately 4.33% of the Company's issued ordinary share capital); and
- (ii) Brandes Investment Partners, L.P. were interested in a total of 89,814,905 ordinary shares (representing approximately 3.13% of the Company's issued ordinary share capital).

Save as disclosed above, as at 10 May 1999, the Company had not received notification that any other person was interested in 3% or more of the Company's issued ordinary share capital.

CREDITOR PAYMENT POLICY

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

In the UK, General Merchandise is automatically paid for 11 working days from the end of the week of delivery. Foods are paid for 13 working days from the end of the week of delivery (based on the timely receipt of an accurate invoice).

UK distribution suppliers are paid monthly, for costs incurred in that month, based on estimated annual contracts, and payments are adjusted quarterly to reflect any variations to estimate.

Trade creditor days of the Company for the year ended 31 March 1999 were 12.9 days (9.2 working days), based on the ratio of Company trade creditors at the end of the year to the amounts invoiced during the year by trade creditors.

Suppliers to overseas subsidiaries (for merchandise and distribution) and foreign merchandise suppliers of the UK Company are paid on average within 30 days of the receipt of invoice or delivery documentation.

For all trade creditors, it is the Company'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;
- Pay in accordance with its contractual and other legal obligations.

UNITED KINGDOM EMPLOYEES'**PROFIT SHARING SCHEMES**

The amount of profit which will be allocated this year, in the form of ordinary shares in the Company, has been fixed at £14.8m (last year £22.5m), representing 3% (last year 5%) of the earnings of 43,550 (last year 42,505) eligible employees.

These shares are now purchased in the market: 3,868,251 ordinary shares were purchased by the Profit Sharing Trustees in respect of the 1997/98 allocation.

REPORT OF THE DIRECTORS

DIRECTORS AND THEIR INTERESTS

The present directors are listed on page 18 of the Annual Review and Summary Financial Statement.

The Chairman relinquished the role of Chief Executive on 31 January 1999 from which date he continues in office in a non-executive capacity.

Mr P L Salsbury assumed the role of Chief Executive on 1 February 1999.

Mr J K Oates and Mr P P D Smith retired as executive directors on 31 January 1999 and 31 March 1999 respectively; Mr D K Hayes, Mr S J Sacher and Mr C Littmoden retire as executive directors on 31 May 1999.

In accordance with Article 85 of the Company's Articles of Association, Sir Richard Greenbury, Mr R Aldridge OBE, Mr R W C Colvill, Sir Ralph Robins and Mr J T Rowe retire by rotation and, being eligible, offer themselves for re-election. Brief biographical details are given on page 18 of the Annual Review and Summary Financial Statement.

No director seeking re-election has a Service Contract with the Company or any of its subsidiaries.

The beneficial interests of the directors and their families in the shares of the Company and its subsidiaries, together with their interests as trustees of both charitable and other trusts, are given on page 16.

EMPLOYEE INVOLVEMENT

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

Staff are kept well informed of the performance and objectives of the Group through personal briefings and regular meetings. These are supplemented by our staff publications, *St Michael News* and *M&S World*, and video presentations. 'Focus teams' in stores, distribution centres and head office provide opportunities for staff representatives to contribute to the everyday running of the business.

The fourth meeting of the European Council took place last July. This council provides an additional forum for informing and consulting employee representatives from the European countries in which we trade.

Directors and executives regularly visit stores and discuss, with members of staff, matters of current interest and concern to the business. Staff representatives attend the Annual General Meeting and all members of staff have the Group results explained in *St Michael News*.

We have long-established Employees' Profit Sharing and Savings-Related Share Option 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 Company is responsive to the needs of its employees, customers and the community at large and we are an organisation that uses everyone's talents and abilities to the full.

EMPLOYEES WITH DISABILITIES

It is our policy that people with disabilities should have full and fair consideration for all vacancies. During the year we continued to use the Government's "two tick" disability symbol to demonstrate our commitment to interviewing those people with disabilities who fulfil the minimum criteria, and endeavouring to retain staff 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.

CHARITABLE AND POLITICAL CONTRIBUTIONS

During the year, we spent £10.8m in the UK in support of the community. Within this, direct donations to charitable organisations amounted to £5.4m. No political contributions were made to any political party.

ANNUAL GENERAL MEETING

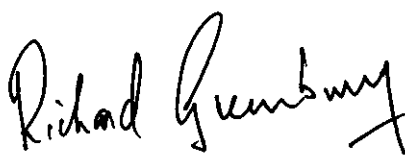
The Notice of the Annual General Meeting to be held on 15 July 1999 (together with explanatory notes) is attached to your Form of Proxy.

By order of the Board

Sir Richard Greenbury, Chairman

London

17 May 1999



CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MARCH 1999

	Notes	1999 £m	1998 As restated £m
TURNOVER – continuing operations	2	8,224.0	8,243.3
Cost of sales		(5,450.7)	(5,322.9)
GROSS PROFIT		2,773.3	2,920.4
Net operating expenses	3	(2,261.3)	(1,816.7)
OPERATING PROFIT – continuing operations			
Before exceptional operating (charges)/income		600.5	1,050.5
Exceptional operating (charges)/income		(88.5)	53.2
TOTAL OPERATING PROFIT	2, 3	512.0	1,103.7
Profit/(loss) on sale of property and other fixed assets		6.2	(2.8)
Net interest income	4	27.9	54.1
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2	546.1	1,155.0
Analysed between:			
Profit on ordinary activities before taxation and exceptional items		634.6	1,101.8
Exceptional operating (charges)/income		(88.5)	53.2
Taxation on ordinary activities	5	(176.1)	(338.7)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		370.0	816.3
Minority interests (all equity)		2.1	(0.4)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	6	372.1	815.9
Dividends	7	(413.3)	(409.1)
RETAINED (LOSS)/PROFIT FOR THE YEAR	26	(41.2)	406.8
BASIC EARNINGS PER SHARE	8	13.0p	28.6p
FULLY DILUTED BASIC EARNINGS PER SHARE	8	12.9p	28.4p
ADJUSTED EARNINGS PER SHARE	8	15.8p	27.3p
FULLY DILUTED ADJUSTED EARNINGS PER SHARE	8	15.7p	27.1p

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31 MARCH 1999

	Notes	1999 £m	1998 As restated £m
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		372.1	815.9
Exchange differences on foreign currency translation	26	15.0	(34.1)
Unrealised surpluses on revaluation of investment properties	26	34.1	49.8
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR		421.2	831.6
Prior year adjustment	26	(212.1)	
TOTAL RECOGNISED GAINS AND LOSSES SINCE LAST ANNUAL REPORT		209.1	

BALANCE SHEETS

AT 31 MARCH 1999

	Notes	THE GROUP		THE COMPANY	
		1999	1998 As restated	1999	1998 As restated
		£m	£m	£m	£m
FIXED ASSETS					
Tangible assets:					
Land and buildings		2,954.4	2,755.4	2,629.3	2,530.9
Fit out, fixtures, fittings and equipment		1,317.6	1,086.0	1,094.6	860.1
Assets in the course of construction		115.5	123.4	105.5	54.3
	11	4,387.5	3,964.8	3,829.4	3,445.3
Investments	12	61.2	69.7	406.7	361.6
		4,448.7	4,034.5	4,236.1	3,806.9
CURRENT ASSETS					
Stocks		514.7	500.2	354.0	361.9
Debtors:					
Receivable within one year	13	969.0	948.9	696.7	1,366.1
Receivable after more than one year	13	1,386.7	1,095.2	96.6	175.8
Investments	14	204.0	242.3	—	—
Cash at bank and in hand	15,16	281.5	614.9	36.1	86.9
		3,355.9	3,401.5	1,183.4	1,990.7
CURRENT LIABILITIES					
Creditors: amounts falling due within one year	17	2,029.8	2,345.0	827.3	1,287.1
NET CURRENT ASSETS		1,326.1	1,056.5	356.1	703.6
TOTAL ASSETS LESS CURRENT LIABILITIES		5,774.8	5,091.0	4,592.2	4,510.5
Creditors: amounts falling due after more than one year	18	772.6	187.2	—	—
Provisions for liabilities and charges	20	54.4	31.0	51.8	27.9
Deferred taxation	21	50.6	—	44.5	—
NET ASSETS		4,897.2	4,872.8	4,495.9	4,482.6
CAPITAL AND RESERVES					
Called up share capital	25	717.7	715.6	717.7	715.6
Share premium account		358.5	325.7	358.5	325.7
Revaluation reserve		531.0	506.1	533.2	509.7
Profit and loss account		3,276.7	3,306.3	2,886.5	2,931.6
SHAREHOLDERS' FUNDS (all equity)	26	4,883.9	4,853.7	4,495.9	4,482.6
Minority interests (all equity)		13.3	19.1	—	—
TOTAL CAPITAL EMPLOYED		4,897.2	4,872.8	4,495.9	4,482.6

