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MARKS AND SPENCER p.l.c.

1988 ANNUAL REPORT & FINANCIAL STATEMENTS



STYLE



QUALITY



SERVICE



FRESHNESS



VALUE



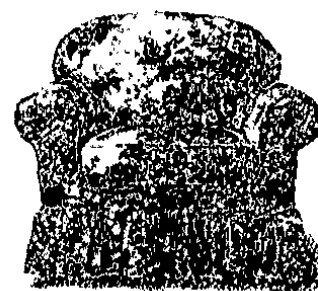
CHOICE



INNOVATION



CONVENIENCE



ST MICHAEL

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THE QUEEN'S AWARD FOR
EXPORT ACHIEVEMENT



THE QUEEN'S AWARD
FOR TECHNOLOGICAL
ACHIEVEMENT

Registered Office and Head Office
 Michael House
 37-67 Baker Street
 London W1A 1DN
 Telephone 01-935 4422

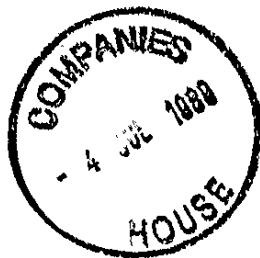
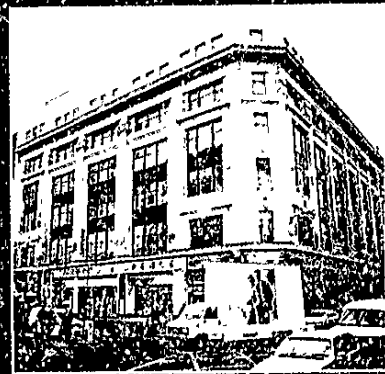
HIGHLIGHTS OF THE YEAR

Top right: 1987/1988 saw the completion of a major redevelopment of the Company's premier store at London's Marble Arch.

Centre right: A new purpose built computer centre opened in West London.

Bottom right: The Group opened three more stores in New York State trading under the Canadian D'Alaird's name. Further growth in the USA will arise following the acquisition of Brooks Brothers in April 1988.

Below: The Company also opened its second department store at the Trafford Centre near Manchester.



DIRECTORS



Chairman
The Lord Rayner
seated right

Chief Executive Officer
R Greenbury
seated left

Executive Directors
From the left
N L Coine
Store Operations and Physical Distribution
J A Lusher
Foods

J K Oates
Finance and Administration
A S Orton
Building and Store Development
S J Sacher
Information Technology and Export
The Hon D D Sieff
Personnel and Public Affairs
C V Silver
Clothing
A K P Smith
USA

P H Spriddell
Estates
D G Trangmar
Homeware, Gifts, Footwear and Europe

Non-executive Directors
See page 35
D V Atterton CBE
R A E Herbert
D G Lanigan
D R Susman
The Rt Hon The Baroness Young

DIRECTORS



Not pictured

Company Secretary

M Epstein

Divisional Directors

Clothing: P L Salsbury
A Z Stone

Foods: J R Bentfield
W Blackburn
M S Taylor

*Homecare and
Far East*

M B Van Zwanenberg

Finance: R Colvill
C Latmoden

*Building and
Store Development:*

G C Colwell
P P D Smith

Estates: R A Aldridge

USA: M S Goldstone

Auditors

Deloitte Haskins & Sells

Bankers

Midland Bank plc

Registrars and Transfer Office

Ravensbourne Registration Services
Limited
Bourne House
31 Beckenham Road
Beckenham
Kent BR3 4TU

SUMMARY OF GROUP RESULTS

TURNOVER (excluding sales tax), £m

| | |
|----|--------|
| 84 | 2862.5 |
| 85 | 3208.1 |
| 86 | 3734.8 |
| 87 | 4220.8 |
| 88 | 4577.6 |

PROFIT BEFORE TAX, £m

| | |
|----|-------|
| 84 | 279.3 |
| 85 | 304.1 |
| 86 | 365.8 |
| 87 | 432.1 |
| 88 | 501.7 |

EARNINGS PER SHARE, pence

| | |
|----|------|
| 84 | 6.3 |
| 85 | 6.9 |
| 86 | 8.4 |
| 87 | 10.4 |
| 88 | 12.2 |

DIVIDENDS PER ORDINARY SHARE, pence

| | |
|----|-----|
| 84 | 3.1 |
| 85 | 3.4 |
| 86 | 3.9 |
| 87 | 4.5 |
| 88 | 5.1 |

NET ASSETS, £m

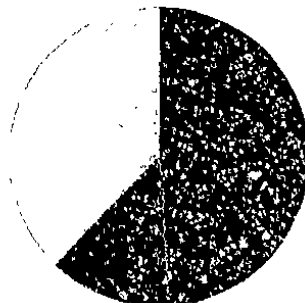
| | |
|----|--------|
| 84 | 1235.6 |
| 85 | 1336.1 |
| 86 | 1462.9 |
| 87 | 1578.8 |
| 88 | 2158.0 |

NET ASSETS PER SHARE, pence

| | |
|----|------|
| 84 | 46.9 |
| 85 | 50.6 |
| 86 | 55.2 |
| 87 | 59.4 |
| 88 | 68.1 |

1988 TURNOVER £4,577.6m
(excluding sales tax)

- Clothing 49.1%
- Home furnishings and other 13.1%
- Foods 37.8%



1988 PROFIT BEFORE TAX £501.7m

- Tax 35.5%
- Dividends 27.1%
- Retained earnings 37.4%



SUMMARY OF GROUP RESULTS

| | % increase | 1988 53 weeks £m | 1987 52 weeks £m | 1986 52 weeks £m | 1985 52 weeks £m | 1984* 52 weeks £m |
|---|---------------|------------------------|------------------------|------------------------|------------------------|-------------------------|
| Turnover | 8.5 | 4,577.6 | 4,220.8 | 3,734.8 | 3,208.1 | 2,862.5 |
| Clothing | 6.2 | 2,249.9 | 2,118.4 | 1,866.0 | 1,613.3 | 1,493.6 |
| Homeware | 6.8 | 551.6 | 516.7 | 439.8 | 366.9 | 300.3 |
| Foods | 11.7 | 1,730.2 | 1,549.1 | 1,410.0 | 1,216.2 | 1,060.6 |
| Financial activities | 25.4 | 45.9 | 36.6 | 19.0 | 11.7 | 8.0 |
| Profit on ordinary activities before taxation | 16.1 | 501.7 | 432.1 | 365.8 | 304.1 | 279.3 |
| Tax on profit on ordinary activities | | 178.4 | 156.2 | 141.3 | 120.6 | 111.1 |
| Profit for the financial year | 17.1 | 323.3 | 276.0 | 222.4 | 181.4 | 166.4 |
| Shareholders' funds | | 2,158.0 | 1,578.8 | 1,452.4 | 1,325.3 | 1,226.8 |
| Funds retained in the business (including depreciation) | | 272.5 | 225.3 | 172.2 | 136.3 | 118.7 |
| Earnings per share (as adjusted for scrip issue in July 1984) | 17.3 | 12.2p | 10.4p | 8.4p | 6.9p | 6.3p |
| Dividend on ordinary shares (as adjusted for scrip issue in July 1984) | 13.3 | 5.1p | 4.5p | 3.9p | 3.4p | 3.125p |
| Dividend cover | | 2.4 times | 2.3 times | 2.2 times | 2.0 times | 2.0 times |
| Ordinary shareholders' interests per share | | 81.1p | 59.4p | 54.9p | 50.1p | 46.6p |

* Figures have not been restated to show translation using average rates of exchange.

CHAIRMAN'S STATEMENT



"The Group is in a strong position for further growth and expansion at home and overseas."

Lord Rayner, Chairman

The past year has seen continued growth and investment both at home and overseas.

In the United Kingdom we achieved another substantial increase in selling space and continued the rapid modernisation of our stores. We expanded the range of our merchandise and maintained its quality and value. We made further significant investments in information systems and improved the handling of our merchandise from manufacturers to stores. Financial services moved into operating profit, a year earlier than planned.

Our growth overseas continued and after the end of year we announced the acquisition of Brooks Brothers in the United States. This marks a significant step forward in our plans to become an established international retailer.

Total Group capital expenditure was £215 million, financed entirely from within the Group's own resources.

Sales for the Group, excluding sales taxes, for 53 weeks were £4,577.6 million compared with £4,220.8 million for 52 weeks last year. Profit on sales increased from 10.2 per cent last year to 11.0 per cent this year.

Profits after taxes and an allocation of £12.4 million to our UK Employees' Profit Sharing Scheme were £323.3 million, an increase of £47.3 million on last year's profits of £276.0 million. Earnings per share increased by 17.3 per cent to 12.2p from 10.4p last year.

The final dividend recommended

CHAIRMAN'S STATEMENT

by the directors is 3.55p per share, making a dividend for the year of 5.1p compared with 4.5p last year. The cost of dividends will be £135.8 million, retaining in the business £272.5 million, including depreciation, for further development.

The Board

It is with deep regret that we record the death on April 23 1987 of the Hon Michael D Sieff, CBE. He joined the Company in 1929 and became a director in 1950. He was Joint Managing Director from 1971 and Vice-Chairman from 1972, offices which he relinquished at his own request in 1976. Mr Sieff retired from the Company in 1978 but remained active, especially in the promotion of British exports, and continued his close interest in the Company. His contribution to



Above: 100 M&S stores have a men's tailoring section.

Right: Style and value contributed to an upturn in ladies' fashion sales.

Above right: Extracts from Nature is a new addition to skin and body products.

the business during a period of nearly 50 years was substantial.

Mr B J Lynch retired in September 1987 after 34 years service with the Company, 19 as an alternate director. As such Mr Lynch was general manager of our store at Marble Arch, before taking responsibility for our Scottish and north eastern stores division. We thank him for his contribution to the Company.

Mr Albert E Frost, CBE retired in July 1987 after 11 years service as a non-executive director. We are grateful to him for the good sense of his help and advice which played a significant part in the development of the business.

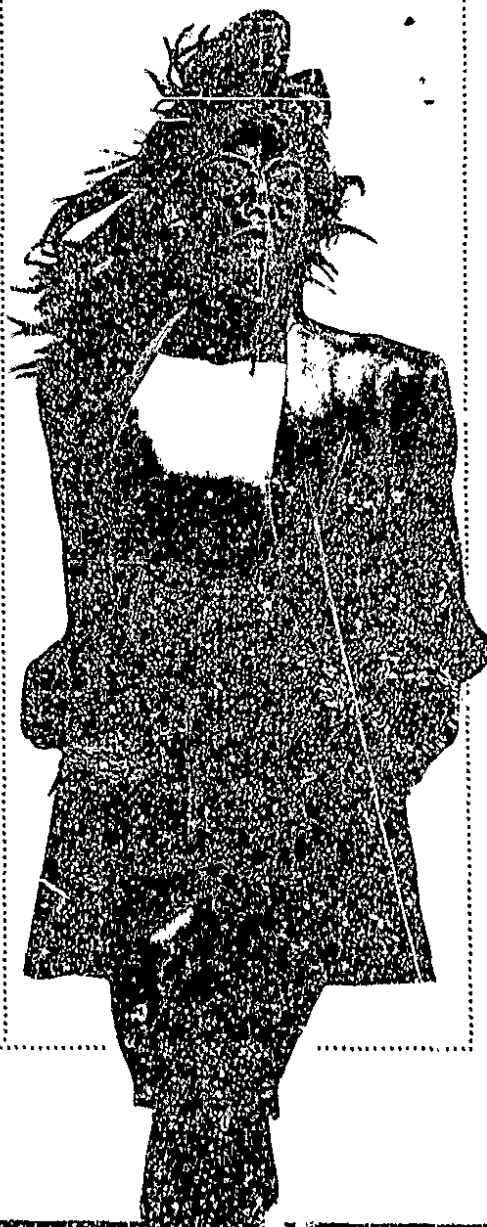
In March 1988 Mr Richard Greenbury was appointed Chief Executive Officer having been Chief Operating Officer since 1986, a Joint Managing Director since 1978 and a director since 1972.

During the year Mr A S Orton was appointed a director. He had been an alternate director since 1974. From 1975 to 1982 he was resident director of our Canadian subsidiary company. His current responsibilities include Building, Store Development and Equipment.

I am pleased to record the appointment during the year of the Rt Hon The Baroness Young as a non-executive director. She brings to the Board extensive experience in Government at both national and local levels.

Review of Business in the UK

Store sales over 53 weeks increased by 9.6 per cent to £4,173.6 million net of VAT, compared with £3,809.1 million over 52 weeks last year. After allowing for inflation on like



CHAIRMAN'S STATEMENT



merchandise of 2.0 per cent, a volume increase of 7.6 per cent was made.

Clothing

Clothing sales increased by £146.6 million to £2,016.0 million, an increase of 7.8 per cent.

After a disappointing first half, sales of ladieswear in the second half showed a strong recovery. Positive statements in fashion colours helped our ladies' tailoring business to perform particularly well. Sales of our growing range of ladies' leisurewear made a buoyant start to the Spring. Lingerie sales continued to make good progress.

Men's outerwear continued to increase market share. A hundred of our stores now have sections set aside for tailored garments where we offer a specialised service. Customers can select from fabric samples in 160 stores which are too small to carry our full range of suits. We have extended our range of leisurewear and now offer a

comprehensive range of jackets for outdoor activities.

Through high standards of design, quality and value we continue to dominate the market in men's underwear and accessories and we achieved good progress in these areas, particularly in garments made of natural fibres.

Progress in childrenswear has been particularly rapid in clothing for younger children and baby-wear where we offer a comprehensive range of high quality, attractively styled merchandise at excellent values. We are encouraged by the success of our new teenage ranges for both boys and girls.



We continue to concentrate our buying on popular medium-priced lines, and constantly look for ways to improve the quality of St Michael merchandise. Our policy of offering a comprehensive range of clothing for the whole family, of high quality and good value for money, remains central to our continued success.

Right: Family fashions offer high quality and good value.

Left and above left: New teen fashions have been successfully added to the well established baby and childrenswear ranges.

Above: Co-ordinating themes for St Michael lingerie.





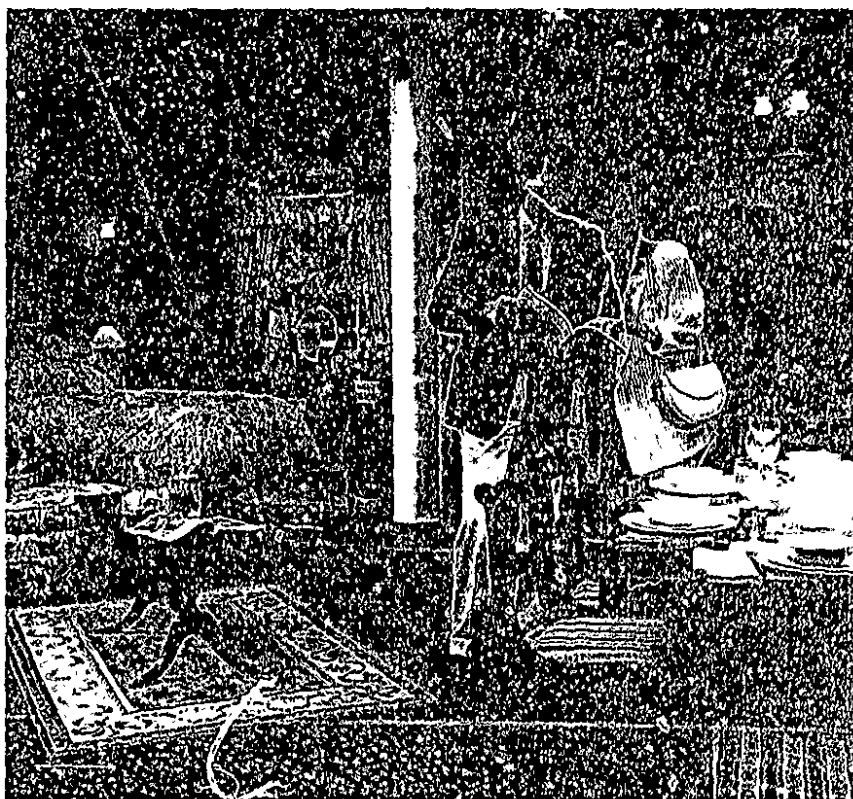
CHAIRMAN'S STATEMENT



Above: St Michael footwear made strong progress last year.

Right: Furniture, now on sale in over 50 stores.

Opposite: A dedicated delivery service for furniture ensures speed, efficiency and customer satisfaction.



Homeware and Footwear

The sales of the Homeware and Footwear Division increased by 8.7 per cent to £486.3 million. The expansion of our homeware ranges has continued and our furniture business is firmly established. We now offer a full range of co-ordinated and well designed furniture and accessories for the home, in 50 stores.

Where space permits, we display our furniture and furnishings in room settings so that our customers can see how the merchandise will look in their homes. We have successfully introduced a home furnishings catalogue, enabling our customers to study the range and to place their orders from home by telephone or by post, as well as encouraging them to visit our stores. Our efficient and courteous

home delivery service for furniture and furnishings has made a significant contribution.

Sales of ladies', men's and children's footwear continued to make strong progress, with volume increases in all three areas.

Food

Sales of food increased by 12.0 per cent to £1,671.3 million, significantly ahead of national retail food sales. We offer a carefully selected range of convenience and speciality foods suitable for all occasions.

We continue to widen customer choice with the further development of fresh chilled foods, particularly in prepared and snack foods. Our fish department, which now includes a comprehensive range of delicatessen, recipe, frozen and



CHAIRMAN'S STATEMENT



*Above: Fresh fish, lean meat, quality produce and continental delicacies from the St Michael range.
Below: Convenience and speciality foods for all occasions.
Opposite: Fresh salads and produce at Islington's M&S food store.*

speciality dishes, made excellent progress, building on the trend towards healthier eating.

We introduced many new ranges of high quality foods in our grocery department and our range of wines has been developed to offer a more comprehensive choice.

We have established a sound business in gift lines based on confectionery, biscuits, wine and horticulture to meet customers needs on special occasions such as Christmas, Easter and Mother's Day. These lines are a major attraction to our customers.

A number of our stores in the London area have been modernised and now devote most of their space to displaying a wider and more comprehensive choice of St Michael foods. Our experience with these stores, and with our first food store in Pinner, indicates the strong potential which exists for stores selling only food.

