

MARKS & SPENCER

ANNUAL REPORT AND FINANCIAL STATEMENTS 1999

MARKS & SPENCER

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

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

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THE QUEEN'S AWARD FOR
EXPORT ACHIEVEMENT 1995-1997
THE QUEEN'S AWARD FOR
TECHNOLOGICAL ACHIEVEMENT 1996



FINANCIAL REVIEW

The business has been restructured around three major profit centres:

- UK Retail
- Overseas Retail
- Financial Services

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

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

The contribution which the profit centres make to the Group return will be based on the Value Created over the Group's weighted average cost of capital (WACC). For the purposes of assessing performance in 2000/2001, the Group's WACC will be taken as 10%.

GROUP SUMMARY

Summary of results	2000 £m	1999 As restated £m
Turnover (ex VAT)		8,224.0
Operating profit (before exceptional items)		600.5
Exceptional operating (charges)/income		(88.5)
Operating profit (after exceptional items)		512.0
Profit on ordinary activities before tax		546.1
Basic earnings per share		13.0p
Adjusted earnings per share (see below)		15.8p
Dividend per share		14.4p

Group turnover	2000 £m	1999 £m
UK Retail		6,601.1
Overseas Retail		1,274.3
Financial Services		348.6
Total		8,224.0

Operating profit (before exceptional items) has fallen to £512.0m. It can be analysed as follows:

Operating profit (before exceptional items)	2000 £m	1999 As restated £m
UK Retail		478.9
Overseas Retail		(14.6)
Financial Services		110.7
Excess interest (see below)		25.5
Total		600.5

Profit on ordinary activities before tax is shown after charging £546.1m for exceptional items (last year, income of £88.5m) and a net additional cost of £88.5m (last year, £21.1m) following the early adoption of FRS15,

'Tangible Fixed Assets'. Adjusting for this additional charge gives a profit before tax and exceptional items of £512.0m (last year £655.7m) which compares to the forecast range of £512.0m-£512.0m set out in the Trading Statement published in January.

REVIEW OF PERFORMANCE BY BUSINESS SEGMENT
– UK RETAIL

Sales

An analysis of the 10% fall in UK retail sales (including VAT) for the year is given below, divided between the three product groups and the four reporting periods for the year:

	First quarter Inc %	Second quarter Inc %	15 weeks to • Jan Inc %	11 weeks to • March Inc %	Total Inc %
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Clothing, footwear
& gifts

Home furnishings

Foods

Total

Like for like sales

Expressed on a like-for-like basis, total sales are 10% below last year, representing a 10% decrease in clothing and home furnishings and a 10% decrease in foods. (Like-for-like sales have been calculated by comparing total sales with new and developed stores excluded, and sales deflected from existing stores added back.)

Cost of sales

A significant shortfall from expected sales, and the subsequent margin impact to clear the goods, led to a contribution £512.0m below last year.

Operating expenses

(i) Investment programme

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

- £90m (net of additional revenues generated) relating to the redevelopment of the Littlewoods stores acquired in February 1998 and the accompanying modernisation of the existing Marks & Spencer stores in the same locations.
- £90m loss of interest income.
- £90m on the development of the clothing mail order business net of revenues generated.
- £90m on the installation of Point-of-Sale equipment in UK and European stores.

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

FINANCIAL REVIEW

(ii) Pension fund

This year's triennial valuation of the UK pension fund has confirmed that the annual pension cost has increased by approximately £•m per annum, the amount estimated and provided for in the 1998/99 accounts (see note • on page • for further details). This increase is mainly due to the abolition of recoverable ACT.

(iii) Depreciation

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

- As a result of the publication of FRS15, 'Tangible Fixed Assets', the Board has reviewed the Group's accounting policy in respect of properties and their cost of fit out and has amended it as follows:

(a) Freehold and long-leasehold buildings are depreciated down to their estimated residual value over their estimated remaining economic lives (no depreciation was charged previously on grounds of immateriality – see note • on page •).

(b) Fit out, which was previously accounted for on a replacement basis, has been identified separately from buildings and is depreciated over periods ranging from 10-25 years depending on its nature. In accordance with FRS15 this change has been dealt with as a prior year adjustment.

The effect of the above changes is to increase the depreciation charge for the year by £•m (last year £37.4m) and reduce the charge for repairs and renewals by £•m (last year £18.3m).

The net effect on the UK is to decrease operating profits for the years ended 31 March 2000 and March 1999 by £•m and £•m respectively.

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

– OVERSEAS RETAIL

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

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

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

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

Closure of Canadian operations

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

– FINANCIAL SERVICES

This profit centre consists of five different business units:

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

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

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

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

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

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

EXCEPTIONAL ITEMS**– Business restructuring**

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

FINANCIAL REVIEW

– Impairment of European Fixed Assets

Following the recent deterioration in the performance of our European business we reviewed the book values of our European properties in accordance with FRS11, 'Impairment of Fixed Assets and Goodwill'. This resulted in a provision of £•m being made against the value of European properties in the first half of the year.