APPROVED BY THE BOARD

17 May 1999

Sir Richard Greenbury, Chairman

P L Salsbury, Chief Executive

RW C Colvill, Group Finance Director

CONSOLIDATED CASH FLOW INFORMATION

FOR THE YEAR ENDED 31 MARCH 1999

CASH FLOW STATEMENT

	Notes	1999 £m	1998 As restated £m
OPERATING ACTIVITIES			
Received from customers		7,884.1	7,974.3
Payments to suppliers		(5,464.2)	(5,376.8)
Payments to and on behalf of employees		(1,153.9)	(989.3)
Other payments		(793.1)	(693.7)
Cash inflow from operating activities before exceptional items		472.9	914.5
Exceptional operating cash (outflow)/inflow	29A	(0.6)	53.2
CASH INFLOW FROM OPERATING ACTIVITIES	28	472.3	967.7
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	29B	29.0	56.1
TAXATION	29C	(345.9)	(342.3)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	29D	(628.1)	(788.3)
ACQUISITIONS AND DISPOSALS	29E	1.0	2.6
EQUITY DIVIDENDS PAID		(412.6)	(325.8)
Cash outflow before management of liquid resources and financing		(884.3)	(430.0)
MANAGEMENT OF LIQUID RESOURCES AND FINANCING			
Management of liquid resources	29F	180.6	226.6
Financing	29G	505.0	307.4
		685.6	534.0
(DECREASE)/INCREASE IN CASH		(198.7)	104.0

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT (see note 30)

	1999 £m	1998 £m
(DECREASE)/INCREASE IN CASH	(198.7)	104.0
Cash inflow from decrease in liquid resources	(180.6)	(226.6)
Cash inflow from increase in debt financing	(482.8)	(258.5)
Exchange movements	(0.2)	0.3
MOVEMENT IN NET DEBT	(862.3)	(380.8)
Net (debt)/funds at 1 April	(319.3)	61.5
NET DEBT AT 31 MARCH	(1,181.6)	(319.3)

ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable accounting standards in the United Kingdom. A summary of the more important Group accounting policies, which have been modified by the adoption of Financial Reporting Standard (FRS)10, 'Goodwill and Intangible Fixed Assets', FRS11, 'Impairment of Fixed Assets and Goodwill', FRS13, 'Derivatives and Other Financial Instrument Disclosures' and FRS15, 'Tangible Fixed Assets', is given below. Further details regarding the change in accounting policy resulting from the adoption of FRS15 are set out in note 11.

BASIS OF ACCOUNTING

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 SSAP19, '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.

BASIS OF CONSOLIDATION

The Group financial statements incorporate the financial statements of Marks and Spencer p.l.c. and all its subsidiaries for the year ended 31 March 1999.

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.

DEFERRED TAXATION

Deferred taxation is accounted for at anticipated tax rates on 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 or provision is established to the extent that it is likely that an asset or liability will crystallise in the foreseeable future.

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 (see also c below).

Leasehold land and buildings under 50 years: over the remaining period of the lease.

Fit out: 10-25 years according to the estimated life of the asset.

Fixtures, fittings and equipment: 3-15 years according to the estimated life of the asset.

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

(ii) Any impairment in value is charged to the revaluation reserve or the profit and loss account as appropriate.

c Land and buildings

The Company'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 FRS15, the Group has 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 FRS11.

d Investment properties

Investment properties are revalued annually and included in the balance sheet at their open market value. In accordance with SSAP19, 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.

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.

OPERATING LEASES

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

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, forward rate agreements 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 accounted for 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 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 total recognised gains and losses.

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

GOODWILL

Prior to 31 March 1998, goodwill arising on consolidation was written off to reserves in the year of acquisition. As permitted by FRS10, this goodwill has not been reinstated in the balance sheet and remains written off to reserves. Goodwill arising on subsequent acquisitions will be 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.

PENSION CONTRIBUTIONS

Funded pension plans are in place for the Group's UK employees and the majority of staff 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 to allow for the periodic increase of pensions in payment. The contributions and any variations from regular cost arising from the actuarial valuations are charged or credited to profits on a systematic basis over the estimated remaining service lives of the employees.

STOCKS

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

NOTES TO THE FINANCIAL STATEMENTS

1. Trading period

The results for the year comprise store sales and related costs for the 52 weeks to 27 March 1999 (last year 52 weeks to 28 March 1998). All other activities are for the year to 31 March 1999.

2. Segmental information

A CLASSES OF BUSINESS

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

Retailing: Turnover represents goods sold to customers outside the Group, less returns and sales taxes.

Financial Services: Turnover represents the interest and other income attributable to the Financial Services companies and the Captive insurance company and arises wholly within the United Kingdom and the Channel Islands.

	TURNOVER		OPERATING PROFIT		OPERATING ASSETS	
	1999 £m	1998 £m	1999 £m	1998 As restated £m	1999 £m	1998 As restated £m
Retailing	7,875.4	7,968.5	375.8	991.6	4,518.7	3,767.0
Before exceptional operating (charges)/income			464.3	938.4		
Exceptional operating (charges)/income (see note 3)			(88.5)	53.2		
Financial Services ¹	348.6	274.8	110.7	89.4	388.7	302.8
Total operating activities	8,224.0	8,243.3	486.5	1,081.0	4,907.4	4,069.8
Add: excess interest charged to cost of sales of Financial Services ¹			25.5	22.7		
Total operating profit			512.0	1,103.7		
Profit/(loss) on sale of property and other fixed assets			6.2	(2.8)		
Net interest income			27.9	54.1		
Profit on ordinary activities before taxation			546.1	1,155.0		
Unallocated (liabilities)/assets					(10.2)	803.0
Net assets					4,897.2	4,872.8

B GEOGRAPHICAL SEGMENTS²

	TURNOVER		OPERATING PROFIT		OPERATING ASSETS	
	1999 £m	1998 £m	1999 £m	1998 As restated £m	1999 £m	1998 As restated £m
United Kingdom						
Retail ¹	6,601.1	6,695.8	454.4	924.7	3,965.8	3,215.2
Before exceptional operating (charges)/income			478.9	871.5		
Exceptional operating (charges)/income (see note 3)			(24.5)	53.2		
Financial Services ¹	348.6	274.8	110.7	89.4	388.7	302.8
	6,949.7	6,970.6	565.1	1,014.1	4,354.5	3,518.0
Overseas Retail						
Europe (excluding UK) ¹	552.1	538.2	(90.9)	31.8	354.1	364.1
Before exceptional operating charges			(26.9)	31.8		
Exceptional operating charges (see note 3)			(64.0)	—		
The Americas	631.4	606.2	15.8	16.8	192.2	160.0
Far East ¹	90.8	128.3	(3.5)	18.3	6.6	27.7
	1,274.3	1,272.7	(78.6)	66.9	552.9	551.8
Total operating activities	8,224.0	8,243.3	486.5	1,081.0	4,907.4	4,069.8
Add: excess interest charged to cost of sales of Financial Services ¹			25.5	22.7		
Total operating profit			512.0	1,103.7		

(1) Financial Services operating profit is stated after charging £102.3m (last year £81.5m) of interest to cost of sales. This interest represents the cost of funding the Financial Services business as a separate segment, including both intra group interest and third party funding. The amount of third party interest payable by the Group amounted to £76.8m (last year £58.8m) (see note 4). Intra group interest of £25.5m (last year £22.7m), being the excess of third party interest payable has been added back in the segmental analysis to arrive at total operating profit.

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

NOTES TO THE FINANCIAL STATEMENTS

2. Segmental information (CONTINUED)

- (3) UK retail turnover including VAT comprises clothing, footwear and gifts £4,196.0m (last year £4,309.5m); home furnishings £308.0m (last year £320.4m) and foods £2,787.6m (last year £2,776.1m). VAT on UK retail turnover was £690.5m (last year £710.2m).
- (4) Operating profit includes pre-opening costs of £14.4m (last year £7.6m) for Europe and £0.1m (last year £2.0m) for Far East.
- (5) Turnover originates in the following geographical segments: United Kingdom £7,082.2m (last year £7,123.5m); Europe £440.5m (last year £421.5m); The Americas £629.5m (last year £603.8m) and Far East £71.8m (last year £94.5m).
- (6) The value of goods exported from the UK, including shipments to overseas subsidiaries, amounted to £440.2m (last year £469.6m).

TURNOVER AND OPERATING PROFITS FOR THE AMERICAS AND FAR EAST COMPRISE:

	TURNOVER		OPERATING PROFIT	
	1999 £m	1998 £m	1999 £m	1998 £m
The Americas				
Brooks Brothers (including Japan)	345.9	329.6	12.4	15.8
Kings Super Markets	245.5	232.3	10.0	10.4
Marks & Spencer (including Canada) ⁽¹⁾	40.0	44.3	(4.6)	(8.3)
Corporate expenses	—	—	(2.0)	(1.1)
	631.4	606.2	15.8	16.8
Far East				
Stores	90.8	128.3	(14.5)	6.4
Other ⁽²⁾	—	—	11.0	11.9
	90.8	128.3	(3.5)	18.3

- (1) Last year, the operating loss for Marks & Spencer Canada included a charge for restructuring costs of £3.4m.
- (2) The profits generated from sourcing merchandise and technological services in Hong Kong, together with the costs of an overseas office in mainland China and related research costs in Taiwan and Japan, are grouped within Far East under "other".

The results of overseas subsidiaries have been translated using average rates of exchange ruling during the year. The movements in exchange rates used for translation, compared to last year, have reduced overseas sales by £4.7m and overseas operating profit by £0.8m. In addition, despite the Group's hedging arrangements, the strength of sterling has led to an increase in the cost of sales for our overseas subsidiaries, who import UK sourced M&S merchandise. The increase in cost of sales has reduced overseas margins by approximately £33m, £32m of which relates to Europe.