Purchasing Policy

The further development of our ranges leads us to search nationally and internationally for innovative merchandise offering high quality, good design and good value. We keep close to worldwide technological developments in the manufacturing of raw materials and finished goods. Our commitment to British industry continues; last year we sold £3.8 billion worth of British-made merchandise, nearly £1 billion more than in 1984.

Store Development in the UK

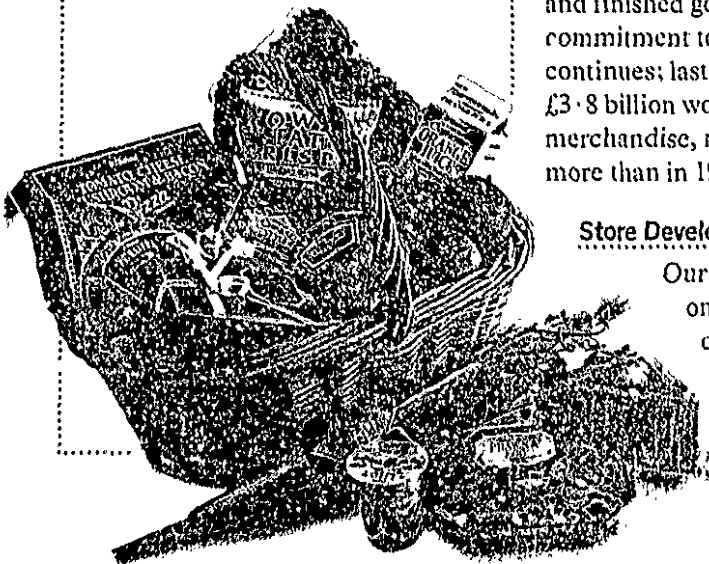
Our capital expenditure on expansion, development and modernisation was

£125 million. We increased our sales floor footage by 545,000 square feet and modernised 2 million square feet.

One of the most significant events of the year was the opening of the final phase of the major redevelopment of our premier store at Marble Arch, three months earlier than planned. The store has been extended and modernised to maintain its position as Oxford Street's foremost store. The store now operates on four floors and has 157,000 square feet of selling space, allowing generous displays of a wider range of merchandise and providing increased comfort for customers. It also has a spacious food hall with specialised areas for wines, confectionery and "take away snacks".

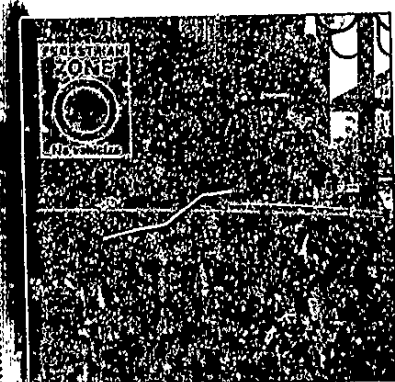
Another major event was the opening of our second edge-of-town store at the Brookfield Centre near Cheshunt in Hertfordshire. This is our first joint site development with Tesco plc. The Centre includes car parking for nearly 2,000 cars, a petrol station, a restaurant and three other shops. The Marks and Spencer store has 69,000 square feet of selling space on a single floor, with 12 room settings showing furniture, furnishings and homeware. Sales have been encouraging.

We opened a new store at Telford of 44,000 square feet in the shopping centre of this expanding town. The development costs of this project were substantially reduced by applying a new approach to construction and project implementation. This approach will be further developed in the year ahead.





CHAIRMAN'S STATEMENT



*Above: Harrow's pedestrianisation scheme provides convenient, comfortable and safe shopping.
Opposite: Information technology ensures a better availability of goods.*

During the year, we enlarged 23 stores, opened seven satellite stores and modernised a further 33 stores.

In three years we have increased our selling space by 17 per cent to 8.5 million square feet, an addition of 1.3 million square feet, nearly half in the form of new stores or satellites. In the same time we have modernised 4.75 million square feet of existing footage.

Two small stores where our goods could no longer be adequately displayed were closed during the year. Both were situated close to much larger Marks and Spencer stores which will have been extended and modernised by 1990.

In 1988/89, we plan to add over 400,000 square feet of selling space. This will include an out-of-town development at Lisburn in Northern Ireland where, for the first time, we shall be acting as developer for the whole of the project. A further 18 stores will be extended and we intend to open a second new food-only store in Bayswater in London. In addition, two new satellites are planned.

We aim to modernise a further 1.5 million square feet in 102 stores by March 1989 which will complete the modernisation programme started in 1985.

Our store development policy continues to concentrate investment in city and town centres and in stores which offer the full range of St Michael merchandise. Edge-of-town developments and food only stores are intended to supplement our high street stores in selected specific locations; satellite stores are intended to provide additional selling space in those town centres

where space restrictions prevent the extension of existing units.

We continue to press for traffic-free shopping areas in our discussions with local authorities, developers and other retailers, in order to improve customer convenience, comfort and safety. Adequate car parking and changes to parking restrictions to meet the special needs of holiday periods would also increase the attractiveness of high streets to shoppers.

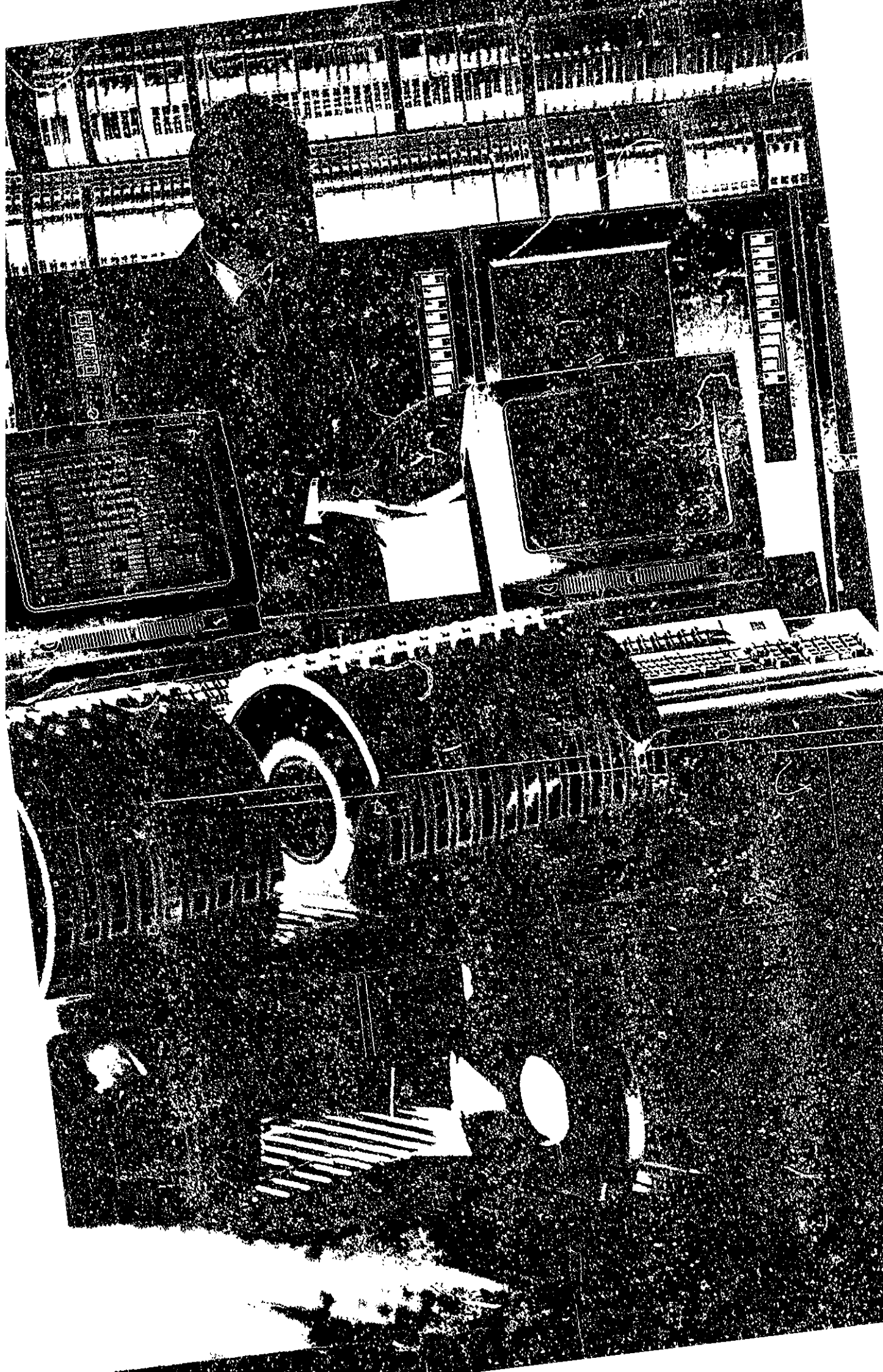
Operations

We aim to meet the needs of our customers through high standards of service and merchandise availability, and to make shopping at Marks and Spencer a comfortable and pleasant experience.

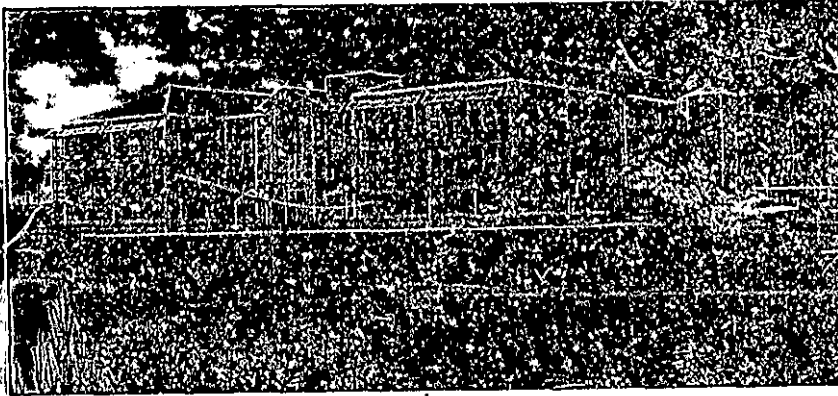
We have continued to extend our trading hours, to enable customers to shop outside peak shopping times. We also held nearly 700 special shopping evenings for Marks and Spencer account holders. The programme will be repeated this year. All account customers will be invited to at least one of these evenings.

Customer service remains a top priority. We give specialised help and advice to customers when they buy men's suits and home furnishings. In certain stores where space has allowed, we have provided fitting rooms for greater comfort and convenience.

We have continued our policy of developing major regional distribution centres operated by our transport contractors and we have rationalised existing facilities. A further two distribution centres were opened during the year, bringing the total to six. Two more will open in the



CHAIRMAN'S STATEMENT



Top: The new purpose-built computer centre in West London.

Bottom: The hand-held terminal tells sales staff what stock is available at the multi-user warehouse.

coming year. These centres give economies of scale and improve the speed and accuracy of service to stores.

Information Technology

We have completed the introduction of point-of-sale systems for our clothing and homeware businesses. Over 7,000 tills have been installed over the last 18 months which are linked to buying departments and suppliers. We have also begun the installation of a computer system designed to provide detailed inventory information for stores, combined with a modern stock ordering facility. During the year, we became the first major retailer in the UK to introduce electronic cheque writing in addition to electronic chargecard voucher printing.

All these developments seek to use technology to improve service and ensure the better availability of sizes and colours of the goods we offer for sale.

To deal with these developments, we have opened a computer centre in West London which will accommodate up to 450 staff. It has the potential to support our Company's growth into the 1990s and to provide maximum benefit from our substantial investment in

information technology, which amounted to £40 million last year and some £90 million in the last three years.

Review of International Business

North America

Using the average rates of exchange for the year, sales were £179.9 million compared with £210.7 million last year. Profit before tax on North American operations was £2.5 million compared with £3.7 million last year. These figures include the results of the four D'Alaird's stores in the USA. Last year's figures relate to 14 months trading.

Canada

Sales in all divisions were affected by poor levels of consumer spending, especially in the second half. Consolidated net sales for the Canadian operation for the 53 weeks to April 2 were C\$404 million compared to C\$431 million for 60 weeks last year. On the same basis, pre-tax profits were C\$7.2 million against C\$6.9 million last year.

In the Marks and Spencer Division, sales were C\$170.9 million and operating profits C\$0.9 million for 53 weeks this year, against C\$176.8 million and C\$0.6 million respectively for 14 months last year. An extension of our store in Scarborough, near Toronto, opened in October 1987. Trading on 21,000 square feet, it almost doubled in size and with its modernised layout, the store has made a significant impact in a large shopping centre. It points the direction that the division should follow. A new 20,000 square feet store opened in St Catherine Street, Montreal, in

CHAIRMAN'S STATEMENT

April 1988, incorporating many of the successful features of the Scarborough store.

In the Peoples' Division of department stores, sales were C\$152.2 million and operating profits C\$0.9 million for 53 weeks this year, against C\$165.6 million and a loss of C\$0.5 million respectively for 14 months last year. The measures taken last year to introduce improved management systems and to clear unwanted stock have continued to have an effect on performance.

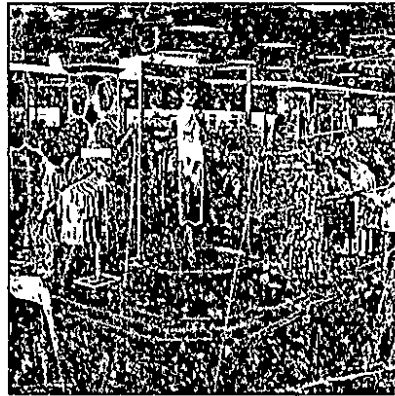
The D'Allaird's Division, operating a chain of speciality ladieswear stores across Canada achieved sales of C\$81.2 million and operating profits of C\$11.1 million for 53 weeks this year, against C\$88.4 million and C\$13.6 million respectively for 14 months last year. A strong start to the year was made by this division which was not maintained in the second half. However, the division maintained its very satisfactory rate of profitability.

United States of America

The acquisition of Brooks Brothers after the end of the financial year was the subject of a circular sent to shareholders. We are confident that the experienced management and staff of Brooks Brothers, in association with some of our operational skills, will form a sound base for further development.

The preferential rights for suitable retail space in North American shopping centres and stores, negotiated with the Campeau Corporation, will enable us to carry forward our strategy in foods as well as clothing.

The four experimental ladieswear stores in Upper New



York State trading under the D'Allaird's name have been operating for a year. We shall re-examine the potential of these stores in the context of our other activities in the USA.

European Economic Community

The sales of our stores in Europe increased by 13.0 per cent in local currency terms and profits by 50.6 per cent. Using the average rates of exchange for the year, sales were £131.7 million, compared with £119.4 million. Profit before tax on European operations was £18.8 million, compared with £13.3 million.

During the year, we opened our fourth store in the Paris area at Parly 2, a shopping mall on the outskirts of the capital. The store consists of two neighbouring units in the mall totalling 21,000 square feet. Like Velizy 2, it has been successful from opening day.

In the Republic of Ireland, our store in Mary Street, Dublin, has been trading successfully for eight years. In the coming year we shall open a second store in the capital in Grafton Street. Our new store in Cork is now scheduled to open early in 1989.

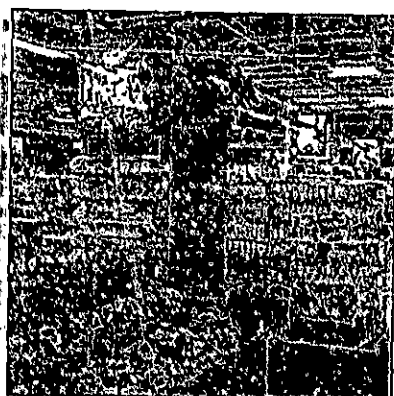
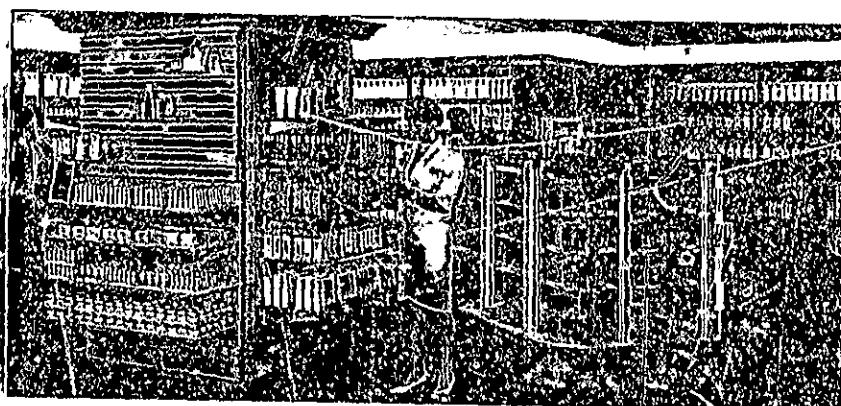
We now have 11 stores in Europe, trading on 336,000 square



Above: English speciality foods are popular in the new French store at Parly 2 shopping centre in West Paris.

Left: An extension to Scarborough M&S in Toronto almost doubled the sales floor.

CHAIRMAN'S STATEMENT



Top: The Company's first store in the Far East opened in Hong Kong's Ocean Centre in May.

Above: The new St Michael shop at Robinson and Co., Singapore.

Right: On left of picture is Brooks Brothers' 51,000 sq ft flagship store on Madison Avenue, New York.

feet of selling space. These stores all reflect the high standard of our modernised stores in the UK and some achieve sales results which rank them among our top stores. Our formula is successful and our growth, especially in France, is constrained only by the availability of suitable sites.

We look forward to our continued development in the EEC and we are encouraged by the prospect of the elimination of fiscal and technical barriers to trade within the Community after 1992.

Hong Kong

Our first store in Hong Kong opened in May 1988. A team under the leadership of a divisional director is now based there examining development opportunities in the Far East. Their brief includes the examination of opportunities to open other retailing outlets in Hong Kong, the development of franchising elsewhere in the region, and the procurement of merchandise to satisfy the needs of our international operations.

Exports

Our total exports from the UK increased by 9.6 per cent to £126.1 million. Export sales outside

the Group were £46.5 million.

The previously substantial export account in Hong Kong was closed at the end of the 1986/1987 financial year to prepare for the development of our own stores.