3. Operating profit

	1999			1998
	Before exceptional items £m	Exceptional items £m	After exceptional items £m	As restated £m
Turnover	8,224.0	—	8,224.0	8,243.3
Cost of sales	(5,450.7)	—	(5,450.7)	(5,322.9)
Gross profit	2,773.3	—	2,773.3	2,920.4
Staff costs (see note 9)	1,083.4	24.5 ⁽¹⁾	1,107.9	985.7
Occupancy costs	288.3	—	288.3	257.0
Repairs, renewals and maintenance of fixed assets ⁽²⁾	103.6	—	103.6	82.4
Depreciation ³	236.4	64.0 ⁽²⁾	300.4	190.0
Other costs ⁽⁴⁾	461.1	—	461.1	301.6
Total net operating expenses ⁽⁵⁾	(2,172.8)	(88.5)	(2,261.3)	(1,816.7)
Operating profit	600.5	(88.5)	512.0	1,103.7

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

- (1) The £24.5m charge is in respect of UK restructuring costs and represents the cost of rationalising the Group's head office functions.
- (2) Following the recent deterioration in results, we reviewed the carrying value of fixed assets in accordance with FRS 11, 'Impairment of Fixed Assets and Goodwill'. This review indicated that it would be appropriate to adjust the carrying value of European fixed assets. Accordingly, a provision of £64.0m was made in the first half of this year to adjust those fixed assets to their estimated recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS

3. Operating profit (CONTINUED)

- (3) Included in 'other costs' is the remuneration to the auditors for audit and non-audit services as follows:

	THE GROUP		THE COMPANY	
	1999	1998	1999	1998
	£m	£m	£m	£m
Audit fees	0.9	1.0	0.4	0.4
Non-audit services				
PricewaterhouseCoopers	0.2	—	—	—
Coopers & Lybrand	0.2	0.7	—	0.2
Price Waterhouse	0.1	—	—	—
Total non-audit services	0.5	0.7	—	0.2

Non-audit services paid to Coopers & Lybrand and Price Waterhouse are disclosed as they are predecessor partnerships of PricewaterhouseCoopers. Fees paid for non-audit services are principally for taxation advice.

- (4) Other costs for last year are stated after crediting £53.2m received in respect of VAT overpaid on sales of earlier accounting periods following the Court of Appeal decision in a case brought by Littlewoods Home Shopping. The decision clarified how VAT should be calculated on retail sales, amending previous interpretation.
- (5) Included in total other expenses are rentals under operating leases, comprising £8.9m for hire of plant and machinery (last year £7.5m) and £111.4m of other rental costs (last year £104.2m).
- (6) As discussed in note 11B, the Group has amended its depreciation policy following the publication of FRS15. The effect of these changes is to increase the depreciation charge for the year by £39.4m (last year £23.5m) and reduce the charge for repairs and renewals by £18.3m (last year £10.5m). The net effect is to decrease operating profits for the years ended 31 March 1999 and 1998 by £21.1m and £13.0m respectively. In addition, the Group has accelerated depreciation on certain items of store equipment which are to be replaced next year, with the result that the depreciation charge for the year has been increased by a further £8.3 m.

4. Net interest income

	1999		1998	
	£m	£m	£m	£m
Bank and other interest income	306.1		275.2	
Less: amounts included in turnover of Financial Services	(278.2)		(221.1)	
		27.9		54.1
Interest expenditure	(76.8)		(58.8)	
Less: intra group interest charged to cost of sales	76.8		58.8	
		—		—
Net interest income		27.9		54.1
Interest expenditure comprises:				
Amounts repayable within five years:				
Bank loans, overdrafts and commercial paper		(30.5)		(26.5)
Medium term notes		(36.2)		(4.4)
7% Guaranteed bonds 1998		(8.1)		(10.2)
US\$ Promissory note 1998		(2.0)		(17.7)
		(76.8)		(58.8)

NOTES TO THE FINANCIAL STATEMENTS

5. Taxation on ordinary activities

	1999	1998
	£m	£m
The taxation charge comprises:		
Current taxation		
UK corporation tax at 31% (last year 31%):		
Current year	169.2	346.5
Prior years	(3.5)	(6.4)
	165.7	340.1
Double taxation relief	—	(18.3)
	165.7	321.8
Overseas taxation	2.8	9.5
	168.5	331.3
Deferred taxation (see note 21)		
Current year	9.1	6.6
Prior years	(1.5)	0.8
	7.6	7.4
	176.1	338.7

6. Profit for the financial year

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the Company is not presented as part of these financial statements.

The consolidated profit for the financial year of £372.1m (last year £815.9m) includes £371.6m (last year £712.5m) which is dealt with in the financial statements of the Company.

7. Dividends

	1999	1998
	£m	£m
Ordinary shares		
Interim paid of 3.7p per share (last year 3.6p)	106.1	102.7
Proposed final of 10.7p per share (last year 10.7p)	307.2	306.4
	413.3	409.1

8. Earnings per share

The calculation of earnings per ordinary share is based on earnings after tax and minority interests of £372.1m (last year £815.9m), and on 2,864,724,900 ordinary shares (last year 2,850,062,000), being the weighted average number of ordinary shares in issue during the year ended 31 March 1999.

The weighted average number of ordinary shares used in the calculation of fully diluted earnings per ordinary share is 2,883,306,200 ordinary shares (last year 2,875,844,900). This has been adjusted for the effect of potentially dilutive share options under the Group's share option schemes.

An adjusted earnings per share figure has been calculated in addition to the earnings per share required by FRS14, 'Earnings per Share' and is based on earnings excluding the effect of the exceptional operating charges/income. It has been calculated to allow the shareholders to gain a clearer understanding of the trading performance of the Group. Details of the adjusted earnings per share are set out below.

	1999		1998 As restated	
	Basic p	Diluted p	Basic p	Diluted p
Basic earnings per share	13.0	12.9	28.6	28.4
Exceptional restructuring costs	0.6	0.6	—	—
Exceptional fixed asset provision	2.2	2.2	—	—
Exceptional operating income	—	—	(1.3)	(1.3)
Adjusted earnings per share	15.8	15.7	27.3	27.1

NOTES TO THE FINANCIAL STATEMENTS

8. Earnings per share (CONTINUED)

The IIMR earnings per share has also been calculated in addition to the basic earnings per share and is based on earnings adjusted to eliminate certain capital items as follows:

	1999		1998 As restated	
	Basic p	Diluted p	Basic p	Diluted p
Basic earnings per share	13.0	12.9	28.6	28.4
Exceptional fixed asset provision	2.2	2.2	—	—
(Profit)/loss on disposal of property	(0.2)	(0.2)	0.1	0.1
IIMR earnings per share	15.0	14.9	28.7	28.5

9. Employees

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

		1999	1998
UK stores	Management and supervisory categories	4,105	3,838
	Other	52,931	50,533
UK head office	Management and supervisory categories	2,485	2,249
	Other	1,626	1,546
Financial Services	Management and supervisory categories	280	218
	Other	988	968
Overseas		13,077	11,945
		75,492	71,297

If the number of hours worked was converted on the basis of a normal working week, the equivalent average number of full-time employees would have been 51,306 (last year 48,086).

The aggregate remuneration and associated costs of Group employees were:

	1999			1998 £m
	Before exceptional items £m	Exceptional items £m	After exceptional items £m	
Wages and salaries	813.7	15.3	829.0	737.4
UK profit sharing (see note 9C)	14.2	0.6	14.8	22.5
Social security costs	61.5	0.5	62.0	54.8
Pension costs (see note 9A)	122.1	7.1	129.2	111.1
Staff welfare and other personnel costs	88.5	1.0	89.5	76.7
	1,100.0	24.5	1,124.5	1,002.5
Classified as:				
Staff costs (see note 3)	1,083.4	24.5	1,107.9	985.7
Manufacturing cost of sales	16.6	—	16.6	16.8
	1,100.0	24.5	1,124.5	1,002.5

NOTES TO THE FINANCIAL STATEMENTS

9. Employees (CONTINUED)

A PENSION COSTS

The total pension cost for the Group was £129.2m (last year £111.1m) of which £112.3m relates to the UK scheme (last year £103.0m), £6.6m relates to the Early Retirement Plan (last year £nil) and £10.3m relates to overseas schemes (last year £8.1m).

The Group operates a number of funded defined benefit pension schemes throughout the world.

The latest actuarial valuation of the UK Scheme was carried out at 1 April 1998 by an independent actuary using the projected unit method. The key assumptions adopted were:

Price inflation	3.5%
Rate of increase in salaries	5.25%
Rate of increase in pensions in payment	3.5%
Rate of return on investments	8.25%
Rate of increase in dividend income	4.5%
Rate of interest applied to discount liabilities	8.25%

The latest actuarial valuation revealed a shortfall of £74m in the actuarial value of the assets of the UK Scheme of £2,047m compared to the actuarial liability for pension benefits. (The market value of assets at 1 April 1998 was £2,709m.) This represents a funding level of 97%.

The shortfall of £74m together with the unamortised accounting deficit relating to prior periods gives a total unamortised deficit of £169.4m. This will be amortised over a period of 12 years from 1 April 1998, being the remaining estimated service lives of the current scheme members.

The next actuarial valuation of the UK pension scheme will be carried out as at 1 April 2001.

The total UK pension cost is analysed as follows:

	1999 £m	1998 £m
Normal pension cost ⁽¹⁾	92.7	81.5
Amortisation of deficit	14.1	8.2
Net interest elements	5.5	(6.7)
Additional pension provision ⁽²⁾	—	20.0
Total	112.3	103.0

(1) At standard contribution rate of 15.9% (last year 15.7%).

(2) Relates to the estimated adverse effect of the amended tax treatment of dividend income received by UK pension funds in the 1997 Finance Act. This has been allowed for in the latest actuarial valuation.

As shown in note 13, the Company has pre-paid pension costs of £188.2m. This includes the partial funding of the deficit, offset by the amortisation and interest elements shown above, with the balance being pre-paid contributions to the UK Scheme.

The pension costs relating to overseas schemes have been determined in accordance with the advice of independent qualified actuaries.

B POST-RETIREMENT HEALTH BENEFITS

The Company has a commitment to pay all or a proportion of the health insurance premiums for a number of its retired employees and their spouses, the last of whom retired in 1988. There is no commitment in respect of current employees or those who have retired since 1988.

At 31 March 1999, the Company re-assessed this liability in accordance with the advice of an independent qualified actuary. The discounted present value of £27.8m (see note 20) has been fully provided. The valuation assumed a premium inflation of 7.5% and an after-tax discount rate of 7.0%. There is a matching deferred taxation asset of £8.3m.

The next actuarial valuation will be carried out as at 31 March 2002.

C UNITED KINGDOM EMPLOYEES' PROFIT SHARING SCHEMES

The Trustees of the United Kingdom Employees' Profit Sharing Schemes have been allocated £14.8m (last year £22.5m) with which to subscribe for ordinary shares in the Company.

D UNITED KINGDOM EMPLOYEES' SAVE AS YOU EARN SHARE OPTION SCHEME

Under the terms of the Scheme, the Board may offer options to purchase ordinary shares in the Company once in each financial year to those employees who enter into an Inland Revenue approved Save As You Earn (SAYE) savings contract. The price at which options may be offered is 80% of the market price for three consecutive dealing days preceding the date of offer. 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.

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

		Number of shares 1999	1998	Option price
Options granted				
January 1991	Expired	490,968		182p
January 1992	471,247	4,331,286		229p
January 1993	3,231,374	3,635,936		257p
January 1994	3,185,585	6,527,538		319p
January 1995	8,245,124	8,733,912		322p
January 1996	8,896,346	9,441,106		330p
January 1997	10,463,786	11,175,741		389p
January 1998	10,630,202	11,797,433		467p
January 1999	15,560,138	—		324p

NOTES TO THE FINANCIAL STATEMENTS

9. Employees (CONTINUED)

E SENIOR STAFF SHARE OPTION SCHEMES

Under the terms of the 1997 Scheme, following the announcement of the Company's results, the Board may offer options to purchase ordinary shares in the Company 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 the 1984 and 1987 Schemes. Outstanding options under each of the 1984 and 1987 Schemes continue to be bound by the Maximum Option Value which is limited to four times remuneration on exercise (further details are set out in the Remuneration Report on page 13). Outstanding options granted under all senior option schemes are as follows:

	Number of shares		Option price	Option dates
	1999	1998		
Options granted				
(1984 Scheme)				
May 1989	182,964	222,214	175p	May 1992 – May 1999
May 1990	211,154	254,549	206p	May 1993 – May 2000
May 1991	780,681	971,263	254p	May 1994 – May 2001
May 1992	1,652,102	1,919,830	329p	May 1995 – May 2002
May 1993	1,258,712	1,335,719	341p	May 1996 – May 2003
October 1993	26,989	26,989	399p	Oct 1996 – Oct 2003
May 1994	1,916,384	1,987,916	404p	May 1997 – May 2004
October 1994	21,541	21,541	402p	Oct 1997 – Oct 2004
May 1995	1,606,315	1,690,884	414p	May 1998 – May 2005
May 1996	58,950	58,950	458p	May 1999 – May 2006
November 1996	6,172	6,172	486p	Nov 1999 – Nov 2006
June 1997	51,228	51,228	527p	June 2000 – June 2007
(1987 Scheme)				
May 1992	600,395	695,498	329p	May 1995 – May 1999
May 1993	972,669	1,006,686	341p	May 1996 – May 2000
October 1993	46,114	46,114	399p	Oct 1996 – Oct 2000
May 1994	1,171,729	1,197,469	404p	May 1997 – May 2001
October 1994	9,288	9,288	402p	Oct 1997 – Oct 2001
May 1995	1,465,006	1,565,124	414p	May 1998 – May 2002
May 1996	1,714,111	1,792,964	458p	May 1999 – May 2003
November 1996	39,507	39,507	486p	Nov 1999 – Nov 2003
June 1997	2,116,225	2,179,474	527p	June 2000 – June 2004
(1997 Scheme – Tier 1)				
June 1998	414,282	–	557p	June 2001 – June 2008
November 1998	265,785	–	404p	Nov 2001 – Nov 2008
(1997 Scheme – Tier 2)				
June 1998	5,637,154	–	557p	June 2003 – June 2008
November 1998	117,825	–	404p	Nov 2003 – Nov 2008

10. Directors

A EMOLUMENTS

Emoluments of directors of the Company are summarised below. Further details are given in the Remuneration Report on pages 8 to 15.

	1999 £000	1998 £000
Aggregate emoluments	6,375	7,013
Aggregate gains on exercise of share options	116	3,402
Termination payments	587	–

B TRANSACTIONS WITH DIRECTORS

During the year 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.

NOTES TO THE FINANCIAL STATEMENTS

11. Tangible fixed assets

A TANGIBLE FIXED ASSETS

	Land & buildings £m	THE GROUP Fit out, fixtures, fittings & equipment £m	Assets in the course of construction £m	Total £m	Land & buildings £m	THE COMPANY Fit out, fixtures, fittings & equipment £m	Assets in the course of construction £m	Total £m
Cost or valuation								
As previously reported	3,627.0	1,189.7	123.4	4,940.1	3,254.6	908.4	54.3	4,217.3
Reclassification of fit out (see 11B)	(808.0)	808.0	—	—	(671.4)	671.4	—	—
Prior year adjustment (see 11B)	—	53.2	—	53.2	—	53.2	—	53.2
At 1 April 1998 as restated	2,819.0	2,050.9	123.4	4,993.3	2,583.2	1,633.0	54.3	4,270.5
Additions	74.2	311.5	297.4	683.1	59.8	263.6	230.3	553.7
Transfers	115.7	194.6	(310.3)	—	33.7	145.4	(179.1)	—
Disposals	(13.7)	(28.7)	—	(42.4)	(10.6)	(7.1)	—	(17.7)
Revaluation surplus	32.7	—	—	32.7	32.7	—	—	32.7
Differences on exchange	10.0	17.4	5.0	32.4	—	—	—	—
At 31 March 1999	3,037.9	2,545.7	115.5	5,699.1	2,698.8	2,034.9	105.5	4,839.2
Accumulated depreciation								
As previously reported	103.6	660.8	—	764.4	52.3	518.9	—	571.2
Reclassification of fit out (see 11B)	(40.0)	40.0	—	—	—	—	—	—
Prior year adjustment (see 11B)	—	264.1	—	264.1	—	254.0	—	254.0
At 1 April 1998 as restated	63.6	964.9	—	1,028.5	52.3	772.9	—	825.2
Depreciation for the year	20.4	280.0	—	300.4	18.4	173.0	—	191.4
Disposals	(1.1)	(22.1)	—	(23.2)	(1.2)	(5.6)	—	(6.8)
Differences on exchange	0.6	5.3	—	5.9	—	—	—	—
At 31 March 1999	83.5	1,228.1	—	1,311.6	69.5	940.3	—	1,009.8
Net book value								
At 31 March 1999	2,954.4	1,317.6	115.5	4,387.5	2,629.3	1,094.6	105.5	3,829.4
At 31 March 1998 as restated	2,755.4	1,086.0	123.4	3,964.8	2,530.9	860.1	54.3	3,445.3

Analysis of land & buildings

	Freehold £m	THE GROUP Long leasehold £m	Short leasehold £m	Total £m	Freehold £m	THE COMPANY Long leasehold £m	Short leasehold £m	Total £m
At valuation	1,098.6	437.9	13.5	1,550.0	1,098.6	437.9	13.5	1,550.0
At cost	986.3	370.8	130.8	1,487.9	712.4	356.5	79.9	1,148.8
Accumulated depreciation	13.4	8.3	61.8	83.5	8.2	8.2	53.1	69.5
Net book value								
At 31 March 1999	2,071.5	800.4	82.5	2,954.4	1,802.8	786.2	40.3	2,629.3
At 31 March 1998 as restated	1,919.5	751.0	84.9	2,755.4	1,737.7	747.9	45.3	2,530.9

NOTES TO THE FINANCIAL STATEMENTS

11. Tangible fixed assets (CONTINUED)

B CHANGE OF ACCOUNTING POLICY

The Group has adopted FRS 15, 'Tangible Fixed Assets' and has followed the transitional provisions to retain the book value of land and buildings, certain of which were revalued in 1988 (see 11D below).