We plan further to develop sales through free-standing St Michael shops and shops-within-shops in department stores. The upgrading of individual outlets which began in 1986 has continued. By the end of 1989 most of these will have been modernised to bring them into line with the image of our business in the UK and to reflect the Company's up-to-date style.

During the coming year St Michael shops will open in Lisbon in Portugal, Sopron in Hungary close to the Austrian border, and Oslo in Norway.

This will bring the number of St Michael outlets to 47 in 14 countries.

Financial Activities

We ended the year with a strong balance sheet, having funded our £215 million Group capital expenditure programme from our own resources. Effective stock control and sound cash management contributed to the continuing positive cash position at the end of the year.

During the year we raised £150 million through the Group's first Eurosterling issue. It has been rated AAA by both Moody's and Standard and Poor's. The borrowing will be used for general corporate activities in the United Kingdom, including financial activities.

We previously announced our intention to incorporate a revaluation of most of our UK properties in the financial



Newsweek
44° 10-51

DAVID BEN
SPACE

CHAIRMAN'S STATEMENT



Above: Account customers at Cheshunt enjoy one of a successful season of 695 special evenings.

Below: Another benefit for account customers is the newly-launched M&S Magazine.

Right: Handling customer enquiries is one of the services provided by the new M&S Financial Services headquarters at Chester.



statements for the year. This revaluation shows an increase in property values of £392.8 million.

We announced on May 3 1988 the acquisition of Brooks Brothers in the USA for a total consideration of US\$750 million, including a five year non-competition agreement entered into by Campeau Corporation. This consideration has been financed by a US\$450 million 10-year promissory note carrying interest at floating \$LIBOR and US\$300 million has been funded from existing internal resources. Accordingly there will be no requirement for additional external finance to fund the acquisition. As a result of the property revaluation mentioned above, shareholders' equity will not be affected by the write off of goodwill on the acquisition.

We are pleased to report that at the end of the year the number of our shareholders exceeded 300,000 for the first time; of these 25,000 are members of staff; an additional 16,000 qualify to join the profit-sharing scheme for the first time this year.

As a convenience for US investors, our shares are also traded in the United States in the form of American Depositary Receipts (ADRs). All transactions are recorded through a sponsored depositary arrangement with Morgan Guaranty Trust Company of New York as custodian to the facility.

Financial Services

The Marks and Spencer Chargecard has 1.5 million accounts and over 2 million cardholders. Last year 13.4 per cent of Marks and Spencer's UK

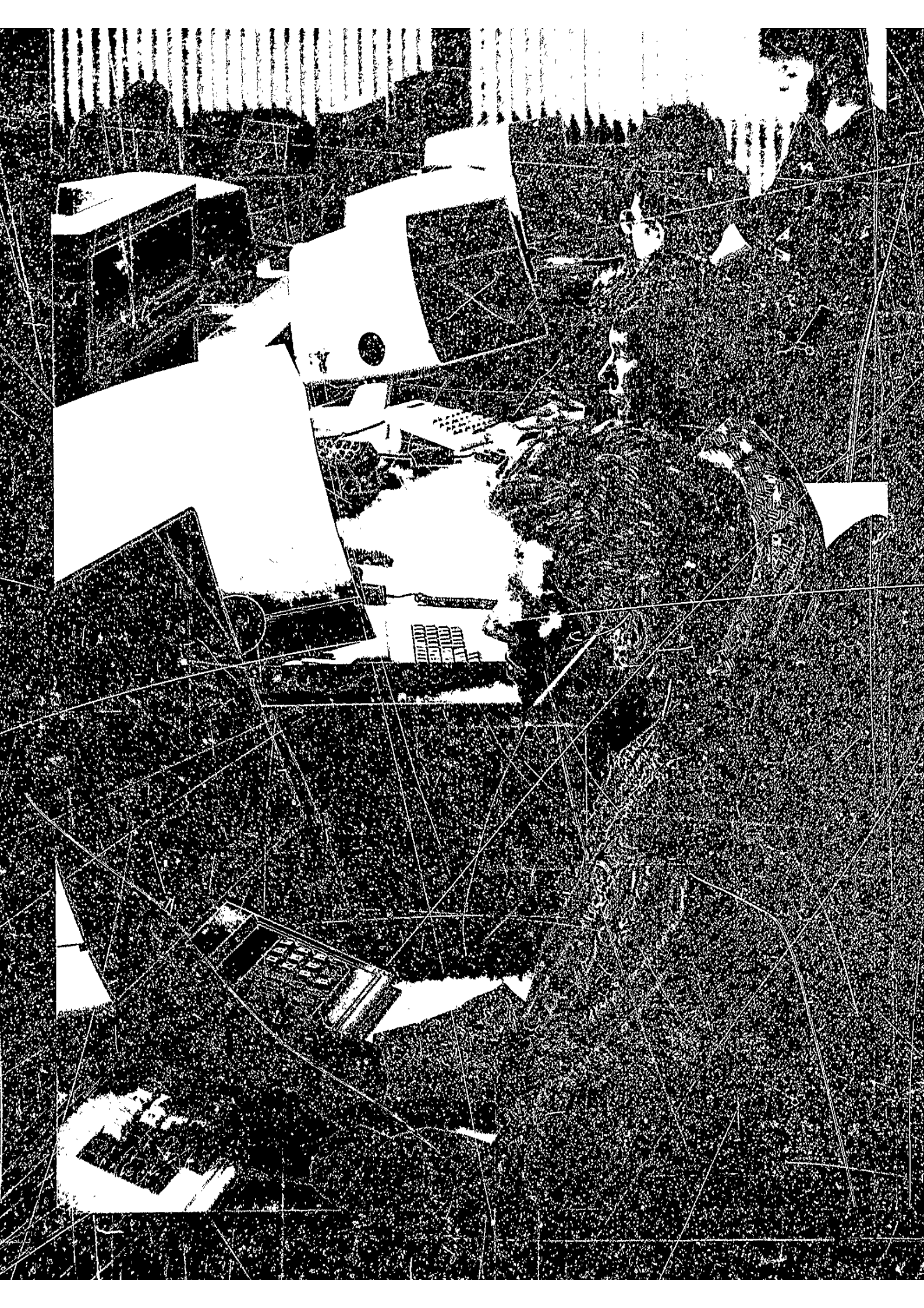
sales were made using Chargecard. Trials of a personal loan scheme, in which cardholders may borrow unsecured amounts between £500 and £5,000 for any purpose, will continue in the coming year. We now also offer a card registration service designed to handle the replacement of all cards in the event of theft or loss. We shall continue to recruit account customers and during the coming year intend to extend the range of financial services we offer. Budget accounts, held by 125,000 customers will be converted in 1988 from a cheque book system to a card.

The name of this subsidiary company was changed in February from St Michael Financial Services to Marks and Spencer Financial Services Limited. It has successfully completed its first three years and has moved into operating profit a year earlier than planned. Employees are now housed in modern purpose-built offices in a new business park outside Chester. The building, with 120,000 square feet of floor space, allows for further expansion. It reflects the high standard of working environment and staff facilities which exists in Marks and Spencer stores.

Community Affairs

Our involvement in community affairs stems from a belief that it is morally right and commercially important to promote a healthy business environment for our operations and to contribute to the well-being of society.

We recognise that secondment is one of the most effective ways in which we can contribute. In the first 10 years of our secondment



CHAIRMAN'S STATEMENT



Above: Subsidised meals in pleasant surroundings form part of the Company's staff benefits package.

Below: Computer training is part of the YTS programme run by Marks and Spencer.

programme over 90 people have been attached to specific projects involving job creation, enterprise agencies, youth training or charities. Of the 21 people seconded during the year, 12 worked in projects designed to assist inner cities or other deprived areas.

Our contribution to charities tends to concentrate on support for less well-known organisations, although we were delighted to be able to make a substantial donation to the Great Ormond Street Hospital Appeal. Also in the medical field, we supported CORDA, a charity which promotes research into coronary and arterial disease using magnetic resonance, a non-invasive technique. In addition our support for the hospice movement continued.

Our support for the arts concentrates on involving young people, the unemployed and the handicapped. During the year, we were very pleased to sponsor for the first time the National Youth Band Championships which gave over 2,000 young people the opportunity to perform at Wembley Arena, in addition to our continuing support for Music for Youth.

Our support of all these activities represented a total investment in the community last year of some £4.3 million.

Tribute to Suppliers

I wish to thank all our suppliers of goods, equipment and services for their support and goodwill.

Their experience and knowledge of the world market-place and their understanding of technological developments are of considerable benefit in our joint efforts to develop new products

and services. Our suppliers' readiness to accept change, to enter new fields and to invest in plant, technology and management, enables us and them to continue to make progress. Our close links with our suppliers are fundamental to the success of our business.

Personnel

On behalf of the Board of Directors, I wish to thank all our employees for their enthusiasm and commitment, and for all their hard work during the year.

As a result of our continued expansion, we created 1,500 new jobs in the UK during the year. We continued our involvement in the Youth Training Scheme; of the 692 young people enrolled in 1986, 190 have already found permanent employment with us.

The success of the Company depends on having a team of highly committed, well-informed and appropriately trained people. The Board attaches great importance to the training and development of each member of the Company. We regard this as an essential part of our business strategy and an investment in the future.

We continue to reward employees for their loyalty and contribution to the progress of the Company. The staff profit-sharing schemes and option schemes have been renewed. The qualifying period for the staff profit-sharing scheme has been reduced from five years' service to two, with the result that our salary and benefits package has been further enhanced and places us clearly as the leader in the high street.

The Company's health service continues to encourage staff to increase health awareness and to

CHAIRMAN'S STATEMENT

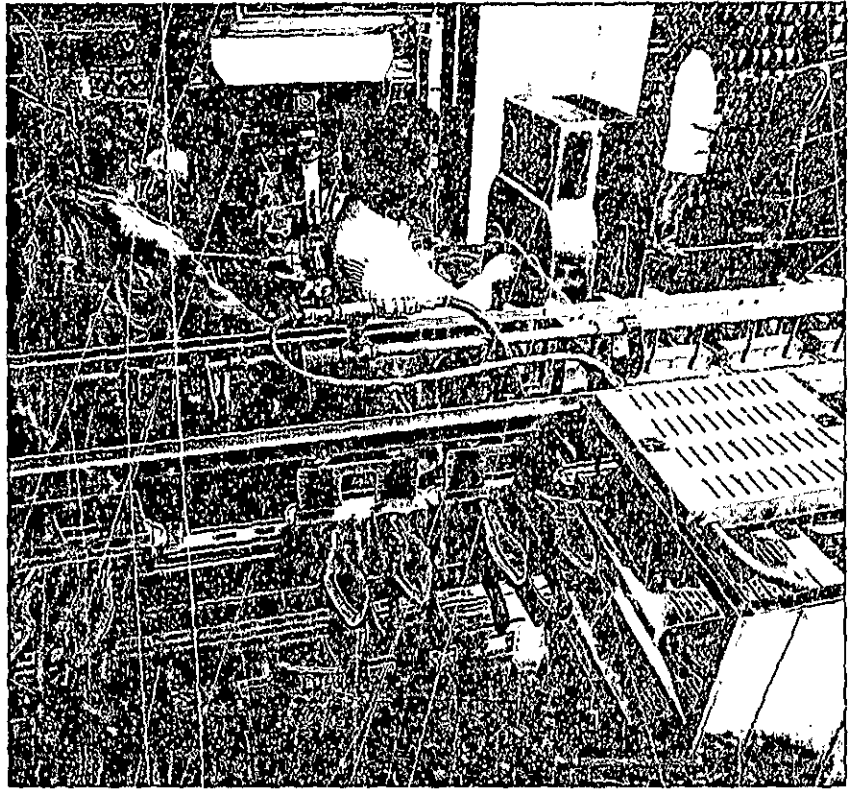
improve their well-being, by promoting health education and providing screening and appropriate counselling.

Customers

We value the loyalty of our millions of long-standing and regular customers. Many have additional involvement in the Company as Marks and Spencer account holders or as shareholders. We appreciate our customers' comments and try to react to them.

In order to communicate more effectively with our customers we launched a number of new initiatives: a national press advertising campaign featured good value clothing for the family and the opening of our Marble Arch store was supported by an extensive advertising campaign in the Greater London area. The M&S Magazine, launched during the year and aimed particularly at Chargecard and Budget account holders, is a high quality publication which includes details of the full extent of the Company's developments, as well as being informative and entertaining. Over a million copies of each of the first two issues were distributed.

The modernisation of our stores has provided a convenient and comfortable shopping environment. Improvements in the efficiency of our operations are enabling us to cope with an increasing number of transactions. At the same time we have begun a study of all aspects of service in order to find improvements. In these ways we aim to maintain or enhance the standards of service to customers on which the reputation of the Company depends.

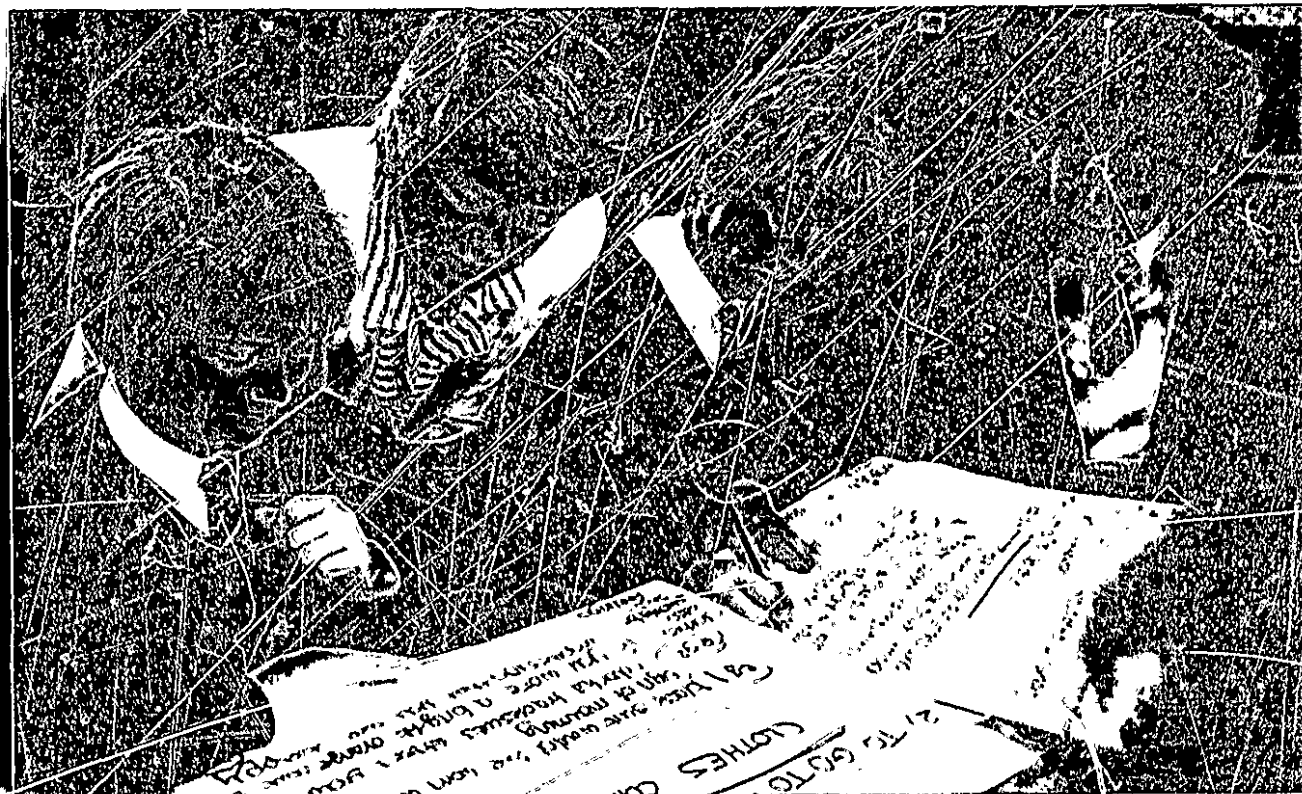


Above: New technology at supplier Fiona Footwear's Bridgend factory in South Wales.

The Group is in a strong position for further growth and expansion at home and abroad. We have a sound financial base, modern stores occupying prime positions, an effective partnership with first class manufacturers and an excellent team of people. We are confident that we can maintain the reputation of the Company, established over many years, and extend it internationally to the benefit of our shareholders, our customers, our suppliers and our staff.

The Lord Rayner, Chairman

COMMUNITY AFFAIRS



Left: Patience, a member of the South West Africa Committee, is seconded to the O.C. Partnership Unit in South Wales. The Unit's work includes the introduction of the new curriculum in schools. Above: The Department of Community Affairs at Cardiff City Hall, at Llandochy Hill, and Bristol, as well as the City of London.

Eighteen hundred projects benefited from Marks and Spencer's community involvement programme last year. A total commitment of £4.3 million included cash contributions to the arts, medical projects and community welfare, and the investment of over 20 members of staff seconded to a wide range of projects, throughout the country.

Of the 7,000 appeals received last year by the Company's Community Affairs department, the committees responsible selected to support those charities and projects which, in the main, would be of particular benefit to the communities where Marks and Spencer trades.

Community Welfare

Marks and Spencer pays special attention to projects in inner cities and other deprived areas, supporting employment and retraining schemes, and helping the unemployed to set up their own businesses.

Out of the total community welfare budget, £480,000 was given last year to organisations working on behalf of the elderly or handicapped people. Other specific services which benefited included counselling, crime prevention and victim support schemes.

Secondment

A code of practice has been implemented by the Company for its secondment programme. Last year over 20 secondees were on attachment, carefully matched to

COMMUNITY AFFAIRS

meet the demands of a particular project. Usually their role is to establish good business practice and M&S provides the necessary back-up services.

Twice-yearly our secondees attend a seminar to update them on Company developments and policy. The meeting also provides a forum for an exchange of ideas and experiences. In addition training is provided for the various new roles adopted by our secondees.

Among those placed last year were an assistant personnel manager now working as an instructor to Project Fullemploy, Birmingham; a store manager seconded to assist the trustees of the Zeebrugge Ferry Disaster Fund and a personnel manager who has set up a recruitment and training system for Childline counsellors.

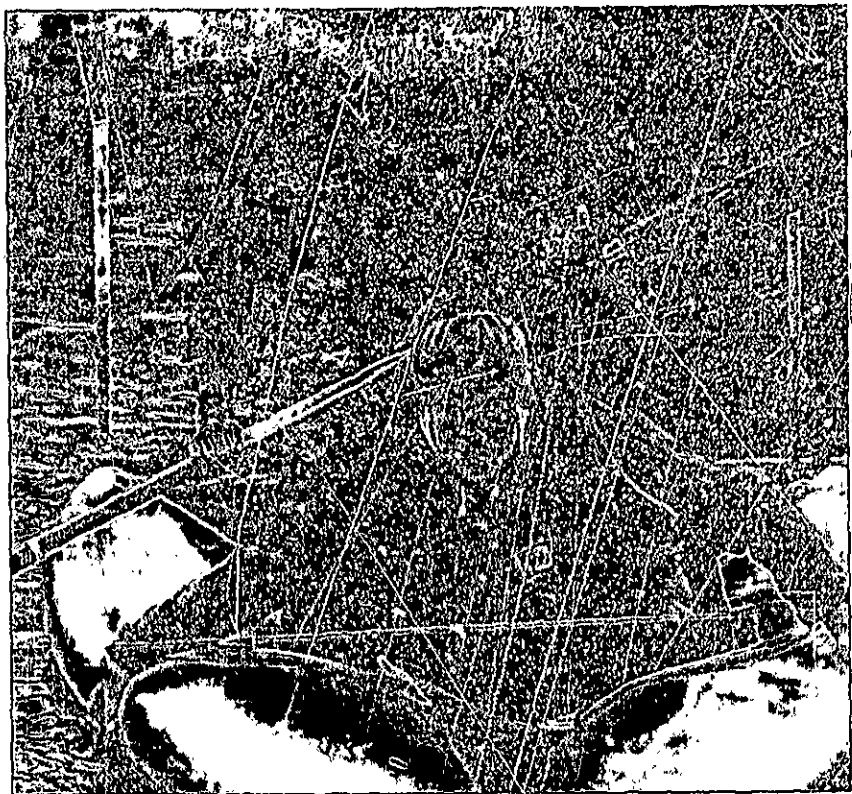
Short term secondments have also been introduced. The first, a departmental manager, spent three months last year advising a small engineering company in Halifax.

Medical

Marks and Spencer donated over £100,000 to hospices last year. Support for other specific medical and research projects, small and large, included £4,000 for a two year research project which will help speech-impaired children; £22,500 over three years for research into osteoporosis — brittle bone disease — at the Royal Postgraduate Medical School; and programmes to rehabilitate the victims of drug and alcohol abuse.

Arts

The Company supported a wide range of arts activities throughout the UK. Special emphasis was



given to community projects for the elderly, handicapped, the young and unemployed. Last year the Company helped to develop an early enthusiasm for music through concerts by and for young people. It also funded dance workshops, drama-in-education projects, and a number of events in association with regional arts and crafts associations.

Stores

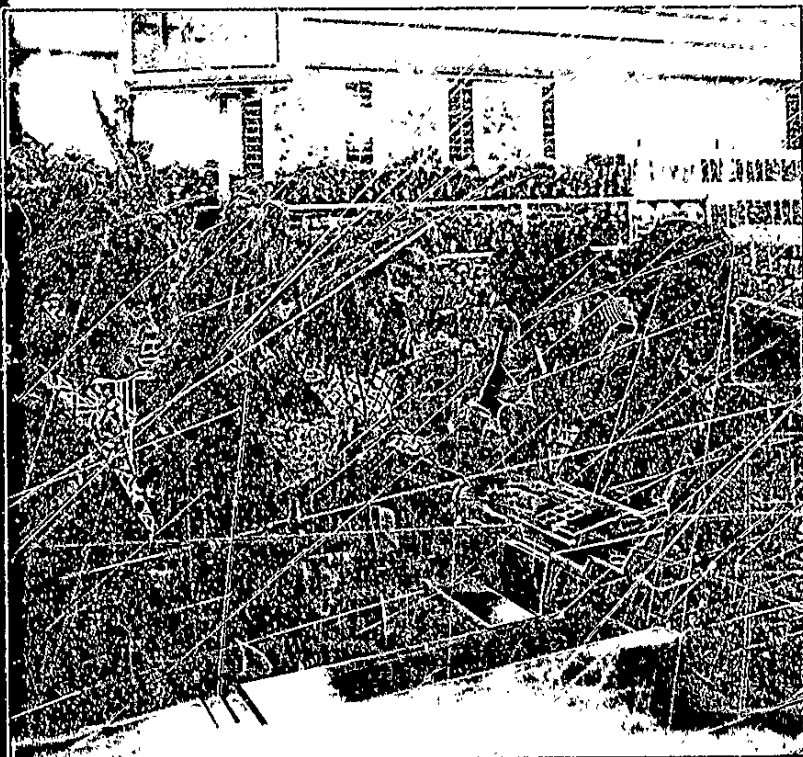
Our stores are the focal point of Marks and Spencer's local community involvement. As well as a budget which allows an immediate response to local initiatives and requests for help, major donations are channelled through store managers.

Store staff too raise considerable sums for their own projects by their voluntary efforts.



Top: At Brathay Hall, Ambleside, young unemployed people from Manchester take part in leadership courses, part-funded by M&S. Above: A new piano and equipment was donated by M&S to The MacIntyre schools and homes for the mentally handicapped.

EMPLOYMENT REPORT



Above: The training for new point of sale systems has covered every member of store staff.

With considerable changes in systems, merchandise and structures, it is particularly important for the Company to have highly committed and well-trained members of staff.

The Training and Development Policy Statement emphasises the extent of the Company's commitment.

Quality Service

Marks and Spencer is, and has always been, known for friendly, helpful and well-informed staff.

In order to maintain this much envied and deserved reputation, a major campaign for 'Quality Service' was launched in the Spring of 1988. This aims to emphasise the role which every part of the operation plays in giving quality service to our customers.

To establish service priorities, surveys were conducted in March 1988, the results of which will assist in the planning of the campaign.

New Technology

Intensive training has taken place to complete the installation of point-of-sale data capture systems in all stores.

The implementation of the second major new system, which revolutionises Marks and Spencer's warehousing and

stock ordering, began in early 1988.

The training of management to maximise the commercial benefits for these new systems will continue to be vital.

Appraisals

Appraisals are essential to help people develop and so contribute to the success of the Company.

The campaign to improve the effectiveness of the management appraisal system has continued throughout last year. This was launched with a policy statement and was followed by a purpose-designed brochure and training guide, new documentation and a series of one-day courses. These courses were attended by over 1,000 members of management.

The appraisal system for supervisory and general staff is now being reviewed in a similar campaign.

Educational Sponsorship

The Company provides training for all levels within the organisation. In addition to this corporate responsibility, individuals also have a responsibility for their own training and development.

The Company has financially supported a number of individuals who have undertaken a wide range of courses of further education in their own time. These courses have been relevant to their current job or future development.

The Youth Training Scheme

Marks and Spencer has continued its commitment to YTS and in August 1987 was awarded Approved Training Organisation status by the MSC. The Company now has over 400 YTS trainees

EMPLOYMENT REPORT

concentrated in areas of high unemployment or high ethnic minority population.

Approximately 80 per cent of those who have joined our scheme gained employment by the end of the programme.

Communication

Change makes the need for good communication between all levels of management and staff even more essential and Communication Groups play an important role.

There has been a drive to improve further the effectiveness of these groups by producing a guide of best practices and training for the chairperson.

Pay and Benefits Package

In rewarding staff, it remains Company policy to award highly competitive salaries combined with an attractive package of benefits. This has been further enhanced by increasing the number of additional staff entitled to profit sharing by more than 16,000 and by a 66 per cent increase in staff discount entitlement.

A special broadsheet has been published to explain these changes and benefits.

Pensions

Newsletters about the Company pension scheme and its organisation have been circulated to all staff. A video has also been produced to explain the benefits of our scheme. This will enable individuals to decide whether to continue membership of the Company scheme or to purchase a personal pension. For the vast majority of staff it will remain more attractive to stay in the Company scheme.

Health Promotion

The Company is already a leader in the provision of preventive health care through screening programmes and occupational health services. To encourage staff to look after themselves, a health education campaign has been launched. This will be followed by a health screening examination to detect risk factors for coronary heart disease. Remedial action can then be taken at an early stage.

The staff of Marks and Spencer form an unbeatable team in which the contribution of each individual is important.



Above: 'Better health — It's your Choice' is a health education programme for all staff.

Employee Statistics

| | 1988 | 1987 | 1986 | 1985 | 1984 |
|---|--------|--------|--------|--------|--------|
| Average number of UK employees of the Company | 61,094 | 59,608 | 56,458 | 53,980 | 50,927 |
| full-time | 20,764 | 21,153 | 20,445 | 19,682 | 18,775 |
| part-time | 40,330 | 38,455 | 36,013 | 34,298 | 32,152 |
| FTE* | 39,881 | 39,319 | 37,732 | 35,909 | 33,944 |
| Marks and Spencer Financial Services FTE* | 439 | 352 | 272 | — | — |
| UK annual wage/salary cost (£m) | 363.2 | 337.6 | 296.3 | 263.2 | 229.3 |
| Profit sharing allocation (£m) | 12.4 | 9.0 | 7.6 | 6.5 | 5.8 |
| Number of employees eligible for profit sharing | 40,872 | 26,920 | 26,077 | 25,448 | 23,931 |
| Europe FTE* | 1,476 | 1,343 | 1,241 | 1,223 | 1,254 |
| North America FTE* | 3,896 | 4,075 | 3,987 | 3,911 | 3,866 |

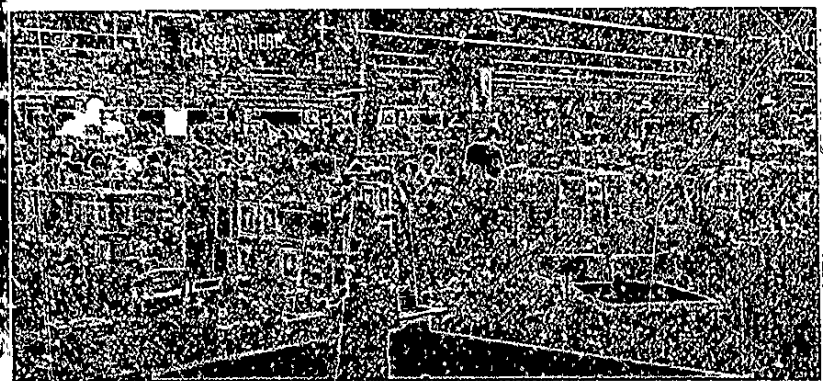
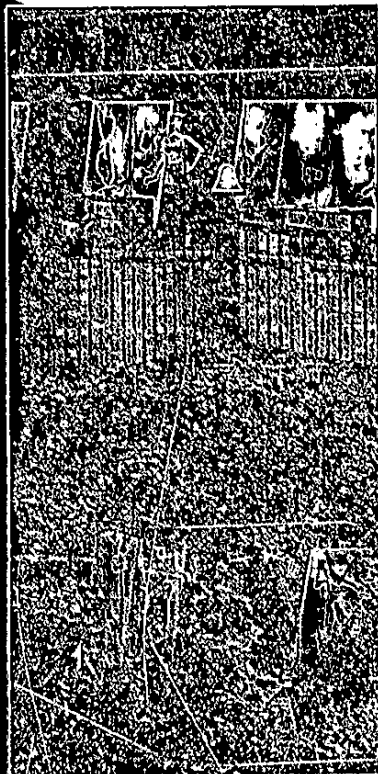
*Full-time equivalent

STORE DEVELOPMENTS

The following four pages show the development of Marks and Spencer stores both in the UK and overseas. The total square footage for the Marks and Spencer Group has increased by 624,000 square feet to 11,417,000 square feet net of closures in the year ending 31 March 1988.

| Number of stores | 1988 | 1987 | 1986 | 1985 | 1984 |
|------------------|------------|------------|------------|------------|------------|
| United Kingdom | 282 | 274 | 269 | 265 | 262 |
| Europe | 11 | 10 | 9 | 9 | 9 |
| Canada | 267 | 262 | 243 | 227 | 213 |
| USA | 4 | 1 | — | — | — |
| Total | 564 | 547 | 521 | 501 | 484 |

*Below: Bolton's second two-floor store is 200 yards from the main store and sells ladieswear.
Right: A Flower Shop is one of the many new features of the Company's flagship store at Marble Arch, London.
Bottom right: Spacious, convenient shopping on a single floor attracts customers to the new store in Telford.*



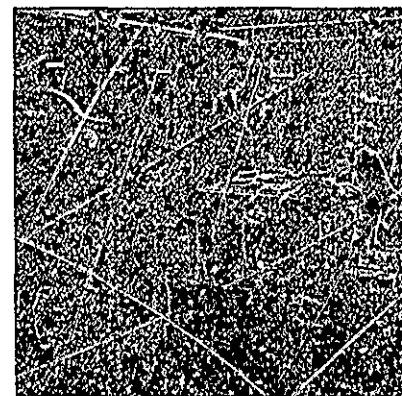
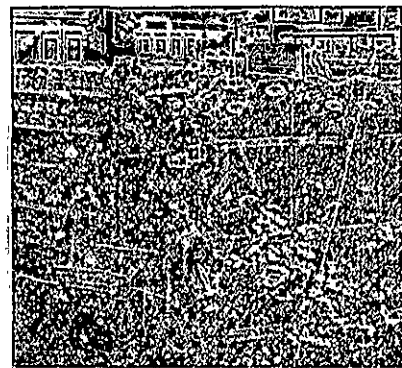
UK STORE DEVELOPMENTS

| UK gross square footage (000's square feet) | 1987/8 | 1986/7 | 1985/6 | 1984/5 | 1983/4 |
|--|--------|--------|--------|--------|--------|
| | 8,487 | 7,942 | 7,486 | 7,216 | 6,971 |

UK footage development

| New Stores | Additional Gross Footage (sq ft) | Date Opened 1987/88 |
|-----------------------------------|----------------------------------|---------------------|
| Telford | 44,000 | October |
| Pinner (Food only) | 9,500 | October |
| Chesham | 69,100 | February |
| Taunton (satellite) | 21,800 | April |
| Preston (satellite) | 3,600 | September |
| Harrow (satellite) | 11,300 | October |
| Leamington (satellite) | 21,500 | October |
| Gloucester (satellite) | 20,200 | November |
| Coventry (satellite) | 22,300 | November |
| Bolton (satellite) | 20,900 | March |
| Total new stores | 244,200 | |
| Extensions to sales floors | | |
| Macclesfield | 3,900 | April |
| Plymouth | 6,500 | April |
| Turnbridge Wells (phase 1) | 13,000 | April |
| Turnbridge Wells (phase 2) | 4,300 | June |
| East Kilbride | 3,900 | April |
| Southport | 18,500 | May |
| Stratford-upon-Avon | 10,200 | June |
| Chelmsford | 8,800 | June |
| Stevenage | 12,000 | August |
| Basingstoke | 10,200 | August |
| Glasgow Argyle Street | 13,700 | August |
| Hull | 15,700 | September |
| Epsom | 10,000 | September |
| Northampton | 18,800 | September |
| Marble Arch (phase 1) | 35,200 | September |
| Marble Arch (phase 2) | 8,900 | February |
| Marble Arch (phase 3) | 13,800 | March |
| Aylesbury | 11,400 | September |
| Edinburgh | 17,400 | October |
| Manchester | 14,400 | October |
| Cheltenham | 24,200 | October |
| Bournemouth | 8,000 | October |
| Poole | 13,400 | October |
| Carlisle | 5,900 | October |
| Staines | 12,600 | November |
| Tooting | 4,900 | November |
| Total extensions | 319,600 | |
| Total footage added | 563,800 | |

*Below: Islington, a modernised store is now devoted mainly to foods.
Bottom: The men's tailoring department in Cheltenham M&S which was one of 33 stores modernised this year.*



OVERSEAS STORE DEVELOPMENTS

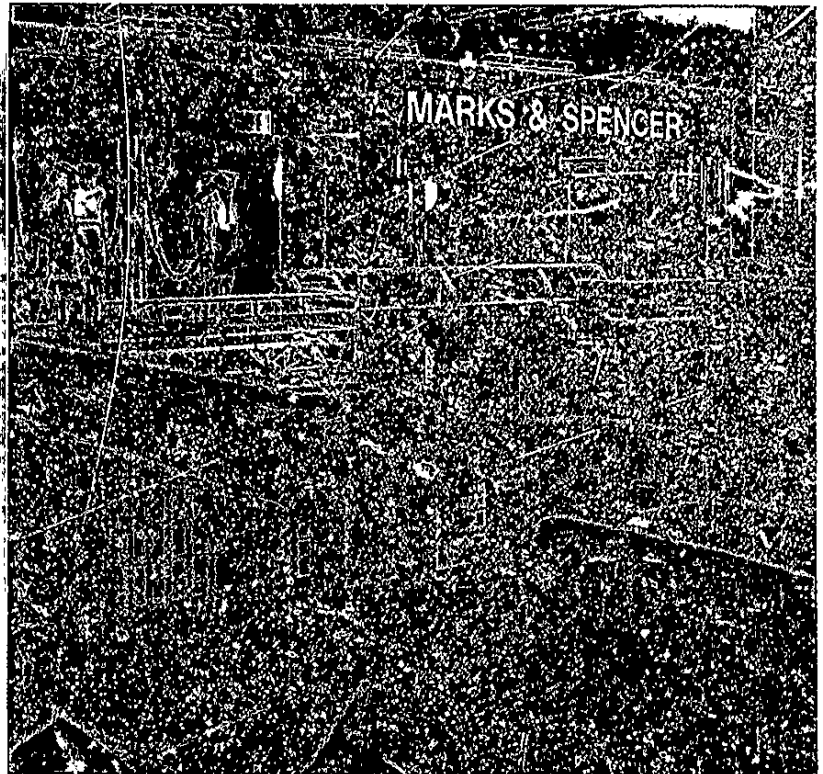
Overseas gross square footage
(000's square feet)

| Europe | 1987/8 | 1986/7 | 1985/6 | 1984/5 | 1983/4 |
|-----------------|--------|--------|--------|--------|--------|
| France | 223 | 196 | 172 | 164 | 160 |
| Belgium | 54 | 53 | 53 | 53 | 53 |
| Ireland | 59 | 57 | 49 | 49 | 49 |
| Total footage | 336 | 306 | 274 | 266 | 262 |
| Canada* | | | | | |
| Marks & Spencer | 655 | 636 | 588 | 574 | 602 |
| People's | 1,544 | 1,541 | 1,463 | 1,428 | 1,327 |
| D'Allaird's | 381 | 364 | 343 | 302 | 291 |
| Total footage | 2,580 | 2,541 | 2,394 | 2,304 | 2,220 |
| USA | | | | | |
| D'Allaird's | 14 | 4 | 0 | 0 | 0 |
| Overseas total | 2,930 | 2,851 | 2,668 | 2,570 | 2,482 |

*Canada as at 31st January until 1987/88

Below: The new Hong Kong store opened in May 1988, is the first of a number of development opportunities in the Far East.