Adoption has resulted in two key changes:

- (i) The FRS encourages the separation of assets into components where they have very different useful economic lives and states that these changes should be dealt with as prior year adjustments. The cost of fitting out properties, which has up to now been included within the cost of buildings, has been separately identified and disclosed together with fixtures, fittings and equipment. Fit out has previously been accounted for on a replacement basis but under this policy will be depreciated evenly over periods ranging from 10-25 years depending on its nature. As a result, £53.2m of fit out which had been expensed in previous years has now been capitalised as at 31 March 1998. In addition, £264.1m of accumulated depreciation has also been recognised as at that date, being the depreciation on fit out which would have been recognised had the new policy been in place in previous years. As a consequence of the prior year adjustment, the net book value of Group tangible fixed assets as at 31 March 1998 has been reduced by £210.9m with a corresponding reduction in the profit and loss account reserve. The effect of this on reported profits has been an additional Group depreciation charge in the current year of £28.6m (last year £23.5m) and a reduction in the charge for repairs and renewals of £18.3m (last year £10.5m).
- (ii) In previous years the Group has stated that the useful economic lives of its freehold and long leasehold properties are so long and the residual values are so high that any depreciation charge was immaterial. The Group agrees with the theory of 'consumption' and has charged depreciation against the book value of its properties this year amounting to £10.8m. There is no corresponding prior year adjustment since the previous policy was to depreciate properties at 1% or nil.

The Group has adopted FRS 11, 'Impairment of Fixed Assets and Goodwill'. Included within the Group depreciation charge for fit out, fixtures, fittings and equipment for the year of £280.0m is an impairment loss of £64.0m relating to European properties. Further details are given in note 3.

C INVESTMENT PROPERTIES

Freehold land and buildings include investment properties as follows:

	THE GROUP £m	THE COMPANY £m
Cost or valuation		
At 1 April 1998	248.8	248.8
Additions at cost	3.3	3.3
Revaluation surplus	32.7	32.7
At 31 March 1999	284.8	284.8

D TANGIBLE FIXED ASSETS AT COST

Gerald Eve, Chartered Surveyors, valued the Company'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 Company'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.

The Company's freehold interests in five investment properties have been valued at open market value as at 31 March 1999 by external valuers, Gerald Eve, Chartered Surveyors. The valuation attributed to the Company's investment interest in the Gyle Shopping Centre is subject to the lease to the Company of the Marks & Spencer store at a nominal fixed rent until 2117 and the occupational leases of the other parts of the centre. The valuations of three of the remaining investment properties are based on the apportionment of larger valuations to exclude the owner-occupied Marks & Spencer store.

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

	1999 £m	1998 As restated £m
At valuation at 31 March 1975 ⁽¹⁾	333.6	334.6
At cost	1,567.5	1,480.1
At 31 March	1,901.1	1,814.7
Accumulated depreciation	109.3	93.1
Net book value at 31 March	1,791.8	1,721.6

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

NOTES TO THE FINANCIAL STATEMENTS

12. Fixed asset investments

A INVESTMENTS

	THE GROUP			THE COMPANY			Total £m
	Joint venture ⁽¹⁾ £m	Other investments ⁽²⁾ £m	Total £m	Shares in Group undertakings ⁽⁴⁾ £m	Loans to Group undertakings £m	Joint venture ⁽¹⁾ £m	
At 1 April 1998	23.4	46.3	69.7	314.7	29.5	17.4	361.6
Additions	0.4	—	0.4	48.0 ⁽³⁾	—	—	48.0
Disposals	—	(9.3)	(9.3)	—	—	—	—
Share of joint venture's property revaluation	1.4	—	1.4	—	—	—	—
Repayment of loan	(1.0)	—	(1.0)	—	(1.9)	(1.0)	(2.9)
At 31 March 1999	24.2	37.0	61.2	362.7	27.6	16.4	406.7

- (1) The joint venture represents a 50% interest in Hedge End Park Ltd, a property investment company. The partner in the joint venture is J Sainsbury plc.
- (2) The Group's investment in the joint venture includes £10.3m (last year £11.3m) of loans and accumulated reserves of £7.8m (last year £6.0m).
- (3) Other investments comprise listed securities held by a subsidiary. The difference between their book value and market value is negligible.
- (4) Shares in Group undertakings of £362.7m (last year £314.7m) are stated after cumulative amounts written off of £543.6m (last year £543.6m).
- (5) Additions to shares in Group undertakings of £48.0m represents a capital injection into Marks and Spencer US Holdings Inc.

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:	
			The Company	A subsidiary
Marks and Spencer International Holdings Limited	Holding Company	Great Britain	100%	—
Marks and Spencer (Nederland) BV	Holding Company	The Netherlands	—	100%
Marks and Spencer US Holdings Inc	Holding Company	United States	100%	—
Marks & Spencer (France) SA	Retailing	France	—	100%
SA Marks and Spencer (Belgium) NV	Retailing	Belgium	—	100%
Marks and Spencer (España) SA	Retailing	Spain	—	100%
Marks and Spencer Stores BV	Retailing	The Netherlands	—	100%
Marks and Spencer (Deutschland) GmbH	Retailing	Germany	—	100%
Marks and Spencer (Ireland) Limited	Retailing	Republic of Ireland	—	100%
Marks & Spencer Canada Inc	Retailing	Canada	—	100%
Brooks Brothers Inc	Retailing	United States	—	100%
Brooks Brothers (Japan) Limited	Retailing	Japan	—	51%
Kings Super Markets Inc	Retailing	United States	—	100%
Marks and Spencer (Hong Kong) Limited	Retailing	Hong Kong	—	100%
Marks and Spencer Retail Financial Services Holdings Limited	Holding Company	Great Britain	100%	—
Marks and Spencer Financial Services Limited	Financial Services	Great Britain	—	100%
Marks and Spencer Unit Trust Management Limited	Financial Services	Great Britain	—	100%
Marks and Spencer Savings and Investments Limited	Financial Services	Great Britain	—	100%
Marks and Spencer Life Assurance Limited	Financial Services	Great Britain	—	100%
MS Insurance Limited	Financial Services	Guernsey	—	100%
St Michael Finance p.l.c.	Finance	Great Britain	100%	—
Marks and Spencer Finance (Nederland) BV	Finance	The Netherlands	—	100%
Marks & Spencer Finance Inc	Finance	United States	—	100%
Marks & Spencer Finance p.l.c.	Finance	Great Britain	100%	—
Marks and Spencer Property Holdings Limited	Property Investment	Great Britain	100%	—

NOTES TO THE FINANCIAL STATEMENTS

13. Debtors

	THE GROUP		THE COMPANY	
	1999 £m	1998 As restated £m	1999 £m	1998 £m
A AMOUNTS RECEIVABLE WITHIN ONE YEAR				
Trade debtors	45.1	54.7	26.2	35.3
Customer advances	653.0	654.3	—	—
Amounts owed by Group undertakings	—	—	488.3	1,151.0
Other debtors ⁽¹⁾	62.2	47.1	27.6	14.4
Prepayments and accrued income ⁽²⁾	208.7	192.8	154.6	165.4
	969.0	948.9	696.7	1,366.1
B AMOUNTS RECEIVABLE AFTER MORE THAN ONE YEAR				
Advance Corporation Tax recoverable on the proposed final dividend	—	76.6	—	76.6
Less: amount offset against deferred taxation provision (see note 21)	—	(43.0)	—	(39.0)
	—	33.6	—	37.6
Customer advances	1,282.2	917.9	—	—
Other debtors ⁽¹⁾	20.5	50.3	15.6	44.8
Prepayments and accrued income ⁽²⁾	84.0	93.4	81.0	93.4
	1,386.7	1,095.2	96.6	175.8

(1) Other debtors include an interest free loan to an officer of the Company of £38,094 (last year £20,631).

(2) Prepayments and accrued income includes £188.2m (last year £187.3m) in respect of the UK Pension Scheme. Of this, £81.0m (last year £93.4m) is included in amounts receivable after more than one year.

(3) Amounts receivable after more than one year include £84.7m (last year £133.5m) of non-financial assets which have been excluded from the analysis in note 16.

14. Current asset investments

	THE GROUP		THE COMPANY	
	1999 £m	1998 £m	1999 £m	1998 £m
Listed investments:				
Government securities	69.0	54.8	—	—
Listed in the United Kingdom	39.4	36.9	—	—
Listed overseas	54.4	56.1	—	—
Unlisted investments	41.2	94.5	—	—
	204.0	242.3	—	—

15. Cash at bank and in hand

Cash at bank includes commercial paper and short-term deposits with banks and other financial institutions.

NOTES TO THE FINANCIAL STATEMENTS

16. 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

	THE GROUP				1998 Total £m
	Fixed rate £m	Floating rate £m	Non interest bearing £m	Total £m	
Currency					
Sterling	112.6	1,525.3	29.3	1,667.2	1,459.6
US dollar	9.9	62.4	3.1	75.4	333.1
Other	32.1	36.2	13.6	81.9	72.5
	154.6	1,623.9	46.0	1,824.5	1,865.2

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

B ANALYSIS OF FIXED INTEREST RATES

	FIXED RATE FINANCIAL ASSETS	
	Weighted average interest rate %	Weighted average period for which rate is fixed Years
Currency		
Sterling	6.7	5.1
US dollar	6.4	8.9
Other	6.2	3.0

C ANALYSIS OF FINANCIAL ASSETS

	THE GROUP	
	1999 £m	1998 £m
Cash at bank and in hand	281.5	614.9
Current asset investments	204.0	242.3
Customer advances falling due in more than one year	1,282.2	917.9
Fixed asset investments	37.0	46.3
Other amounts receivable after more than one year	19.8	43.8
	1,824.5	1,865.2

17. Creditors: amounts falling due within one year

	THE GROUP		THE COMPANY	
	1999 £m	1998 £m	1999 £m	1998 £m
Bank loans, overdrafts and commercial paper	445.8	408.5	—	7.8
Other borrowings (see note 19B)	466.8	583.3	—	—
Trade creditors	214.7	230.2	163.7	185.5
Amounts owed to Group undertakings	—	—	—	162.4
Taxation	98.3	353.3	72.7	324.5
Social security and other taxes	14.1	56.0	2.3	46.2
Other creditors	244.5	198.8	146.4	118.5
Accruals and deferred income	238.4	208.5	135.0	135.8
Proposed final dividend	307.2	306.4	307.2	306.4
	2,029.8	2,345.0	827.3	1,287.1

(1) Other creditors include £22.1m (last year £18.9m) which is shown in the calculation of the Group's net debt and is treated as financing within the cash flow statement.