Below right: A new 20,000 sq ft store opened in April 1988 in St. Catherine Street, Montreal, as part of Marks and Spencer's continued development in Canada.

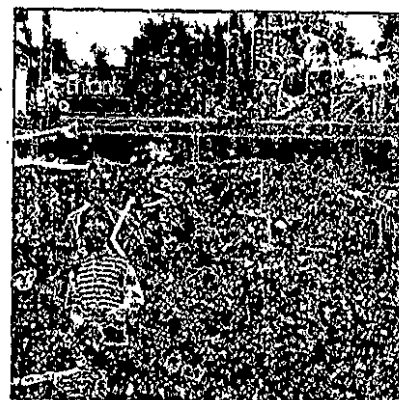


OVERSEAS STORE DEVELOPMENTS

| Overseas footage development | Additional Square Footage | Date Opened 1987/88 |
|---|---------------------------------|------------------------|
| France | | |
| Parly 2 Paris (new store) | 21,700 | November |
| Lyon (extension) | 2,600 | September |
| Total | 24,300 | |
| Eire | | |
| Dublin (extension) | 6,400 | February |
| Total | 6,400 | |
| Marks and Spencer Canada Inc. | | |
| Marks and Spencer division | | |
| Portage, Winnipeg, Manitoba (extension) | 4,100 | September |
| St John's, Newfoundland (extension) | 1,000 | October |
| Bayshore, Ottawa, Ontario (extension) | 1,435 | November |
| Fairview, Toronto, Ontario (extension) | 4,290 | September |
| Markville, Toronto, Ontario (extension) | 1,770 | November |
| Scarborough, Toronto, Ontario (extension) | 9,540 | September |
| Total | 22,135 | |
| D'Allaird's division | | |
| North Bay, Ontario (new store) | 3,450 | August |
| Prince Albert, Saskatchewan (new store) | 2,900 | August |
| Ottawa, Ontario (new store) | 2,900 | October |
| Owen Sound, Ontario (new store) | 3,600 | October |
| Mississauga, Ontario (new store) | 3,250 | March |
| Total | 16,100 | |
| People's division | | |
| Val Caron, Ontario (new store) | 19,800 | September |
| Sturgeon Falls, Ontario (new store) | 15,000 | September |
| Paris, Ontario (new store) | 18,000 | October |
| Listowel, Ontario (extension) | 5,475 | March |
| Total | 58,275 | |
| Total footage added | 96,510 | |
| D'Allaird's, USA | | |
| Albany, New York State (new store) | 3,034 | April |
| Poughkeepsie, New York State (new store) | 3,203 | August |
| Syracuse, New York State (new store) | 3,789 | August |
| Total | 10,026 | |

Below: D'Allaird's Poughkeepsie, one of three ladieswear stores opened this year in New York State by the Group.

Bottom: Childrenswear is popular with French customers at the new store in Parly 2 shopping centre, West Paris.





REPORT OF THE AUDITORS

TO THE MEMBERS OF MARKS AND SPENCER p.l.c.

We have audited the financial statements on pages 38 to 59 in accordance with approved Auditing Standards.

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 1988 and of the profit and source and application of funds of the Group for the year then ended and comply with the Companies Act 1985.

Deloitte Haskins & Sells
Chartered Accountants

London, 11 May 1988

FINANCIAL CALENDAR

FOR THE YEAR TO 31 MARCH 1989

Final ordinary dividend for the year to
31 March 1988 to be paid 15 July 1988

Half yearly results to be announced 2 November 1988

Interim ordinary dividend to be paid 13 January 1989

Preliminary announcement of results for the year May 1989

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 1988.

Principal activities**Retailing**

The Group sells clothing, household goods and foods under the St Michael trade mark in its chain of stores in the United Kingdom, France, Belgium and Ireland. It also sells a range of St Michael merchandise and other consumer goods through a chain of stores in Canada and has opened stores under the D'Allaird's name, in the United States of America. St Michael merchandise is also sold for export.

Financial activities

These comprise the operation of Marks & Spencer Financial Services Limited together with leasing and insurance activities.

Review of activities

The year ended 31 March 1988.

The Group continued to expand its activities during the year.

In the United Kingdom the Company opened a further 10 stores, including 7 satellite stores, and now has a total of 282 outlets. Together with extensions at existing stores, sales area has now increased from 7,942,000 square feet to 8,487,000 square feet.

In Europe a new store was opened in the Paris region bringing the total number of European stores to 11.

The Canadian subsidiary now has 267 stores compared with 262 last year and total sales floor footage has increased from 2,541,000 square feet to 2,580,000 square feet.

In the United States of America the Group opened a further 3 stores in New York State, bringing the total to 4.

The Marks and Spencer Chargecard is operating successfully. There are now some 2 million cards in circulation and sales through the card continue to increase. In June 1987 Marks & Spencer Financial Services Limited took over the Budget Accounts from Citibank Savings.

Future developments

The Group will continue to expand into new areas of merchandise where these are considered appropriate and plans to continue its physical expansion. In the United Kingdom, our capital expenditure for the year to 31 March 1989, mainly relating to new stores and extensions, is expected to be in the region of £250 million.

Profit and dividends

The profit for the financial year as shown in the financial statements amounted to £323.3 million. The directors recommend that this be dealt with as follows:

| Dividends | £m |
|---|-------|
| Preference shares | 0.1 |
| Ordinary shares: | |
| Interim dividend paid, 1.55p per share (last year 1.4p) | 41.3 |
| Final dividend proposed, 3.55p per share (last year 3.1p) | 94.4 |
| Total ordinary dividends, 5.1p per share (last year 4.5p) | 135.7 |
| Undistributed surplus | 187.5 |
| | 323.3 |

The proposed final dividend will be paid on 15 July 1988 to shareholders whose names are on the Register of Members at the close of business on 3 June 1988.

REPORT OF THE DIRECTORS

Directors

The present directors of the Company are shown on pages 2 and 3.

Mr R Greenbury was appointed Chief Executive Officer on 14 March 1988.

In accordance with Article 85 of the Company's Articles of Association, Mr N L Colne, The Hon David Sieff, Mr C V Silver and Mr A K P Smith retire by rotation and, being eligible, offer themselves for re-election.

Mr A S Orton was appointed as an executive director on 28 October 1987 and The Rt Hon The Baroness Young was appointed as a non-executive director on the same date. They retire in accordance with Article 91 of the Company's Articles of Association and, being eligible, offer themselves for re-election.

Mr A E Frost, CBE retired on 31 July 1987 and Mr B J Lynch retired on 30 September 1987.

Brief biographical details of the non-executive directors are as follows:

D V Atterton, CBE: Non-executive director of Rank Organisation plc, British Coal, IMI plc, Barclays Bank plc, Investors in Industry Group plc, Dimex plc and a member of the Court of the Bank of England.

R A E Herbert: Chairman of Leopold Joseph Holdings Limited. Non-executive director of National Westminster Bank plc. President and Chairman of Council, Royal Horticultural Society.

D G Lanigan: Non-executive director of Trustee Savings Bank plc, member of the North American Advisory Group of the British Overseas Trade Board.

D R Susman: Chairman of Wooltru Limited.

The Rt Hon The Baroness Young: Non-executive director of National Westminster Bank plc. Baroness Young was Lord Privy Seal (1982-83) and Leader of the House of Lords (1981-83). She also held five ministerial appointments including Minister of State at the Foreign and Commonwealth Office from 1983-87.

Directors' interests in shares and debentures

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 shown in note 23 on page 58. Further information regarding share options is given in note 9 on page 48.

Transactions with directors

Directors' interests in contracts or arrangements with the Company during the year are shown in note 22 on page 58.

Post balance sheet event

Since the year end the Company has purchased Brooks Brothers, a US retailer which also holds 51 per cent of a joint venture in Japan. The total consideration for Brooks Brothers and certain preferential rights was US\$750 million. A circular giving details of the acquisition was sent to shareholders on 5 May 1988.

Property valuation

The net tangible assets of the Company incorporate a surplus of £392.8 million arising from the revaluation as at 31 March 1988 of those of the Company's properties which had been previously valued at 31 March 1982.

Ordinary share capital

During the year ended 31 March 1988, 6,404,967 ordinary shares in the Company were issued as follows:

- a 3,768,955 to the Trustees of the United Kingdom Employees Profit Sharing Schemes at 218p each, in respect of the allocation from the profits of the year ended 31 March 1987.
- b 899,906 under the terms of the 1977 United Kingdom Senior Staff Share Option Scheme (as adjusted for scrip issue in July 1984) at prices between 44.425p and 127.625p each.

REPORT OF THE DIRECTORS

- c 227,938 under the terms of the 1984 United Kingdom Senior Staff Share Option Scheme at 115·667p each.
- d 1,508,168 under the terms of the United Kingdom Employees' Savings Related Share Option Scheme.

At 11 May 1988, Prudential Corporation p.l.c. and its subsidiaries held 166,667,105 ordinary shares which represented 6·3 per cent of the issued ordinary share capital of the Company. The Company has not received notification that any other person held more than 5·0 per cent of the issued ordinary share capital.

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 £12·4 million, representing 4·5 per cent of the earnings of 40,872 eligible employees.

Employee involvement

We have maintained our commitment to employee involvement.

Staff are kept well informed of the performance and objectives of the Company through established methods of personal briefings and regular meetings. These are supplemented by our staff newspaper, *St Michael News* and video presentations.

Communication Groups in stores and warehouses are meetings of management with elected representatives of the staff. They are chaired by a member of staff. These Groups provide an opportunity for staff to contribute to the everyday running of their workplace. They also ensure an additional channel for comments on Company-wide issues as minutes of meetings are circulated at Head Office and to management of divisions.

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

We have long-established Employees' Profit Sharing and Savings-Related Option Schemes, memberships of which are service related. All of the Company's share schemes were renewed during the year and in order to recognise the productivity and contribution of experienced employees the service requirement for eligibility for these schemes was reduced from five years to two years.

Equal opportunities

The Company does not discriminate on grounds of age, colour, disablement, marital status, race, religion or sex. People are given the opportunity to develop and progress according to their ability.

Disabled employees

We have continued our policy of giving disabled people full and fair consideration for all job vacancies for which they offer themselves as suitable applicants, having regard to their particular aptitudes and abilities. Training and career development opportunities are available to all employees and if necessary we endeavour to re-train any member of staff who develops a disability during employment with us.

Charitable and political contributions

Direct donations to charitable organisations amounted to £2,258,000. A political contribution was made to British United Industrialists of £25,000.

Exports

The value of goods exported directly from the United Kingdom, including shipments to overseas subsidiaries, amounted to £126·1 million (last year £115·1 million).

REPORT OF THE DIRECTORS

Resolution Number 10 — an explanation

The Companies Act 1985 prevents the directors of a company from allotting unissued shares without the authority of the shareholders in general meeting. In certain circumstances, this could unduly restrict the directors from carrying on the Company's business to best advantage.

Authority is therefore sought for your directors to be able to allot unissued shares if it became beneficial to the Company to do so, subject to the limitations set out in the Resolution.

The Stock Exchange no longer requires shareholder consent to each allotment of shares for cash made otherwise than to existing shareholders in proportion to their existing shareholdings, subject to shareholders approving this Resolution.

Income and Corporation Taxes Act 1988

The close company provisions of this Act do not apply to the Company.

Auditors

A resolution proposing the reappointment of Deloitte Haskins & Sells as auditors to the Company will be put to the annual general meeting.



By Order of the Board
The Lord Rayner, Chairman

London, 11 May 1988

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MARCH 1988

| | Notes | 1988 £m | 1987 £m |
|--|-------|------------|------------|
| Turnover | 2 | 4,577.6 | 4,220.8 |
| Cost of sales | | 3,112.2 | 2,915.8 |
| Gross profit | | 1,465.4 | 1,305.0 |
| Other expenses | 3 | 951.3 | 863.9 |
| Profit on ordinary activities before profit sharing and taxation | | 514.1 | 441.1 |
| Profit sharing | | 12.4 | 9.0 |
| Profit on ordinary activities before taxation | 4 | 501.7 | 432.1 |
| Tax on profit on ordinary activities | 5 | 178.4 | 156.2 |
| Profit on ordinary activities after taxation | | 323.3 | 275.9 |
| Minority interests | | — | (0.1) |
| Profit for the financial year | 6 | 323.3 | 276.0 |
| Dividends | | | |
| Preference shares | | 0.1 | 0.1 |
| Ordinary shares: | | | |
| Interim of 1.55p per share | | 41.3 | 37.1 |
| Final of 3.55p per share | | 94.4 | 82.3 |
| | | 135.8 | 119.5 |
| Undistributed surplus | | 187.5 | 156.5 |
| Earnings per share | 7 | 12.2p | 10.4p |

BALANCE SHEETS

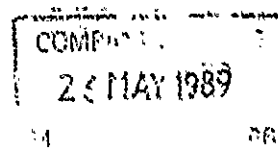
AT 31 MARCH 1988

| | Notes | The Group | | The Company | |
|---|-------|------------|------------|-------------|------------|
| | | 1988 £m | 1987 £m | 1988 £m | 1987 £m |
| Fixed assets | | | | | |
| Tangible assets: | 10 | | | | |
| Land and buildings | | 1,840.9 | 1,322.6 | 1,756.1 | 1,248.1 |
| Fixtures, fittings and equipment | | 301.3 | 274.7 | 275.5 | 249.8 |
| Assets in the course of construction | | 8.6 | 39.3 | 7.6 | 39.1 |
| | | 2,150.8 | 1,636.6 | 2,039.2 | 1,537.0 |
| Investments | 11 | — | — | 170.4 | 154.9 |
| Net assets of financial activities | 12 | 81.4 | 51.3 | — | — |
| | | 2,232.2 | 1,687.9 | 2,209.6 | 1,691.9 |
| Current assets | | | | | |
| Stocks | 13 | 287.9 | 255.4 | 236.1 | 206.5 |
| Debtors | 14 | 130.4 | 114.9 | 533.3 | 239.2 |
| Investments | 15 | 15.5 | 38.0 | 15.5 | 35.3 |
| Cash at bank and in hand | 16 | 276.1 | 58.8 | 24.0 | 21.0 |
| | | 709.9 | 467.1 | 808.9 | 502.0 |
| Current liabilities | | | | | |
| Creditors: amounts falling due within one year | 17 | 623.5 | 529.9 | 561.5 | 469.6 |
| Net current assets/(liabilities) (excluding financial activities) | | 86.4 | (62.8) | 247.4 | 32.4 |
| Total assets less current liabilities | | 2,318.6 | 1,625.1 | 2,457.0 | 1,724.3 |
| Creditors: amounts falling due after more than one year | 18 | 160.6 | 46.3 | 295.0 | 145.0 |
| Net assets | | 2,158.0 | 1,578.8 | 2,162.0 | 1,579.3 |
| Capital and reserves | | | | | |
| Called up share capital | 19 | 666.4 | 664.8 | 666.4 | 664.8 |
| Share premium account | 20 | 22.2 | 13.5 | 22.2 | 13.5 |
| Revaluation reserve | 20 | 468.7 | 86.4 | 479.5 | 86.7 |
| Profit and loss account | 20 | 1,000.7 | 814.1 | 993.9 | 814.3 |
| Shareholders' funds | | 2,158.0 | 1,578.8 | 2,162.0 | 1,579.3 |

Approved by the Board
11 May 1988

The Lord Rayner, Chairman

J K Oates, Finance Director

CONSOLIDATED SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR ENDED 31 MARCH 1988

| | 1988 £m | 1987 £m |
|---|--------------|---------------|
| Cash and short-term funds at 1 April | 66.3 | 136.7 |
| Source of funds | | |
| Arising from trading | | |
| Profit on ordinary activities before taxation | 501.7 | 432.1 |
| Depreciation | 83.5 | 67.8 |
| Sales of fixed assets | 4.7 | 4.5 |
| | 589.9 | 504.4 |
| From other sources | | |
| 9.75% Guaranteed Notes 1993 issue | 150.0 | — |
| 8.25% Guaranteed Bonds 1996 issue | — | 100.0 |
| Shares issued under employees' share schemes | 10.3 | 9.8 |
| | 816.5 | 750.9 |
| Application of funds | | |
| Payment of dividends | 123.7 | 107.3 |
| Payment of taxation | 157.5 | 137.3 |
| Purchase of fixed assets | 210.7 | 241.0 |
| Transfer of fixed assets from financial activities | 7.5 | — |
| Acquisition of minority interest in Canadian subsidiary | — | 53.5 |
| Increase in inter-company funding of financial activities | 35.0 | 100.0 |
| Increase in net assets of financial activities excluding taxation (see below) | 19.4 | 26.4 |
| Miscellaneous | 3.5 | 2.5 |
| | 557.3 | 668.0 |
| Increase/(decrease) in working capital | | |
| Stock | 32.5 | 20.1 |
| Debtors | 14.0 | 14.9 |
| Creditors under one year (excluding taxation and dividends) | (57.5) | (21.0) |
| Group relief payable to financial activities | 4.3 | 2.6 |
| | (6.7) | 16.6 |
| | 550.6 | 684.6 |
| Cash and short-term funds at 31 March | 265.9 | 66.3 |
| Cash and short-term funds comprise cash at bank and in hand and current asset investments less bank loans and overdrafts. | | |
| Increase in net assets of financial activities | | |
| Purchase of assets for finance leasing | — | 2.5 |
| Capital repayments on leases | (6.1) | (17.4) |
| Disposal of leasing activities | (2.7) | (41.5) |
| | (8.8) | (56.4) |
| Purchase of fixed assets | 3.8 | 6.2 |
| Transfer of fixed assets to fellow subsidiary | (7.5) | — |
| Depreciation | (1.5) | (1.0) |
| Increase in debtors | 86.9 | 60.9 |
| Deferred tax eliminated on sale of leasing subsidiaries | — | 13.9 |
| (Decrease) in group relief receivable | (4.3) | (2.6) |
| (Increase) in bank loans, overdrafts and inter-company funding less cash | (43.9) | (9.7) |
| (Decrease)/increase in other working capital | (5.3) | 15.1 |
| Net movement | 19.4 | 26.4 |

ACCOUNTING POLICIES

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.