NOTES TO THE FINANCIAL STATEMENTS

18. Creditors: amounts falling due after more than one year

	THE GROUP		THE COMPANY	
	1999 £m	1998 £m	1999 £m	1998 £m
Medium term notes	665.4	108.3	—	—
Other creditors	107.2	78.9	—	—
	772.6	187.2	—	—

- (1) Other creditors include £67.0m (last year £57.5m) which is shown in the calculation of the Group's net debt and is treated as financing within the cash flow statement.
- (2) Other creditors include £33.0m (last year £14.1m) of non-financial liabilities which have been excluded from the analysis in note 19.

19. 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.

	THE GROUP		1999 Total £m	1998 Floating rate £m
	Fixed rate £m	Floating rate £m		
Currency				
Sterling	100.0	1,189.0	1,289.0	584.2
US dollar	—	203.6	203.6	492.9
Other	—	181.7	181.7	106.7
	100.0	1,574.3	1,674.3	1,183.8

The floating rate sterling borrowings are at interest rates at or below LIBOR. The US dollar 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 6.8% and the weighted average time for which the rate is fixed is 4.3 years. There were no fixed rate borrowings in 1998.

B MATURITY OF FINANCIAL LIABILITIES

	THE GROUP	
	1999 £m	1998 £m
Repayable within one year:		
Bank loans, overdrafts and commercial paper	445.8	408.5
Medium term notes	466.8	164.6
7% Guaranteed bonds 1998 ⁽¹⁾	—	150.0
US\$ Promissory note 1998 ⁽²⁾	—	268.7
Other creditors	22.1	18.9
	934.7	1,010.7
Repayable between one and two years:		
Medium term notes	165.1	—
Other creditors	24.9	19.4
	190.0	19.4
Repayable between two and five years:		
Medium term notes	500.3	108.3
Other creditors	36.9	38.5
	537.2	146.8
Repayable in five years or more:		
Other creditors	12.4	6.9
	1,674.3	1,183.8

- (1) The 7% Guaranteed bonds and US\$ Promissory note were both repaid during the year.
- (2) Financial liabilities include £7.2m (last year £7.3m) of other creditors which is excluded from the reconciliation of net debt in note 30.

NOTES TO THE FINANCIAL STATEMENTS

19. Analysis of financial liabilities (CONTINUED)

C BORROWING FACILITIES

At 31 March 1999, the Group had an undrawn committed facility of \$50m (last year \$50m) linked to its commercial paper programme and subject to annual review. The Group also has a number of undrawn uncommitted facilities available to it. At 31 March 1999 these amounted to £691.7m (last year £617.4m).

20. Provisions for liabilities and charges

	THE GROUP £m	THE COMPANY £m
Post-retirement health benefits		
At 1 April 1998	27.8	27.8
Utilised during the year	(2.3)	(2.3)
Interest charged	2.3	2.3
At 31 March 1999	27.8	27.8
Restructuring provisions		
At 1 April 1998	3.2	0.1
Additions during the year	24.5	24.5
Utilised during the year	(1.0)	(0.6)
Exchange differences	(0.1)	—
At 31 March 1999	26.6	24.0
Total at 31 March 1999	54.4	51.8
Total at 31 March 1998	31.0	27.9

The £27.8m provision for post-retirement health benefits represents the estimated value of the Company's subsidy of the Marks & Spencer Health Insurance Scheme, in so far as it relates to private medical benefits for retired employees and their dependants, for whom the Company meets the whole, or part, of the cost (see note 9B for further details).

The £3.2m restructuring provision at the beginning of the year relates to discontinued Canadian operations, of which £0.4m has been utilised. The additional provision during the year of £24.5m is in respect of UK restructuring costs and represents the cost of rationalising the Group's head office functions. £0.6m of this provision has been utilised and the majority of the remainder is expected to be utilised during the next financial year.

21. Deferred taxation

A ANALYSIS OF DEFERRED TAX PROVISION

	THE GROUP		THE COMPANY	
	1999 £m	1998 As restated £m	1999 £m	1998 £m
Deferred tax provision arising on short-term timing differences	58.9	51.6	52.8	47.6
Deferred tax asset arising on post-retirement health benefits	(8.3)	(8.6)	(8.3)	(8.6)
	50.6	43.0	44.5	39.0
Recoverable ACT offset against deferred tax provision (see note 13)	—	(43.0)	—	(39.0)
At 31 March	50.6	—	44.5	—
The movement in deferred tax comprises:				
At 1 April as previously stated	41.8	34.7	39.0	31.8
Prior year adjustment	1.2	1.2	—	—
At 1 April as restated	43.0	35.9	39.0	31.8
Charged to the profit and loss account (see note 5)	7.6	7.4	5.5	7.2
Exchange differences	—	(0.3)	—	—
At 31 March	50.6	43.0	44.5	39.0

(1) The prior year adjustment of £1.2m has arisen from a change in the Group's depreciation policy, further details of which are given in note 11B.

NOTES TO THE FINANCIAL STATEMENTS

21. Deferred taxation (CONTINUED)

B UNPROVIDED DEFERRED TAXATION

	THE GROUP		THE COMPANY	
	1999 £m	1998 £m	1999 £m	1998 £m
Excess of capital allowances over depreciation on tangible fixed assets	219.7	202.7	204.3	188.4

In the opinion of the directors, the revalued properties will be retained for use in the business and the likelihood of any taxation liability arising is remote. Accordingly the potential deferred taxation in respect of these properties has not been quantified.

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

22. Currency analysis of net assets

The Group's borrowings and net assets (excluding borrowings) by currency at 31 March were as follows:

	THE GROUP					
	1999			1998		
	Net assets by currency of operations ⁽¹⁾ £m	Gross debt ⁽²⁾ £m	Net assets £m	Net assets by currency of operations ⁽¹⁾ £m	Gross debt ⁽²⁾ £m	Net assets £m
Currency						
Sterling assets/liabilities	5,905.4	(1,289.0)	4,616.4	5,158.1	(584.2)	4,573.9
Matched assets/liabilities ⁽³⁾						
US dollar	285.0	(203.6)	81.4	468.9	(492.9)	(24.0)
Other	373.9	(174.5)	199.4	422.3	(99.4)	322.9
Sterling plus total matched assets/liabilities	6,564.3	(1,667.1)	4,897.2	6,049.3	(1,176.5)	4,872.8

- (1) Net assets by currency of operations exclude gross debt and are shown after taking into account the effect of swaps and foreign exchange contracts.
- (2) The amounts shown above for gross debt are after taking into account the effect of any currency swaps and forward foreign exchange contracts.
- (3) Matched assets and liabilities are those that generate no gain or loss in the profit and loss account, either because they are denominated in the same currency as the Group operation to which they belong, or because they qualify under SSAP20 as a foreign currency borrowing providing a hedge against a foreign equity investment.
- (4) There were no significant unmatched foreign currency assets or liabilities.

23. Fair values of financial instruments

Set out below is a comparison of current 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.

	THE GROUP			
	1999		1998	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Assets/(liabilities)				
Customer advances falling due in more than one year	1,282.2	1,300.2	917.9	917.0
Current asset investments ⁽¹⁾	204.0	204.0	242.3	242.3
Fixed asset investments ⁽²⁾	37.0	37.0	46.3	46.2
Cash at bank and in hand ⁽³⁾	281.5	281.5	614.9	614.9
Borrowings due within one year ⁽⁴⁾	(934.7)	(936.1)	(1,010.7)	(1,008.2)
Financial liabilities due after more than one year ⁽⁴⁾	(739.6)	(745.4)	(173.1)	(167.6)
Interest rate swaps ⁽¹⁾	—	(12.7)	—	(6.9)
Forward foreign currency contracts ⁽¹⁾	—	9.7	—	22.4
FTSE 100 put options ⁽⁴⁾	4.2	8.4	5.6	4.2

- (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. Borrowings are at floating rates. Therefore, fair values closely approximate book values.
- (2) Fixed asset investments comprise listed securities held by a subsidiary.
- (3) Interest rate swaps and forward foreign currency contracts have been marked to market to produce a fair value figure.
- (4) FTSE 100 put options provide no loss guarantees on certain Unit Trust offers. The options are on a fully matched basis and are not traded. They have been marked to market to produce a fair value figure.

NOTES TO THE FINANCIAL STATEMENTS

24. Hedges of future transactions

As described in the Financial Review on page 4, the Group's policy is to maintain foreign exchange cover in respect of exports from the UK to subsidiaries. It does this using forward foreign currency contracts. At 31 March 1999 the Group had hedged approximately 92% of the foreign currency exports expected in the following 12 months.

At 31 March 1999 there were £9.7m of net gains on forward foreign currency contracts (last year £22.4m of net gains). None of these were recognised at the balance sheet date. All outstanding net gains are expected to be dealt with in the profit and loss account for the period ending 31 March 2000.

During the period ended 31 March 1999, all of the net gains not recognised at 31 March 1998 were dealt with in the profit and loss account.