Basis of consolidation

The Group financial statements incorporate the financial statements of:

a The retailing activities of Marks and Spencer p.l.c. and its UK and overseas subsidiaries for the year to 31 March.

b The financial activities of the Group's wholly-owned subsidiaries to 31 March. In order to reflect the different nature of the business of the financial activities and so present fairly the Group's state of affairs, the assets and liabilities of such activities are shown as a net investment in the Group balance sheet and are analysed separately in note 12 on pages 52 and 53.

Goodwill

Goodwill arising on consolidation which represents the excess of the consideration given over the fair value of the net tangible assets acquired is written off on acquisition against reserves.

Deferred taxation

Deferred taxation is provided on the liability method, to the extent that it is probable that a liability will crystallise. It is provided on the excess of capital allowances over depreciation in respect of assets leased to third parties and on certain items of income and expenditure included in the profit and loss account in different years from those in which they are assessed for taxation purposes.

Depreciation

Depreciation is provided to write off the cost or valuation of tangible fixed assets by equal annual instalments at the following rates:

Freehold and leasehold land and buildings over 50 years — Nil

Leasehold land and buildings under 50 years — Over the remaining period of the lease

Fixtures, fittings and equipment — 10% or 20% according to the estimated life of the asset.

During the year, the Group reviewed its depreciation practice to ensure that the methods used were appropriate in view of changes which have occurred in the retail environment. There have been two major revisions:

a Depreciation is no longer provided on freehold and long leasehold properties where, in the opinion of the directors, the residual values of these properties are such that any depreciation charge would be immaterial.

b Depreciation is now charged on all additions to depreciating assets in the year of purchase.

Foreign currencies

The trading results of overseas subsidiaries have been translated using average rates of exchange ruling during the financial year.

The balance sheets of overseas subsidiaries have been translated into sterling at the rates of exchange ruling at 31 March, except for those assets and liabilities where a forward exchange contract has been arranged, in which case this forward rate is used. Exchange differences arising between the translation into sterling of the net assets of these subsidiaries at rates ruling at the beginning and end of the year are dealt with through reserves.

ACCOUNTING POLICIES

The cost of the Company's investment in overseas subsidiaries is translated at the rate ruling at the date of investment. All other foreign currency assets and liabilities of the Company and its United Kingdom subsidiaries are translated into sterling at the rate ruling at 31 March, except in those instances where a forward exchange contract has been arranged in which case this forward rate is used. These exchange differences are dealt with through the profit and loss account.

Transactions during the year between the Company and its subsidiaries, customers and suppliers are translated into sterling at the rate of exchange ruling on the date of the transaction. All profits and losses on exchange realised during the year are dealt with through the profit and loss account.

Pension contributions

The Group operates pension schemes for the benefit of all its employees. The funds of the schemes are administered by Trustees and are separate from the Group. Independent actuaries complete valuations at least every three years and, in accordance with their recommendations, annual contributions are paid to the schemes so as to secure the benefits set out in the rules and the periodic augmentation of current pensions. The cost of these is charged against profits when the contributions arise.

Repairs and renewals

Expenditure on repairs, renewals and minor items of equipment is written off in the year in which it is incurred.

Stocks

Retail stocks consist of goods for resale which are valued at the lower of cost and net realisable value. Cost is computed by deducting the gross profit margin from the selling value of stock. When computing net realisable value an allowance is made for future markdowns.

Work in progress for development properties is valued at the lower of cost and net realisable value.

Leases

For finance leases, where the Group is the lessor, gross earnings are allocated to accounting periods such that the profit after tax represents a constant rate of return on the net cash investment in the lease during the period of the lease.

The net investment in finance leases, which represents total lease payments receivable net of finance charges allocated to future periods, has been included under debtors in the net assets of financial activities.

Trading results

The trading results include transactions at stores up to and including the nearest Saturday to 31 March. All other transactions are included up to 31 March in each year.

NOTES TO THE FINANCIAL STATEMENTS

1 Trading period

The results for the year comprise store sales and related costs for the 53 weeks to 2 April 1988 compared to 52 weeks last year. All other activities are for the year to 31 March 1988.

2 Turnover**a Retailing**

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

b Financial activities

Financial activities comprise the operations of Marks & Spencer Financial Services Limited together with leasing and insurance. Turnover represents the interest and other income attributable to these activities.

c Analysis of turnover — by activity and geographical market.

| | 1988 £m | 1987 £m |
|-------------------------------------|------------|------------|
| (i) Retailing | | |
| United Kingdom stores | 4,173.6 | 3,809.1 |
| Overscas stores: | | |
| Europe | 131.7 | 119.4 |
| North America (last year 14 months) | 179.9 | 210.7 |
| | 311.6 | 330.1 |
| Export sales outside the Group: | | |
| Europe | 34.0 | 27.8 |
| America | 5.0 | 6.0 |
| Africa | 2.5 | 2.4 |
| Far East | 5.0 | 8.8 |
| | 46.5 | 45.0 |
| | 4,531.7 | 4,184.2 |
| (ii) Financial activities | 45.9 | 36.6 |
| | 4,577.6 | 4,220.8 |

The turnover attributable to financial activities arises wholly within the United Kingdom and the Channel Islands.

NOTES TO THE FINANCIAL STATEMENTS

3 Other expenses

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

| | 1988 £m | 1987 £m |
|---|------------|------------|
| Other expenses comprise: | | |
| Staff costs (see also note 8) | 502.4 | 476.0 |
| Occupancy costs including rentals under operating leases | 112.4 | 115.9 |
| — Hire of plant and machinery of £4.4 million (last year £4.4 million) | | |
| — Other £39.0 million (last year £36.6 million) | | |
| Other costs including Auditors' remuneration of £0.4 million (last year £0.4 million) | 221.6 | 180.4 |
| | 836.4 | 772.3 |
| Repairs, renewals and maintenance of properties, fixtures, fittings and equipment | 38.8 | 37.7 |
| Depreciation of tangible fixed assets | 85.0 | 68.8 |
| | 960.2 | 878.8 |
| Less: Other income (see below) | 14.7 | 23.8 |
| | 945.5 | 855.0 |
| Interest payable (see below) | 5.8 | 8.9 |
| | 951.3 | 863.9 |
| Depreciation for the year ended 31 March 1988 is £1.2 million higher than would have been charged under the previous depreciation practice (see page 41). | | |
| Other income comprises: | | |
| Surplus on disposal of leasing activities | 1.9 | 6.2 |
| Bank and other interest | 11.2 | 9.4 |
| (Loss)/Profit on sales of tangible fixed assets | (2.0) | 0.6 |
| Income from current asset investments: | | |
| — listed | — | 0.3 |
| — unlisted | — | 5.5 |
| Profit on sales of current asset investments | 0.2 | 0.3 |
| Miscellaneous | 3.4 | 1.5 |
| | 14.7 | 23.8 |
| Interest payable by the Group comprises: | | |
| 9.75% Guaranteed Notes 1993 | 0.6 | — |
| 8.25% Guaranteed Bonds 1996 | 9.2 | 6.8 |
| Debenture stocks — repayable between 2 and 5 years | 0.3 | 0.3 |
| Debenture stocks — repayable in more than 5 years | 2.9 | 2.9 |
| Bank loans and overdrafts | 9.2 | 18.6 |
| | 22.2 | 28.6 |
| Classified as: | | |
| Interest payable | 5.8 | 8.9 |
| Cost of sales in the trading results of the financial activities | 16.4 | 19.7 |
| | 22.2 | 28.6 |

NOTES TO THE FINANCIAL STATEMENTS

3 Other expenses continued

| | 1988 £m | 1987 £m |
|--|------------|------------|
| Included as turnover in the trading results of the financial activities: | | |
| Bank and other interest receivable | 39.1 | 29.5 |
| Income from finance leases | 1.4 | 4.1 |
| Profit on sales of current asset investments | 0.2 | 0.2 |

4 Profit on ordinary activities before taxation

This arises as follows:

| | | |
|-------------------------------------|-------|-------|
| United Kingdom | 480.4 | 415.1 |
| Europe | 18.8 | 13.3 |
| North America (last year 14 months) | 2.5 | 3.7 |
| | 501.7 | 432.1 |

and can be analysed between:

| | | |
|----------------------|-------|-------|
| Retailing | 497.5 | 427.3 |
| Financial activities | 4.2 | 4.8 |
| | 501.7 | 432.1 |

The results of financial activities include profits of £1.9 million (last year £6.2 million) arising on the disposal of leasing activities.

5 Tax on profit on ordinary activities

The taxation charge comprises:

United Kingdom corporation tax at 35%

| | | |
|-------------------|-------|-------|
| Current | 180.8 | 152.6 |
| Deferred | (9.7) | (1.5) |
| Overseas taxation | 7.3 | 5.1 |
| | 178.4 | 156.2 |

6 Profit for the financial year

As permitted by Section 228 (7) of the Companies Act 1983, the profit and loss account of the parent company is not presented as part of these financial statements.

The consolidated profit of £323.3 million (last year £276.0 million) includes £302.3 million (last year £262.7 million) which is dealt with in the financial statements of the parent company.

NOTES TO THE FINANCIAL STATEMENTS

7 Earnings per share

The calculation of earnings per ordinary share is based on earnings of £323.2 million (last year £275.9 million) after deducting preference dividends, and on 2,658,358,978 ordinary shares (last year 2,650,061,104), being the weighted average of shares in issue during the year ended 31 March 1988.

At 31 March 1988, directors and senior employees held unexercised options in respect of 9,275,002 ordinary shares (last year 7,247,693). There were options outstanding under the Savings-Related Share Option Scheme in respect of 40,180,747 shares (last year 35,081,855). If all outstanding options had been exercised, the dilution of earnings per share would not have been material.

8 Directors and employees

a The number of directors and employees of the Company performing their duties mainly within the United Kingdom whose emoluments (excluding pension contributions) were within the following ranges, are:

| Gross Emoluments £ | Directors | | Employees | | Gross Emoluments £ | Directors | | Employees | |
|-----------------------|-----------|------|-----------|------|-----------------------|-----------|------|-----------|------|
| | 1988 | 1987 | 1988 | 1987 | | 1988 | 1987 | 1988 | 1987 |
| 345,001 – 350,000 | 1 | — | — | — | 80,001 – 85,000 | — | — | 2 | — |
| 285,001 – 290,000 | — | 1 | — | — | 75,001 – 80,000 | — | — | 4 | — |
| 260,001 – 265,000 | 1 | — | — | — | 70,001 – 75,000 | — | 2 | 6 | 1 |
| 215,001 – 220,000 | — | 1 | — | — | 65,001 – 70,000 | — | — | 3 | 2 |
| 205,001 – 210,000 | — | 1 | — | — | 60,001 – 65,000 | — | — | 10 | 11 |
| 200,001 – 205,000 | 1 | — | — | — | 55,001 – 60,000 | — | — | 11 | 12 |
| 160,001 – 165,000 | 1 | — | — | — | 50,001 – 55,000 | — | — | 26 | 20 |
| 150,001 – 155,000 | — | 1 | — | — | 45,001 – 50,000 | — | — | 36 | 36 |
| 145,001 – 150,000 | 1 | — | — | — | 40,001 – 45,000 | 1 | — | 78 | 40 |
| 130,001 – 135,000 | 4 | 1 | — | — | 35,001 – 40,000 | — | — | 125 | 105 |
| 125,001 – 130,000 | 1 | — | — | — | 30,001 – 35,000 | 1 | — | 251 | 194 |
| 120,001 – 125,000 | — | 5 | — | — | 10,001 – 15,000 | 4 | 1 | | |
| 110,001 – 115,000 | — | 2 | — | — | 5,001 – 10,000 | 1 | — | | |
| 100,001 – 105,000 | 1 | — | — | — | 0 – 5,000 | — | 1 | | |
| 90,001 – 95,000 | — | 1 | — | — | | | | | |

Included in the above is the remuneration of the Chairman £349,619 (last year £287,234). The Chairman is also the highest paid director.

Total directors' emoluments, including pension scheme contributions, were £2.5 million (last year £2.4 million). Payments to directors after leaving service amounted to £0.5 million (last year nil).

NOTES TO THE FINANCIAL STATEMENTS

8 Directors and employees continued

| b The average weekly number of employees of the Group during the year was: | | 1988 | 1987 |
|--|---------------------------------------|--------|--------|
| UK Stores: | Management and supervisory categories | 6,333 | 6,955 |
| | Other | 50,404 | 48,450 |
| UK Head Office: | Management and supervisory categories | 2,243 | 2,221 |
| | Other | 2,114 | 1,982 |
| Marks & Spencer Financial Services: | Management and supervisory categories | 41 | 46 |
| | Other | 417 | 328 |
| Overseas | | 6,898 | 6,722 |
| | | 68,450 | 66,704 |

If the number of part-time hours worked was converted on the basis of a full working week, the equivalent average number of full-time employees would have been 45,692 (last year 45,089).

| The aggregate remuneration and associated costs of Group employees were: | | 1988 £m | 1987 £m |
|--|--|------------|------------|
| Wages and salaries | | 408.3 | 388.0 |
| Social security costs | | 28.5 | 27.0 |
| Pension costs | | 49.4 | 45.4 |
| Staff welfare and other personnel costs | | 16.2 | 15.6 |
| | | 502.4 | 476.0 |

NOTES TO THE FINANCIAL STATEMENTS

9 Share schemes

a Profit sharing:

The Trustees of the United Kingdom Employees' Profit Sharing Schemes have been allocated £12.4 million (last year £9.0 million) with which to subscribe for ordinary shares in the Company. The price of each share is 176p, being the average market price for the 3 dealing days immediately following the announcement of the results for the year ended 31 March 1988.

b United Kingdom Senior Staff Share Option Schemes:

Under the terms of the 1984 and 1987 schemes, following the announcement of the Company's results, the Board may offer options to purchase ordinary shares in the Company to directors, and senior employees at the higher of the nominal value of the shares and the average market price for three consecutive dealing days preceding the date of the offer. The 1977 scheme has now expired and no further options may be granted under this scheme. Although options may be granted under both the 1984 and 1987 schemes, the maximum option value that can be exercised is limited to four times earnings. Outstanding options granted under all senior schemes are as follows:

| Options granted | Number of Shares | | Option price | Option dates |
|-----------------|------------------|-----------|--------------|---------------------|
| | 1988 | 1987 | | |
| (1977 Scheme) | | | | |
| May 1981 | 256,528 | 407,790 | 68.325p | May 1984 – May 1988 |
| May 1982 | 281,642 | 477,622 | 75.375p | May 1985 – May 1989 |
| May 1983 | 965,010 | 1,159,698 | 107.475p | May 1986 – May 1990 |
| May 1984 | 152,888 | 279,038 | 127.625p | May 1987 – May 1991 |
| May 1985 | 2,593,019 | 2,593,019 | 137.000p | May 1988 – May 1992 |
| May 1986 | 1,074,984 | 1,074,984 | 211.000p | May 1989 – May 1993 |
| May 1987 | 1,274,358 | — | 232.333p | May 1990 – May 1994 |
| (1984 Scheme) | | | | |
| October 1984 | 3,414,513 | 3,642,451 | 115.667p | Oct 1987 – Oct 1994 |
| May 1985 | 1,643,332 | 1,643,332 | 137.000p | May 1988 – May 1995 |
| May 1986 | 1,000,513 | 1,000,513 | 211.000p | May 1989 – May 1996 |
| May 1987 | 1,270,988 | — | 232.333p | May 1990 – May 1997 |
| October 1987 | 933,157 | — | 202.000p | Oct 1990 – Oct 1997 |
| (1987 Scheme) | | | | |
| October 1987 | 933,157 | — | 202.000p | Oct 1990 – Oct 1994 |

c United Kingdom Employees' Savings-Related 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 90% 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 five or seven years after entering the scheme.

NOTES TO THE FINANCIAL STATEMENTS

9 Share schemes continued

Outstanding options granted under this scheme are as follows:

| Options granted | Number of Shares | | Option price |
|-----------------|------------------|-----------|--------------|
| | 1988 | 1987 | |
| January 1982 | 6,404,827 | 7,288,930 | 49.0p |
| January 1983 | 2,176,602 | 2,901,028 | 88.5p |
| January 1984 | 2,536,961 | 2,698,851 | 93.5p |
| January 1985 | 6,695,069 | 7,064,595 | 103.0p |
| January 1986 | 4,941,086 | 5,203,795 | 163.0p |
| January 1987 | 9,402,223 | 9,924,656 | 175.0p |
| January 1988 | 8,023,979 | — | 182.0p |

10 Fixed assets — tangible assets

a The Group

| | Land and Buildings | | | Total | Fixtures, Fittings & Equipment | Assets in the Course of Construc- tion | Total Fixed Assets |
|---|--------------------|-------------------------|--------------------------|----------------|--------------------------------------|--|--------------------------|
| | Freehold £m | Long Leasehold £m | Short Leasehold £m | | | | |
| Cost or valuation | | | | | | | |
| At 1 April 1987 | 832.4 | 469.7 | 76.7 | 1,378.8 | 430.3 | 39.3 | 1,848.4 |
| Additions | 22.8 | 1.7 | 6.2 | 30.7 | 109.6 | 70.4 | 210.7 |
| Transfers from assets in the course of construction | 37.6 | 41.0 | 22.3 | 100.9 | 0.1 | (101.0) | — |
| Transfer from financial activities | 7.5 | — | — | 7.5 | — | — | 7.5 |
| Transfers | 7.5 | (18.5) | 11.0 | — | — | — | — |
| Disposals | (1.7) | — | (0.6) | (2.3) | (28.6) | (0.1) | (31.0) |
| Differences on exchange | (3.1) | (1.9) | (2.9) | (7.9) | (4.4) | — | (12.3) |
| Revaluation surplus | 228.6 | 123.6 | 5.9 | 358.1 | — | — | 358.1 |
| At 31 March 1988 | 1,131.6 | 615.6 | 118.6 | 1,865.8 | 507.0 | 8.6 | 2,381.4 |
| At valuation | 841.5 | 470.0 | 18.5 | 1,330.0 | — | — | 1,330.0 |
| At cost | 290.1 | 145.6 | 100.1 | 535.8 | 507.0 | 8.6 | 1,051.4 |
| | 1,131.6 | 615.6 | 118.6 | 1,865.8 | 507.0 | 8.6 | 2,381.4 |
| Accumulated depreciation | | | | | | | |
| At 1 April 1987 | 25.2 | 16.3 | 14.7 | 56.2 | 155.6 | — | 211.8 |
| Depreciation for the year | — | — | 5.2 | 5.2 | 78.3 | — | 83.5 |
| Transfer | — | (2.0) | 2.0 | — | — | — | — |
| Disposals | (0.1) | — | (0.3) | (0.4) | (25.9) | — | (26.3) |
| Differences on exchange | (0.2) | (0.2) | (1.0) | (1.4) | (2.3) | — | (3.7) |
| Eliminated on revaluation | (20.4) | (12.5) | (1.8) | (34.7) | — | — | (34.7) |
| At 31 March 1988 | 4.5 | 1.6 | 18.8 | 24.9 | 205.7 | — | 230.6 |
| Net book value | | | | | | | |
| At 31 March 1988 | 1,127.1 | 614.0 | 99.8 | 1,840.9 | 301.3 | 8.6 | 2,150.8 |
| At 31 March 1987 | 807.2 | 453.4 | 62.0 | 1,322.6 | 274.7 | 39.3 | 1,636.6 |

NOTES TO THE FINANCIAL STATEMENTS

10 Fixed assets — tangible assets continued

| b The Company | Land and Buildings | | | Total £m | Fixtures, Fittings & Equipment £m | Assets in the Course of Construc- tion £m | Total Fixed Assets £m |
|---|--------------------|-------------------------|--------------------------|----------------|--|--|--------------------------------|
| | Freehold £m | Long Leasehold £m | Short Leasehold £m | | | | |
| Cost or valuation | | | | | | | |
| At 1 April 1987 | 794.3 | 449.2 | 46.6 | 1,290.1 | 382.0 | 39.1 | 1,711.2 |
| Additions | 16.6 | 1.2 | 0.7 | 18.5 | 101.2 | 69.4 | 189.1 |
| Transfers from assets in the course of construction | 37.6 | 41.0 | 22.3 | 100.9 | — | (100.9) | — |
| Transfers from long to short leasehold | — | (0.1) | 0.1 | — | — | — | — |
| Disposals | (1.7) | — | (0.3) | (2.0) | (28.1) | — | (30.1) |
| Revaluation surplus | 228.6 | 123.6 | 5.9 | 358.1 | — | — | 358.1 |
| At 31 March 1988 | 1,075.4 | 614.9 | 75.3 | 1,765.6 | 455.1 | 7.6 | 2,228.3 |
| At valuation | 841.5 | 470.0 | 18.5 | 1,330.0 | — | — | 1,330.0 |
| At cost | 233.9 | 144.9 | 56.8 | 435.6 | 455.1 | 7.6 | 898.3 |
| | 1,075.4 | 614.9 | 75.3 | 1,765.6 | 455.1 | 7.6 | 2,228.3 |
| Accumulated depreciation | | | | | | | |
| At 1 April 1987 | 22.9 | 14.1 | 5.0 | 42.0 | 132.2 | — | 174.2 |
| Depreciation for the year | — | — | 2.4 | 2.4 | 73.0 | — | 75.4 |
| Disposals | (0.1) | — | (0.1) | (0.2) | (25.6) | — | (25.8) |
| Less amount on revaluation | (20.4) | (12.5) | (1.8) | (34.7) | — | — | (34.7) |
| At 31 March 1988 | 2.4 | 1.6 | 5.5 | 9.5 | 179.6 | — | 189.1 |
| Net book value | | | | | | | |
| At 31 March 1988 | 1,073.0 | 613.3 | 69.8 | 1,756.1 | 275.5 | 7.6 | 2,039.2 |
| At 31 March 1987 | 771.4 | 435.1 | 41.6 | 1,248.1 | 249.8 | 39.1 | 1,537.0 |

(i) Gerald Eve, chartered surveyors, valued the Company's freehold and leasehold properties in the United Kingdom and the Isle of Man as at 31 March 1982. This valuation was on the basis of open market value for existing use. Gerald Eve subsequently carried out sample valuations of representative groups of stores in each of the years 1983 to 1987.

In the opinion of the directors, formed after consultation with Gerald Eve, the open market value as at 31 March 1988 of those of the Company's properties which had been valued as at 31 March 1982 (excluding subsequent additions and adjusted for disposals), totalled £1,330.0 million. The resulting surplus of £392.8 million over the previous book value of the properties has been incorporated in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

10 Fixed assets — tangible assets continued

(ii) If the Company's land and buildings had not been valued at 31 March 1982 and 31 March 1988 their net book value would have been:

| | 1988 £m | 1987 £m |
|-------------------------------|------------|------------|
| At valuation at 31 March 1975 | 361.3 | 362.3 |
| At cost | 668.1 | 548.8 |
| At 31 March 1988 | 1,029.4 | 911.1 |
| Accumulated depreciation | 56.0 | 53.6 |
| | 973.4 | 857.5 |

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.

(iii) For fixtures, fittings and equipment detailed records of cost and depreciation are not maintained. The accumulated cost figures represent reasonable estimates of the sums involved.

11 Fixed assets — investments

a These investments comprise unlisted investments in and loans to subsidiaries.

| | Shares in subsidiaries £m | Loans £m | Total £m |
|------------------|---------------------------------|-------------|-------------|
| Cost | | | |
| At 1 April 1987 | 143.4 | 11.5 | 154.9 |
| Additions | — | 17.5 | 17.5 |
| Redemptions | (2.0) | — | (2.0) |
| At 31 March 1988 | 141.4 | 29.0 | 170.4 |

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

| | Principal activity | Country of incorporation and operation | Proportion of ordinary shares held by: | |
|--|-------------------------|--|--|--------------|
| | | | The Company | A subsidiary |
| Marks & Spencer Financial Services Limited | Finance | England | 100% | — |
| St Michael Finance Limited | Finance | England | 100% | — |
| Marks and Spencer Finance plc | Finance | England | 100% | — |
| Marks and Spencer (Nederland) BV | Holding Company | The Netherlands | 100% | — |
| Marks & Spencer Holdings Canada Inc | Holding Company | Canada | — | 100% |
| Marks & Spencer Canada Inc | Chain Store | Canada | — | 100% |
| Marks and Spencer Finance (Nederland) BV | Finance | The Netherlands | — | 100% |
| Marks and Spencer (France) SA | Chain Store | France | — | 100% |
| Marks and Spencer (Ireland) Limited | Chain Store | Ireland | — | 100% |
| SA Marks and Spencer (Belgium) NV | Chain Store | Belgium | — | 100% |
| MS Insurance Limited | Insurance | Guernsey | — | 100% |
| Marks & Spencer Services Inc | Management Services | United States | 100% | — |
| D'Allaird's US Inc | Chain Store | United States | — | 100% |
| Baker Street Leasing Limited | Leasing | England | 100% | — |
| Marks & Spencer Property Holdings Limited | Property | England | 100% | — |
| Marks & Spencer Property Developments Limited | Property Development | England | — | 100% |

NOTES TO THE FINANCIAL STATEMENTS

12 Net assets of financial activities

| | 1988 £m | 1987 £m |
|---|------------|------------|
| Fixed assets | | |
| Land and buildings | 0.2 | 0.5 |
| Fixtures, fittings and equipment | 3.8 | 3.7 |
| Assets in the course of construction | — | 5.0 |
| | 4.0 | 9.2 |
| Current assets | | |
| Debtors | 266.2 | 186.2 |
| Listed investments — market value £6.6 million (last year £6.0 million) | 6.5 | 5.7 |
| Cash at bank and in hand | 21.9 | 25.3 |
| | 294.6 | 217.2 |
| Current liabilities | | |
| Creditors: amounts falling due within one year | 77.1 | 67.6 |
| | 217.5 | 149.6 |
| Net current assets | | |
| Total assets less current liabilities | 221.5 | 158.8 |
| Creditors: amounts falling due after more than one year | 135.1 | 100.1 |
| Provisions for liabilities and charges: | | |
| Deferred taxation | 5.0 | 7.4 |
| | 81.4 | 51.3 |
| Net assets | | |

| | Land & buildings Short leasehold £m | Fixtures, fittings & equipment £m | Assets in the course of construction £m | Total fixed assets £m |
|---------------------------------|---|--|---|-----------------------------|
| a Fixed assets | | | | |
| Cost | | | | |
| At 1 April 1987 | 0.6 | 4.9 | 5.0 | 10.5 |
| Additions | 0.2 | 1.5 | 2.1 | 3.8 |
| Transfer to fellow subsidiary | (0.4) | — | (7.1) | (7.5) |
| At 31 March 1988 | 0.4 | 6.4 | — | 6.8 |
| Accumulated depreciation | | | | |
| At 1 April 1987 | 0.1 | 1.2 | — | 1.3 |
| Depreciation for the year | 0.1 | 1.4 | — | 1.5 |
| At 31 March 1988 | 0.2 | 2.6 | — | 2.8 |
| Net book value | | | | |
| At 31 March 1988 | 0.2 | 3.8 | — | 4.0 |
| At 31 March 1987 | 0.5 | 3.7 | 5.0 | 9.2 |

The property under construction was transferred to a fellow subsidiary during the year.

NOTES TO THE FINANCIAL STATEMENTS

12 Net assets of financial activities continued

| | 1988 £m | 1987 £m |
|--|------------|------------|
| b Debtors | | |
| Amounts falling due within one year: | | |
| Trade debtors | 108.8 | 69.1 |
| Net investment in finance leases | 9.5 | 6.1 |
| Group relief receivable in respect of financial activities | — | 4.3 |
| Other debtors | 3.7 | 0.5 |
| Prepayments and accrued income | 3.9 | 6.2 |
| | 125.9 | 86.2 |
| Amounts falling due after more than one year: | | |
| Trade debtors | 127.4 | 81.1 |
| Net investment in finance leases | 12.9 | 18.9 |
| | 266.2 | 186.2 |
| c Creditors: amounts falling due within one year: | | |
| Bank loans and overdrafts | 8.7 | 43.4 |
| Trade creditors | 4.1 | 1.0 |
| Bills of exchange payable | 56.0 | 15.0 |
| Current taxation | 2.4 | 4.5 |
| Other creditors | 0.9 | 0.6 |
| Accruals and deferred income | 5.0 | 3.1 |
| | 77.1 | 67.6 |
| d Creditors: amounts falling due after more than one year: | | |
| Repayable between one and two years: | | |
| Taxation | 0.1 | 0.1 |
| Repayable in five years or more: | | |
| Group borrowings utilised in financial activities (see note 16) | 135.0 | 100.0 |
| | 135.1 | 100.1 |
| e Total rentals receivable during the year in respect of finance leases | 7.5 | 21.5 |
| f Assets acquired during the year for finance leasing | — | 2.5 |
| g The provision for deferred taxation arises on: | | |
| The excess of capital allowances over depreciation on assets leased to third parties | 5.0 | 7.4 |

The decrease in the provision for deferred taxation of £2.4 million (last year £19.6 million) is represented by an £8.6 million writeback to the profit and loss account (last year £5.7 million) and an amount of £6.2 million arising on the revaluation of the net investment in finance leases resulting from rental adjustments.

NOTES TO THE FINANCIAL STATEMENTS

13 Stocks

| | The Group | | The Company | |
|------------------|------------|------------|-------------|------------|
| | 1988 £m | 1987 £m | 1988 £m | 1987 £m |
| Retail stocks | | | | |
| Work in progress | 285.7 | 255.4 | 236.1 | 206.5 |
| | 2.2 | — | — | — |
| | 287.9 | 255.4 | 236.1 | 206.5 |

14 Debtors

| | The Group | | The Company | |
|--|------------|------------|-------------|------------|
| | 1988 £m | 1987 £m | 1988 £m | 1987 £m |
| Amounts falling due within one year: | | | | |
| Trade debtors | 16.0 | 12.6 | 14.5 | 10.7 |
| Amounts owed by Group companies | — | — | 410.3 | 130.0 |
| Other debtors | 22.0 | 21.0 | 18.6 | 17.4 |
| Prepayments and accrued income | 67.5 | 60.7 | 63.8 | 59.2 |
| | 105.5 | 94.3 | 507.2 | 217.3 |
| Amounts falling due after more than one year: | | | | |
| Advance corporation tax recoverable on the proposed final dividend | 31.5 | 30.4 | 31.5 | 30.4 |
| Deferred taxation provision arising on short-term timing differences | (21.6) | (22.0) | (19.8) | (20.0) |
| Other debtors | 9.9 | 8.4 | 11.7 | 10.4 |
| | 15.0 | 12.2 | 14.4 | 11.5 |
| | 24.9 | 20.6 | 26.1 | 21.9 |
| | 130.4 | 114.9 | 533.3 | 239.2 |

Trade debtors include advances to suppliers of £4.0 million (last year £3.5 million) against bills of exchange drawn on the Company in respect of merchandise to be delivered during April and May 1988.

Other debtors include loans to employees, the majority of which are connected with house purchases. Among these are loans made to directors (see note 22) and a loan to an officer of the Company, the balance of which amounted to £10,856 at 31 March 1988 (last year £13,064).

Prepayments and accrued income include £50.9 million in respect of the Pension Scheme for 1988/89 (last year £49.4 million in respect of 1987/88).

The decrease in the Group's provision for deferred taxation of £0.4 million (last year increase of £4.7 million) is represented by a transfer to the profit and loss account.

15 Current assets — investments

| | The Group | | The Company | |
|--|------------|------------|-------------|------------|
| | 1988 £m | 1987 £m | 1988 £m | 1987 £m |
| Investments listed on a recognised stock exchange: | | | | |
| Government securities | — | 2.7 | — | — |
| Certificates of tax deposit | 15.5 | 35.3 | 15.5 | 35.3 |
| | 15.5 | 38.0 | 15.5 | 35.3 |
| Aggregate market value of listed investments | — | 3.0 | — | — |

NOTES TO THE FINANCIAL STATEMENTS

16 Cash at bank and in hand

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

17 Creditors — amounts falling due within one year:

| | The Group | | The Company | |
|---|------------|------------|-------------|------------|
| | 1988 £m | 1987 £m | 1988 £m | 1987 £m |
| Bank loans and overdrafts | 25.7 | 30.5 | — | — |
| Trade creditors | 134.6 | 103.6 | 124.2 | 94.6 |
| Bills of exchange payable | 5.4 | 5.4 | 5.4 | 5.4 |
| Amounts owed to Group companies | — | — | 1.3 | 0.1 |
| Group relief payable in respect of financial activities | — | 4.3 | — | 4.3 |
| Taxation | 194.9 | 161.8 | 190.4 | 159.8 |
| Social Security and other taxes | 26.3 | 20.2 | 24.1 | 17.3 |
| Other creditors | 63.8 | 77.4 | 52.3 | 68.2 |
| Accruals and deferred income | 78.4 | 44.4 | 69.4 | 37.6 |
| Proposed final dividend | 94.4 | 82.3 | 94.4 | 82.3 |
| | 623.5 | 529.9 | 561.5 | 469.6 |

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

| | The Group | | The Company | |
|---|------------|------------|-------------|------------|
| | 1988 £m | 1987 £m | 1988 £m | 1987 £m |
| Repayable between two and five years: | | | | |
| Debenture loan — secured | | | | |
| 5½% — 1985/1990 | 5.0 | 5.0 | 5.0 | 5.0 |
| Bank and other loans | 0.6 | 1.3 | — | — |
| Repayable in five years or more: | | | | |
| Debenture loans — secured | | | | |
| 6½% — 1989/1994 | 10.0 | 10.0 | 10.0 | 10.0 |
| 7¼% — 1993/1998 | 15.0 | 15.0 | 15.0 | 15.0 |
| 7¾% — 1995/2000 | 15.0 | 15.0 | 15.0 | 15.0 |
| 8.25% Guaranteed Bonds 1996 | 100.0 | 100.0 | — | — |
| 9.75% Guaranteed Notes 1993 | 150.0 | — | — | — |
| Amounts owed to Group Companies | — | — | 250.0 | 100.0 |
| | 295.6 | 146.3 | 295.0 | 145.0 |
| Less borrowings shown in balance sheet of financial activities (see note 12) | (135.0) | (100.0) | — | — |
| | 160.6 | 46.3 | 295.0 | 145.0 |

Debenture loans comprise first mortgage debenture stocks which are secured on certain freehold and leasehold properties of the Company. The Company is entitled to redeem the whole or any part of each stock at par, at any time between the two dates shown above.

During the year the Group, through its subsidiary Marks and Spencer Finance plc, issued Notes for £150 million at an interest rate of 9.75% repayable in 1993.

NOTES TO THE FINANCIAL STATEMENTS

19 Called up share capital

| | The Company | |
|---|-------------|-------|
| | 1988 | 1987 |
| | £m | £m |
| Authorised: | | |
| 2,800,000,000 ordinary shares of 25p each | 700.0 | 700.0 |
| 350,000 7.0% cumulative preference shares of £1 each | 0.4 | 0.4 |
| 1,000,000 4.9% cumulative preference shares of £1 each | 1.0 | 1.0 |
| | 701.4 | 701.4 |
| Allotted, called up and fully paid: | | |
| 2,660,090,405 ordinary shares of 25p each (last year 2,653,685,438) | 665.0 | 663.4 |
| 350,000 7.0% cumulative preference shares of £1 each | 0.4 | 0.4 |
| 1,000,000 4.9% cumulative preference shares of £1 each | 1.0 | 1.0 |
| | 666.4 | 664.8 |

6,404,967 ordinary shares having a nominal value of £1.6 million 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 £10.3 million. Contingent rights to the allotment of shares are also described in note 9 on page 48.