25. Called up share capital

	THE COMPANY	
	1999	1998
	£m	£m
Authorised:		
3,200,000,000 ordinary shares of 25p each	800.0	800.0
Allotted, called up and fully paid:		
2,870,622,953 ordinary shares of 25p each (last year 2,862,299,548)	717.7	715.6

8,323,405 ordinary shares having a nominal value of £2.1m were allotted during the year under the terms of the Company's share schemes which are described in note 9. The aggregate consideration received was £22.3m. Contingent rights to the allotment of shares are also described in note 9.

Of the 8,323,405 ordinary shares referred to above, 7,924,897 ordinary shares were subscribed for by the Marks and Spencer p.l.c. Qualifying Employee Share Ownership Trust (the "QUEST") at market value of £33.7m. These shares were allocated to employees, including executive directors, in satisfaction of options exercised under the Marks and Spencer United Kingdom Employees' Save As You Earn Share Option Scheme. The Company provided £12.6m to the QUEST for this purpose. The cost of this contribution has been transferred by the Company directly to the profit and loss account reserve (see note 26).

26. Shareholders' funds

	THE GROUP		THE COMPANY	
	1999	1998	1999	1998
	£m	£m	£m	£m
Called up share capital (see note 25)	717.7	715.6	717.7	715.6
Share premium account:				
At 1 April	325.7	259.8	325.7	259.8
Shares issued relating to scrip dividends	—	(2.4)	—	(2.4)
Shares issued under the Company's share schemes	32.8	68.3	32.8	68.3
At 31 March	358.5	325.7	358.5	325.7
Revaluation reserve:				
At 1 April	506.1	456.3	509.7	461.9
Surplus on revaluation of investment properties	32.7	47.8	32.7	47.8
Share of joint venture's movement in revaluation reserve	1.4	2.0	—	—
Revaluation surplus realised on disposals	(7.8)	—	(7.8)	—
Revaluation element of depreciation charge	(1.4)	—	(1.4)	—
At 31 March	531.0	506.1	533.2	509.7

NOTES TO THE FINANCIAL STATEMENTS

26. Shareholders' funds (CONTINUED)

	THE GROUP		THE COMPANY	
	1999 £m	1998 As restated £m	1999 £m	1998 As restated £m
Profit and loss account reserve:				
At 1 April as previously stated	3,518.4	3,104.0	3,132.4	2,788.6
Prior year adjustment (see notes 11B and 21A)	(212.1)	(199.1)	(200.8)	(189.1)
At 1 April as restated	3,306.3	2,904.9	2,931.6	2,599.5
Revaluation element of depreciation charge	1.4	–	1.4	–
Revaluation surplus realised on disposals	7.8	–	7.8	–
Amounts added back in respect of scrip dividends	–	52.1	–	52.1
Amounts deducted in respect of shares issued to the QUEST (see note 25)	(12.6)	(23.4)	(12.6)	(23.4)
Retained (loss)/profit for the year	(41.2)	406.8	(41.7)	303.4
Exchange differences on foreign currency translation	15.0	(34.1)	–	–
At 31 March	3,276.7	3,306.3	2,886.5	2,931.6
Shareholders' funds at 31 March – all equity	4,883.9	4,853.7	4,495.9	4,482.6

Cumulative goodwill of £453.3m (last year £453.3m) arising on the acquisition of US, Canadian and Spanish subsidiaries has been written off against the profit and loss account reserve. As permitted by FRS10, this goodwill has not been reinstated in the balance sheet and remains written off to reserves.

27. Reconciliation of movements in Group shareholders' funds

	THE GROUP	
	1999 £m	1998 As restated £m
Profit attributable to shareholders	372.1	815.9
Dividends	(413.3)	(409.1)
	(41.2)	406.8
Other recognised gains and losses relating to the year	49.1	15.7
New share capital subscribed	34.9	72.3
Amounts deducted from profit and loss account reserve in respect of shares issued to the QUEST	(12.6)	(23.4)
Amounts added back to profit and loss account reserve in respect of scrip dividends	–	52.1
Net additions to shareholders' funds	30.2	523.5
Shareholders' funds at 1 April as previously stated	5,065.8	4,529.3
Prior year adjustment	(212.1)	(199.1)
Shareholders' funds at 1 April as restated	4,853.7	4,330.2
Shareholders' funds at 31 March	4,883.9	4,853.7

28. Reconciliation of operating profit to net cash inflow from operating activities

	THE GROUP	
	1999 £m	1998 As restated £m
Operating profit	512.0	1,103.7
Exceptional operating items (see note 3)	88.5	(53.2)
Operating profit before exceptional items	600.5	1,050.5
Depreciation (excluding £64m impairment provision)	236.4	190.0
Increase in stocks	(7.6)	(61.9)
Increase in customer advances	(363.0)	(264.1)
Increase in other debtors	(8.0)	(44.0)
Increase in creditors	14.6	44.0
Net cash inflow before exceptional items	472.9	914.5
Exceptional operating cash (outflow)/inflow (see note 29A)	(0.6)	53.2
Net cash inflow from operating activities	472.3	967.7

NOTES TO THE FINANCIAL STATEMENTS

29. Analysis of cash flows given in the cash flow statement

	THE GROUP	
	1999	1998
	£m	As restated £m
A EXCEPTIONAL OPERATING CASH FLOWS		
UK restructuring costs paid	(0.6)	–
VAT recovered from HM Customs & Excise	–	53.2
Exceptional operating cash (outflow)/inflow	(0.6)	53.2
B RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
Interest received	29.8	56.9
Dividends paid to minorities	(0.8)	(0.8)
Net cash inflow from returns on investments and servicing of finance	29.0	56.1
C TAXATION		
UK corporation tax paid	(337.2)	(330.8)
Overseas tax paid	(8.7)	(11.5)
Cash outflow for taxation	(345.9)	(342.3)
D CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		
Purchase of tangible fixed assets	(663.0)	(763.8)
Sale of tangible fixed assets	25.5	6.1
Purchase of fixed asset investments	–	(30.6)
Sale of fixed asset investments	9.4	–
Net cash outflow for capital expenditure and financial investment	(628.1)	(788.3)
E ACQUISITIONS AND DISPOSALS		
Increase in investment in subsidiary by the minority	–	2.6
Repayment of loan by joint venture	1.0	–
Cash inflow for acquisitions and disposals	1.0	2.6
F MANAGEMENT OF LIQUID RESOURCES		
Decrease in cash deposits treated as liquid resources	140.2	110.1
Net (purchase)/sale of government securities	(14.2)	41.3
Net (purchase)/sale of listed investments	(0.7)	47.6
Net sale of unlisted investments	55.3	27.6
Cash inflow from decrease in liquid resources	180.6	226.6
G FINANCING		
Increase/(decrease) in bank loans, overdrafts and commercial paper treated as financing	29.5	(31.7)
Repayment of 7¼% Guaranteed bonds	(150.0)	–
Repayment of US\$ Promissory note	(268.7)	–
Issue of medium term notes	859.3	272.9
Increase in other creditors treated as financing	12.7	17.3
Debt financing as shown in analysis of net debt (see note 30)	482.8	258.5
Shares issued under employees' share schemes	22.2	48.9
Net cash inflow from financing	505.0	307.4

NOTES TO THE FINANCIAL STATEMENTS

30. Analysis of net debt

	At 1 April 1998 £m	Cash flow £m	Exchange movement £m	At 31 March 1999 £m
Net cash:				
Cash at bank and in hand (see note 16)	614.9	(335.1)	1.7	281.5
Less: deposits treated as liquid resources (see below)	(319.6)	140.2	0.8	(178.6)
	295.3	(194.9)	2.5	102.9
Bank loans, overdrafts and commercial paper (see note 19B)	(408.5)	(33.3)	(4.0)	(445.8)
Less: amounts treated as financing (see below)	351.9	29.5	3.3	384.7
	(56.6)	(3.8)	(0.7)	(61.1)
Net cash per cash flow statement	238.7	(198.7)	1.8	41.8
Liquid resources:				
Deposits included in cash (see above)	319.6	(140.2)	(0.8)	178.6
Current asset investments (see note 14)	242.3	(40.4)	2.1	204.0
Liquid resources per cash flow statement and note 29F	561.9	(180.6)	1.3	382.6
Debt financing:				
Bank loans, overdrafts and commercial paper treated as financing (see above)	(351.9)	(29.5)	(3.3)	(384.7)
7½% Guaranteed bonds (see note 19B)	(150.0)	150.0	—	—
US\$ Promissory note (see note 19B)	(268.7)	268.7	—	—
Medium term notes (see note 19B)	(272.9)	(859.3)	—	(1,132.2)
Other creditors (see note 19B)	(76.4)	(12.7)	—	(89.1)
Debt financing (see note 29G)	(1,119.9)	(482.8)	(3.3)	(1,606.0)
Net debt	(319.3)	(862.1)	(0.2)	(1,181.6)

31. Post balance sheet events

On 28 April, the Group announced the closure of its Canadian operations. As a consequence, its subsidiary, Marks & Spencer Canada Inc, will cease to operate during the financial year ending 31 March 2000. The total cost of closure is estimated to be £25m, excluding goodwill of £24.4m previously written off to reserves.

On 10 May, the Group announced the rationalisation of its UK store management. The total cost of this rationalisation is estimated to be £14m.