20 Shareholders' funds

| | The Group | | The Company | |
|---------------------------------------|-----------|---------|-------------|---------|
| | 1988 | 1987 | 1988 | 1987 |
| | £m | £m | £m | £m |
| Called up share capital (see note 19) | 666.4 | 664.8 | 666.4 | 664.8 |
| Reserves | | | | |
| Share premium account: | | | | |
| At 1 April 1987 | 13.5 | 5.8 | 13.5 | 5.8 |
| Movement during the year | 8.7 | 7.7 | 8.7 | 7.7 |
| At 31 March 1988 | 22.2 | 13.5 | 22.2 | 13.5 |
| Revaluation reserve: | | | | |
| At 1 April 1987 | 86.4 | 84.0 | 86.7 | 86.7 |
| Property revaluation | 392.8 | — | 392.8 | — |
| Exchange movement | (10.5) | 2.4 | — | — |
| At 31 March 1988 | 468.7 | 86.4 | 479.5 | 86.7 |
| Profit and loss account: | | | | |
| At 1 April 1987 | 814.1 | 699.9 | 814.3 | 665.4 |
| Goodwill written off | — | (44.0) | — | — |
| Undistributed surplus for the year | 187.5 | 156.5 | 179.6 | 148.9 |
| Exchange movement | (0.9) | 1.7 | — | — |
| At 31 March 1988 | 1,000.7 | 814.1 | 993.9 | 814.3 |
| Shareholders' funds | 2,158.0 | 1,578.8 | 2,162.0 | 1,579.3 |

NOTES TO THE FINANCIAL STATEMENTS

21 Commitments and contingent liabilities

| | The Group | | The Company | |
|--|------------|------------|-------------|------------|
| | 1988 £m | 1987 £m | 1988 £m | 1987 £m |
| a Commitments in respect of properties in the course of development | 91.9 | 107.1 | 69.4 | 88.0 |
| b Capital expenditure authorised by the directors but not yet contracted | 253.3 | 315.1 | 249.8 | 302.4 |
| c Deferred taxation not provided on the excess of capital allowances over depreciation on tangible assets other than those leased to third parties | 116.6 | 117.7 | 115.5 | 115.8 |
| d Guarantees by the Company of the bank borrowings of subsidiaries | — | — | 0.4 | 0.4 |
| e Guarantees by the Company in respect of Eurobonds issued by subsidiaries | — | — | 250.0 | 100.0 |
| f Guarantees by the Company of the liabilities of Marks and Spencer (Nederland) BV, Marks and Spencer (Ireland) Limited and M&S Export (Ireland) Limited | — | — | 5.6 | 1.7 |

Marks and Spencer (Ireland) Limited and M & S Export (Ireland) have availed of the exemption provided for in s17 of the Companies (Amendment) Act 1986 (Ireland) in respect of the documents required to be annexed to the annual returns of those companies.

g 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.

h The Group pension schemes for its employees have all been professionally valued within the past three years. These valuations indicated that there were sufficient assets in the funds to secure the benefits of existing pensioners and to provide paid-up pensions to present employees on the basis of present salaries and credited periods of service and to cover the capital cost of augmentation to date of pensions in payment. The actuary values the pension schemes on the potential income the assets generate, not on the market value of the assets. The fall in the value of the stock market in October 1987 has not affected the security of the schemes.

i Other material contracts

In the unlikely event of a 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.

NOTES TO THE FINANCIAL STATEMENTS

21 Commitments and contingent liabilities continued

j Commitments under operating leases

At 31 March 1988 annual commitments under non-cancellable operating leases were as follows:

| | The Group | | The Company | |
|-------------------------------------|-----------------------------|-------------|-----------------------------|-------------|
| | Land and buildings £m | Other £m | Land and buildings £m | Other £m |
| Expiring within one year | 1.0 | 1.6 | 0.2 | 1.0 |
| Expiring between two and five years | 5.8 | 3.5 | 0.4 | 3.4 |
| Expiring in five years or more | 27.8 | — | 17.4 | — |
| | 34.6 | 5.1 | 18.0 | 4.4 |

22 Transactions with directors

Interest-free house purchase loans were made by the Company to the following, prior to their appointments as directors. These loans were made under the employees' loan scheme and are being repaid by equal monthly instalments:

| Director | Date of loan | Balance outstanding at year end | |
|-----------------|--------------|------------------------------------|-----------|
| | | 1988 £ | 1987 £ |
| Mr N L Colne | 1980 | 3,960 | 5,400 |
| Mr D G Trangmar | 1979-1982 | 4,760 | 6,560 |

23 Directors' interests in shares and debentures

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 shown below. Further information regarding share options is given in note 9 on page 48.

NOTES TO THE FINANCIAL STATEMENTS

23 Directors' interests in shares and debentures continued

Interests in the Company

Ordinary shares — beneficial and family interests

| | At 31 March 1988 | | At 1 April 1987 or date of appointment if later | |
|-------------------------------|------------------|---------|---|---------|
| | Shares | Options | Shares | Options |
| The Lord Rayner | 101,396 | 405,367 | 87,555 | 315,692 |
| R Greenbury | 27,865 | 368,301 | 26,511 | 221,418 |
| N L Colne | 70,299 | 275,422 | 15,582 | 269,351 |
| J A Lusher | 25,715 | 249,927 | 23,323 | 189,982 |
| J K Oates | 4,000 | 327,475 | 4,000 | 263,971 |
| A S Orton | 11,460 | 313,465 | 9,554 | 258,134 |
| S J Sacher | 377,055 | 308,953 | 399,749 | 259,673 |
| The Hon David Sieff | 296,831 | 231,491 | 304,432 | 219,916 |
| C V Silver | 25,830 | 242,920 | 23,187 | 113,256 |
| A K P Smith | 59,805 | 344,733 | 30,368 | 279,407 |
| P H Spriddell | 29,689 | 202,490 | 28,665 | 170,243 |
| D G Trangmar | 15,658 | 282,092 | 14,719 | 179,390 |
| Dr F V Atterton | 2,000 | — | 2,000 | — |
| R A E Herbert | 7,000 | — | 5,000 | — |
| D G Lanigan | 2,000 | — | 2,000 | — |
| D R Susman | 54,232 | — | 54,232 | — |
| The Rt Hon The Baroness Young | 2,000 | — | 2,000 | — |

Between the end of the financial year and the signing of these financial statements, Mr R Greenbury has relinquished beneficial interest in 1,820 ordinary shares relating to a minor coming of age.

Ordinary shares — trustee interests

| | At 31 March 1988 | | At 1 April 1987 | |
|---------------------|--------------------------------|---------------------------|--------------------------------|---------------------------|
| | Charitable Trusts Shares | Other Trusts Shares | Charitable Trusts Shares | Other Trusts Shares |
| S J Sacher | 391,690 | 486,998 | 1,041,690 | 487,598 |
| The Hon David Sieff | 228,232 | 424,300 | 240,000 | 318,652 |
| D R Susman | 580,100 | — | 580,100 | — |

Preference shares and debentures

At 31 March 1988 N L Colne owned 500 4.9% preference shares (last year 500 shares). None of the other directors had an interest in any preference shares or in the debentures of the Company.

Interests in subsidiaries

None of the directors had any interests in any subsidiaries at the beginning or end of the year.

Other than as noted above, there have not been any changes in the directors' interests in shares and debentures of, or in options granted by, the Company and its subsidiaries.

APPLICATION OF GROUP SALES REVENUE

| | 1988 £m | % to total | 1987 £m | % to total |
|---|------------|---------------|------------|---------------|
| To suppliers of merchandise and services | 3,401.9 | 68.4 | 3,154.0 | 68.7 |
| For the benefit of employees | | | | |
| Salaries (including welfare staff) | 408.3 | | 388.0 | |
| Deductions for income tax and national insurance | 89.5 | | 87.1 | |
| | 318.8 | | 300.9 | |
| Pension schemes | 49.4 | | 45.4 | |
| Employees' profit sharing schemes | 12.4 | | 9.0 | |
| Welfare and staff amenities — excluding related staff salaries of £9.9 million (last year £8.9 million) | 16.2 | | 15.6 | |
| | 396.8 | 8.0 | 370.9 | 8.1 |
| To central and local government | | | | |
| United Kingdom | 706.6 | | 647.2 | |
| Overseas | 49.2 | | 46.8 | |
| | 755.8 | 15.2 | 694.0 | 15.1 |
| To the providers of Group capital | | | | |
| Interest on loan capital and overdrafts | 22.2 | | 28.6 | |
| Income tax deducted | 1.0 | | 1.0 | |
| | 21.2 | | 27.6 | |
| Dividends to shareholders of the Company | 135.8 | | 119.5 | |
| | 157.0 | 3.1 | 147.1 | 3.2 |
| For the replacement of assets and the expansion of the business | | | | |
| Depreciation | 85.0 | | 68.8 | |
| Deferred taxation | (9.7) | | (1.5) | |
| Retained profits, after adjusting for minority interests | 187.5 | | 156.5 | |
| | 262.8 | 5.3 | 223.8 | 4.9 |
| Group sales revenue, including sales taxes | 4,974.3 | 100.0 | 4,589.8 | 100.0 |

PROVIDERS OF GROUP CAPITAL

The capital of the Group arises from the following sources:

1 Preference shares

The 1,350,000 preference shares are held by 778 shareholders, who receive dividends in preference to the holders of ordinary shares at rates of 7.0% and 4.9% per annum, plus related tax credit.

2 Ordinary shares

There are 300,561 holders of ordinary shares who receive dividends at rates declared either by the directors or at the annual general meeting. Their shareholdings are 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 | 264 | 0.7 | 1,408,668 | 53.0 |
| 500,001 - 1,000,000 | 194 | | 139,415 | 5.2 |
| 200,001 - 500,000 | 347 | | 111,600 | 4.2 |
| 100,001 - 200,000 | 408 | | 58,594 | 2.2 |
| 50,001 - 100,000 | 981 | | 69,402 | 2.6 |
| 20,001 - 50,000 | 4,451 | 1.5 | 134,826 | 5.1 |
| 10,001 - 20,000 | 11,007 | 3.7 | 154,428 | 5.8 |
| 5,001 - 10,000 | 27,464 | 9.1 | 195,099 | 7.3 |
| 2,001 - 5,000 | 68,392 | 22.8 | 223,947 | 8.4 |
| 1,001 - 2,000 | 64,576 | 21.5 | 100,124 | 3.8 |
| 501 - 1,000 | 54,824 | 18.2 | 44,161 | 1.7 |
| 1 - 500 | 67,653 | 22.5 | 19,826 | 0.7 |
| | 300,561 | 100.0 | 2,660,090 | 100.0 |

Those shareholders owning more than 100,000 ordinary shares are further analysed as follows:

| Type of owner | Number of shareholders | Number of ordinary shares 000s |
|-----------------------------|------------------------|--------------------------------|
| Insurance companies | 102 | 433,472 |
| Banks and nominee companies | 564 | 823,121 |
| Identifiable pension funds | 93 | 194,454 |
| Individuals | 325 | 150,736 |
| Others | 129 | 116,494 |
| | 1,213 | 1,718,277 |

For the purposes of Capital Gains Tax the price of ordinary shares on 31 March 1982 was 153.50p each which, when adjusted for the 1 for 1 scrip issue in 1984, gives a figure of 76.75p each.

3 Debenture stocks

These stocks, with a nominal value of £45.0 million, are owned by Prudential Assurance Company Limited and Prudential Nominees Limited who are entitled to interest at annual rates ranging from 5.50% to 7.75% under the terms of the debenture trust deed.

4 8.25% Guaranteed Bonds 1996

US\$150.0 million was raised last year by the issue of a Eurobond at an annual interest rate of 8.25% maturing in 1996. Currency and interest swaps were arranged to provide £100.0 million at floating interest rates below LIBOR.

5 9.75% Guaranteed Notes 1993

£150.0 million was raised this year by the issue of a Eurobond at an annual interest rate of 9.75% maturing in 1993. Interest swaps were arranged to provide £150 million at floating interest rates below LIBOR.

6 Bank loans and overdrafts

Bank loans and overdrafts have been obtained to finance certain of the Company's subsidiaries and the overdrafts bear interest at rates varying with local bank rates.

NOTICE OF MEETING

Notice is hereby given that the sixty-second annual general meeting of Marks and Spencer p.l.c. will be held at the Royal Lancaster Hotel, Lancaster Terrace, London W2 on Thursday 14 July 1988 at 11.00 am for the following purposes:

Ordinary Business

1 To receive and adopt the report of the directors and the financial statements for the year ended 31 March 1988, together with the report of the auditors.

2 To declare a final ordinary dividend.

To re-elect the following directors retiring by rotation who, being eligible, offer themselves for re-election:

3 Mr N L Colne

4 The Hon. David Sieff

5 Mr C V Silver

6 Mr A K P Smith

To re-elect the following directors retiring in accordance with Article 91 of the Company's Articles of Association, who, being eligible, offer themselves for re-election:

7 Mr A S Orton

8 The Rt. Hon. The Baroness Young

9 To reappoint the auditors, Deloitte Haskins & Sells, and to authorise the directors to determine their remuneration.

Special Business

To consider and if thought fit to pass the resolution set out below as a special resolution:

10 The directors of the Company be and are hereby generally authorised for the purposes of Section 80 and pursuant to Section 95 of the Companies Act 1985 during the period commencing on 14 July 1988 and expiring on 31 July 1989:

- (i) to exercise all the powers of the Company to allot relevant securities (as defined in Section 80(2) of the said Act);
- (ii) to make an offer or enter into an agreement which would or might require relevant securities to be allotted after the expiry of such period.

Provided that:

- (a) the nominal value of the relevant securities allotted pursuant to this authority shall not exceed the nominal value of the present unissued share capital of the Company;
- (b) the allotment for cash, otherwise than pursuant to a Rights Issue, of Equity Securities (as defined in Section 94(2) of the said Act) shall not exceed five per cent (5%) of the nominal value of the issued ordinary share capital of the Company;
- (c) any allotment under the authority hereby conferred (other than an allotment pursuant to a Rights Issue) may be made as if Sub-Section (1) of Section 89 of the Companies Act 1985 did not apply thereto.

And that the foregoing should be in substitution for the authority conferred on the directors of the Company in this regard at the annual general meeting of the Company held on 2 July 1987.

To transact any other business.

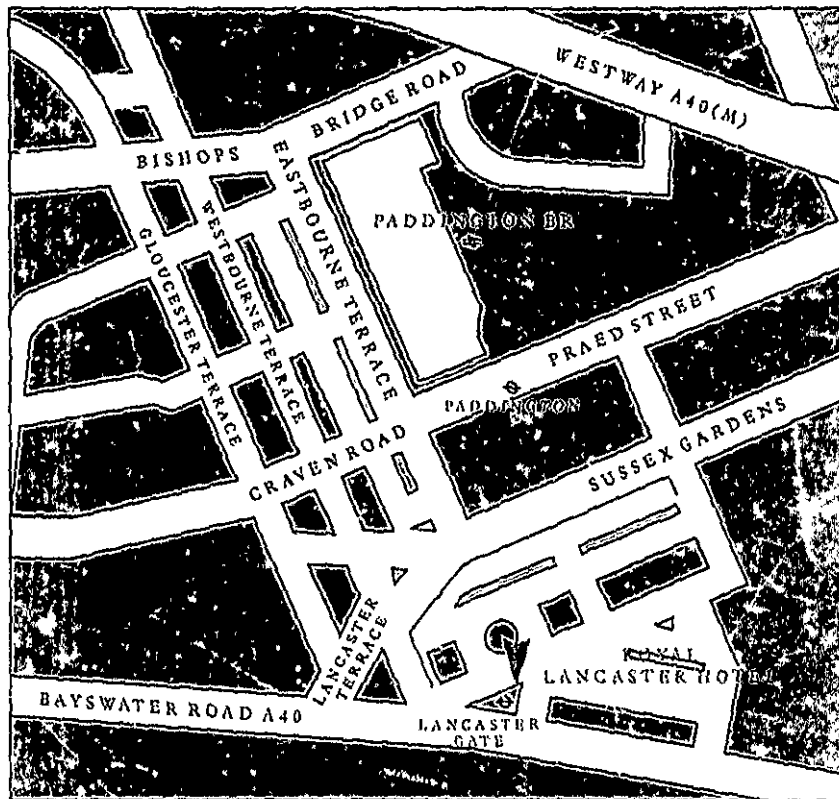
By Order of the Board.

M Epstein
Secretary

London
10 June 1988

Notes

- a Under the provisions of the Articles of Association of the Company, persons holding only preference shares are not entitled to attend or vote at the annual general meeting.
- b Every member entitled to attend and vote at the annual general meeting of the Company is entitled to appoint a proxy to attend and, on a poll, vote instead of that member. A proxy need not be a member of the Company.
- c No director has any service contract or service agreement with the Company or any of its subsidiaries.



Special facilities for disabled people have been arranged. Shareholders who need assistance should contact a member of M&S staff on arrival.

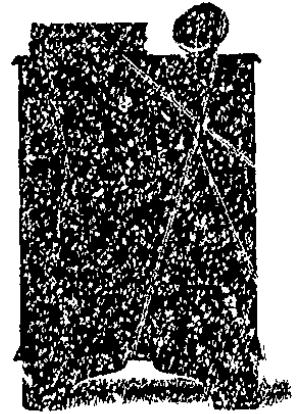
We have also installed a temporary induction loop at the Royal Lancaster Hotel to help those who are hard of hearing to participate in the Annual General Meeting.



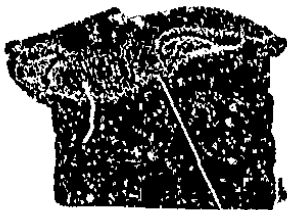
QUALITY



STYLE



SERVICE



VALUE



CHOICE



FRESHNESS



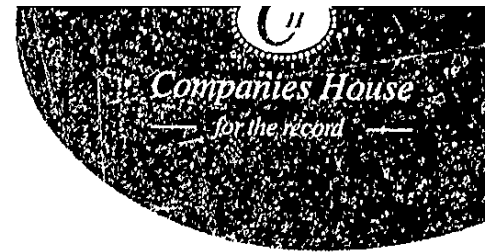
CONVENIENCE



INNOVATION



ST MICHAEL



NOTICE OF ILLEGIBLE DOCUMENT ON THE MICROFICHE RECORD

Companies House regrets that the microfiche record for this company, contain some documents, which are illegible.

The poor quality has been noted, but unfortunately steps taken to improve them were unsuccessful.

Companies House would like to apologise for any inconvenience this may cause