NOTES TO THE FINANCIAL STATEMENTS

32. Commitments and contingent liabilities

	THE GROUP		THE COMPANY	
	1999 £m	1998 £m	1999 £m	1998 £m
A Commitments in respect of properties in the course of development	151.5	364.2	134.8	357.8
B Guarantees by the Company in respect of debt instruments issued by subsidiaries	–	–	1,258.3	834.3
C Guarantees made in the ordinary course of business on behalf of overseas subsidiaries.	–	–	161.7	86.3

D 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.

E 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, at market value, fixed assets which are currently owned and operated by them on the Company's behalf.

F Commitments under operating leases

At 31 March 1999 annual commitments under operating leases were as follows:

	THE GROUP		THE COMPANY	
	Land & buildings £m	Other £m	Land & buildings £m	Other £m
Expiring within one year	6.9	0.7	1.6	0.4
Expiring in the second to fifth years inclusive	38.5	8.7	4.8	7.5
Expiring in more than five years	72.6	–	40.4	–
	118.0	9.4	46.8	7.9

33. Foreign exchange rates

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

	SALES AVERAGE RATE		PROFIT AVERAGE RATE		BALANCE SHEET RATE	
	1999	1998	1999	1998	1999	1998
Republic of Ireland	1.15	1.13	1.15	1.13	1.18	1.23
France	9.64	9.82	9.74	9.86	9.81	10.38
Belgium	59.24	60.38	60.00	60.88	60.32	63.88
Germany	2.85	2.92	2.87	2.95	2.92	3.10
The Netherlands	3.24	3.29	3.28	3.31	3.30	3.49
Spain	243.90	247.57	246.01	249.10	248.79	262.93
United States	1.66	1.65	1.66	1.64	1.61	1.67
Canada	2.51	2.32	2.51	2.34	2.44	2.38
Hong Kong	12.83	12.75	12.84	12.71	12.51	12.97
Japan	209.16	203.54	206.75	204.19	191.18	223.31

34. Related party transactions

There were no material transactions with related parties as defined by FRS8, 'Related Party Transactions'.

GROUP FINANCIAL RECORD

FOR THE YEAR ENDED 31 MARCH

	1999 £m 52 weeks	1998 £m 52 weeks	1997 £m 52 weeks	1996 £m 52 weeks	1995 £m 52 weeks
PROFIT AND LOSS ACCOUNT⁽¹⁾⁽²⁾					
Turnover:					
General	4,765.1	4,811.4	4,601.7	4,181.4	3,967.2
Foods	3,110.3	3,157.1	3,024.1	2,871.3	2,703.6
Financial Services	348.6	274.8	216.1	181.0	139.1
Total turnover (excluding sales taxes)	8,224.0	8,243.3	7,841.9	7,233.7	6,809.9
Retailing – continuing	7,875.4	7,968.5	7,625.8	7,030.3	6,645.0
– discontinued	–	–	–	22.4	25.8
Financial Services	348.6	274.8	216.1	181.0	139.1
Operating profit					
United Kingdom	565.1	1,014.1	931.3	852.4	822.5
Europe (excluding UK) ⁽⁴⁾	(90.9)	31.8	37.0	31.7	31.7
Americas ⁽³⁾	15.8	16.8	21.0	13.9	13.3
Far East	(3.5)	18.3	32.7	26.0	19.7
Excess interest charged to cost of sales of Financial Services	25.5	22.7	–	–	–
Total operating profit	512.0	1,103.7	1,022.0	924.0	887.2
Analysed as:					
Before exceptional operating (charges)/income	600.5	1,050.5	1,022.0	924.0	887.2
Exceptional operating (charges)/income	(88.5)	53.2	–	–	–
Retailing – continuing	375.8	991.6	946.3	867.2	839.7
– discontinued	–	–	–	(2.2)	(1.2)
Financial Services	110.7	89.4	75.7	59.0	48.7
Excess interest charged to cost of sales of Financial Services	25.5	22.7	–	–	–
Loss on disposal of discontinued operations	–	–	–	(25.0)	–
Profit/(loss) on disposal of property and other fixed assets	6.2	(2.8)	(1.8)	(4.2)	(5.4)
Net interest income	27.9	54.1	65.9	57.6	34.8
Profit before taxation	546.1	1,155.0	1,086.1	952.4	916.6
Taxation on ordinary activities	(176.1)	(338.7)	(346.1)	(312.0)	(299.5)
Minority interests	2.1	(0.4)	(1.3)	(1.2)	(1.0)
Profit attributable to shareholders	372.1	815.9	738.7	639.2	616.1
Dividends	(413.3)	(409.1)	(368.6)	(320.9)	(288.2)
(Loss)/profit for the year	(41.2)	406.8	370.1	318.3	327.9
BALANCE SHEET⁽¹⁾					
Tangible fixed assets	4,387.5	3,964.8	3,412.0	3,246.4	3,128.4
Fixed asset investments	61.2	69.7	36.6	46.0	43.3
Current assets	3,355.9	3,401.5	3,203.0	2,874.3	2,364.6
Total assets	7,804.6	7,436.0	6,651.6	6,166.7	5,536.3
Creditors due within one year	(2,029.8)	(2,345.0)	(1,775.1)	(1,674.9)	(1,363.8)
Total assets less current liabilities	5,774.8	5,091.0	4,876.5	4,491.8	4,172.5
Creditors due after more than one year	(772.6)	(187.2)	(495.8)	(497.8)	(568.7)
Provisions for liabilities and charges	(54.4)	(31.0)	(31.8)	(35.0)	(37.9)
Deferred taxation	(50.6)	–	–	–	–
Net assets	4,897.2	4,872.8	4,348.9	3,959.0	3,565.9

(1) Restated for 1998 and prior years for the change in accounting policy relating to the depreciation of fit out.

(2) Restated for 1997 and prior years to include turnover and operating profit by destination, the results of the Captive insurance company within turnover and cost of sales and the results of the Treasury company within net interest income.

(3) Inclusive of discontinued operations.

(4) 1999 reflects £64m provision for impairment of fixed assets.

GROUP FINANCIAL RECORD

FOR THE YEAR ENDED 31 MARCH

	1999 £m 52 weeks	1998 £m 52 weeks	1997 £m 52 weeks	1996 £m 52 weeks	1995 £m 52 weeks	
CASH FLOW ⁽¹⁾						
Net cash inflow from operating activities	472.3	967.7	903.1	804.1	918.5	
Returns on investments and servicing of finance	29.0	56.1	65.4	55.7	29.8	
Taxation	(345.9)	(342.3)	(318.6)	(296.8)	(273.4)	
Capital expenditure and financial investment	(628.1)	(788.3)	(419.1)	(325.1)	(397.5)	
Acquisitions and disposals	1.0	2.6	(0.2)	(4.9)	(9.6)	
Equity dividends paid	(412.6)	(325.8)	(305.6)	(271.3)	(248.1)	
Cash (outflow)/inflow before management of liquid resources and financing	(884.3)	(430.0)	(75.0)	(38.3)	19.7	
Management of liquid resources	180.6	226.6	91.3	(127.7)	(15.7)	
Financing	505.0	307.4	64.7	113.5	15.6	
(Decrease)/increase in cash	(198.7)	104.0	81.0	(52.5)	19.6	
Decrease/(increase) in net funds defined by FRS1	862.3	380.8	35.5	4.3	(30.4)	
KEY PERFORMANCE MEASURES ⁽¹⁾						
Gross margin ^{(2) (4)}	<u>Gross profit</u> Turnover	33.4%	35.2%	34.9%	34.7%	35.0%
Net margin ^{(2) (4)}	<u>Operating profit</u> Turnover	5.9%	13.1%	13.0%	12.8%	13.1%
Net margin excluding exceptional items ⁽⁵⁾		7.0%	12.5%	–	–	–
Profitability ⁽²⁾	<u>Profit before tax</u> Turnover	6.6%	14.0%	13.8%	13.6%	13.5%
Profitability excluding exceptional items ⁽⁵⁾		7.7%	13.4%	–	–	–
Earnings per share (Defined by FRS14)	<u>Standard earnings⁽⁶⁾</u> Weighted average ordinary shares in issue	13.0p	28.6p	26.1p	22.8p	22.1p
Earnings per share adjusted for exceptional items		15.8p	27.3p	–	23.7p	–
Earnings per share (Defined by ILMR)	<u>Headline earnings⁽⁷⁾</u> Weighted average ordinary shares in issue	15.0p	28.7p	26.2p	23.8p	22.3p
Dividend per share		14.4p	14.3p	13.0p	11.4p	10.3p
Dividend cover	<u>Profit attributable to shareholders</u> Dividends	0.9	2.0	2.0	1.9	2.1
Return on equity ⁽²⁾	<u>Profit after tax and minority interests</u> Average shareholders' funds	7.6%	17.8%	17.9%	17.1%	17.9%
Capital expenditure ⁽²⁾		£683.1m	£750.2m	£431.6m	£309.0m	£376.6m

(1) Restated for 1998 and prior years for the change in accounting policy relating to the depreciation of fit out.

(2) Figures for 1996 and prior years have been restated in accordance with the revised version of FRS1, 'Cash Flow Statements'.

(3) Based on results reported as continuing operations.

(4) Based on segmental results.

(5) Figures for 1999 exclude exceptional operating charges of £88.5m in respect of impairment provision in Europe and the provision for UK restructuring costs (see note 3). 1998 excludes exceptional operating income of £53.2m in respect of VAT.

(6) Standard earnings are defined as profit after tax, minority interests and preference dividends.

(7) Headline earnings are standard earnings adjusted for certain capital items.