– Recovery of overpaid VAT

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

INTEREST

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

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

TAXATION

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

EARNINGS PER SHARE

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

CASH FLOW

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

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

Cash flow analysis	£m
Net debt at 31 March 1999	(1,182)
Cash inflow from retail operating activities	
Cash outflow from Financial Services operating activities	
Capital expenditure (net of disposals)	
Dividends	
Tax	
Other non-operating cash inflows	
Increase in net debt	
Net debt at 31 March 2000	

NEW FOOTAGE

During 1999/2000 there was an unprecedented increase in footage both in the UK and overseas. Total worldwide footage increased by • million sq ft as shown below:

Worldwide footage expansion 1999/2000

• million sq ft



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

UK shape of the chain (based on footage)

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

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

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

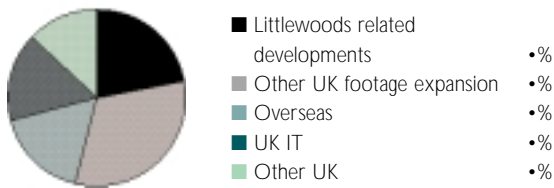
FINANCIAL REVIEW

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

CAPITAL EXPENDITURE

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

Capital expenditure 1999/2000



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

Capital expenditure is expected to • next year to around £•m. Of this, £•m is for overseas development including the purchase of the freehold interest in our flagship store in Paris. Apart from this purchase, expenditure overseas will be significantly • 1999/2000.

FINANCING

Additional financing was arranged as follows:

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

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

Details of the maturity profile of borrowings are given in note • on page •.

During the year, both the leading credit agencies reduced the Group's long-term credit ratings to AA+ (Standard & Poor's) and Aa1 (Moody's). This is not expected to have a significant effect either on

the Group's ability to access the international capital markets or on the interest rates payable.

BALANCE SHEET

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

Retail & Financial Services Balance Sheets 31 March 2000

	Retailing 1999 £m	Financial Services 1999 £m	Total Group 1999 £m
Fixed assets			
Stocks			
Loans & advances to customers			
Other debtors			
Net cash/(debt)			
Trade & other creditors			
Net assets			

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

TREASURY POLICY AND FINANCIAL RISK MANAGEMENT

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

The Group's Treasury uses derivatives and financial instruments to manage risk by altering the interest rates and currency exposures on investment, funding and foreign exchange contracts so that the resulting exposures give greater certainty of future costs. Transactions are only undertaken when there is an underlying commercial justification and with counterparties which fulfil predetermined credit criteria. The main types of instrument used are interest rate and currency swaps, forward rate agreements and forward currency contracts. The Group does not hedge balance sheet and profit and loss account translation exposures. Where appropriate, borrowings are arranged in local currencies to provide a natural hedge against overseas assets.

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

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

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

FINANCIAL REVIEW

Y2K

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

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

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

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

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

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

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

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

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

EMU

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

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

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

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

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

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

ACCOUNTING DEVELOPMENTS

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

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

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

GOING CONCERN STATEMENT

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

CORPORATE GOVERNANCE

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

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

DIRECTORS

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

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

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

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

PRINCIPAL BOARD COMMITTEES

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

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

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

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

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

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

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

RELATIONS WITH SHAREHOLDERS

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

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

INTERNAL FINANCIAL CONTROL

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

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

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

CORPORATE GOVERNANCE

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

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

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

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

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

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

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

Compliance with the Combined Code

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

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

REMUNERATION REPORT

STRATEGY

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

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

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

REMUNERATION COMMITTEE

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

REMUNERATION POLICY

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

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

SALARY AND BENEFITS

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

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

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

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

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

ANNUAL BONUS SCHEME

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

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

SENIOR STAFF SHARE OPTION SCHEME

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

SENIOR MANAGEMENT RESTRUCTURE

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

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

SERVICE CONTRACT

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

NON-EXECUTIVE DIRECTORS

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

REMUNERATION REPORT

1 DIRECTORS' EMOLUMENTS

	Salary £000	Profit Share £000	Benefits £000	Bonus £000	Total 2000 £000	Total 1999 £000
Chairman		(5)	(6)	(7)		
Sir Richard Greenbury ⁽¹⁾						810
Executive directors						
P L Salsbury (Chief Executive) ⁽²⁾						439
P G McCracken						409
Lord Stone of Blackheath						416
R Aldridge						312
J R Benfield						275
R W C Colvill						342
Mrs C E M Freeman						230
B S Morris						230
J T Rowe						302
Non-executive directors						
B F Baldock						50
Sir Martin Jacomb						34
Sir Michael Perry						34
Dame Stella Rimington						34
Sir Ralph Robins						34
The Hon David Sieff						45
Retired directors (with effect from)						
D K Hayes (31 May 1999)						275
C Littmoden (31 May 1999) ⁽³⁾						587
S J Sacher (31 May 1999)						293
P P D Smith (31 March 1999) ⁽³⁾⁽⁹⁾						679
J K Oates (31 January 1999) ⁽³⁾⁽⁹⁾						545
D G Trangmar (31 March 1998)						n/a
D G Lanigan (31 July 1997)						n/a
The Rt Hon The Baroness Young (31 July 1997)						n/a
Total						6,375

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

REMUNERATION REPORT

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

2 GAINS MADE ON DIRECTORS' SHARE OPTIONS

	2000 £000	1999 £000		2000 £000	1999 £000
Sir Richard Greenbury		–	JT Rowe		–
P L Salisbury		4	D K Hayes		10
P G McCracken		7	C Littmoden		–
Lord Stone of Blackheath		11	S J Sacher		–
R Aldridge		7	P P D Smith		56
J R Benfield		7	J K Oates ⁽⁹⁾		–
R W C Colvill		–	D G Trangmar		n/a
Mrs C E M Freeman		14	The Hon David Sieff		n/a
B S Morris		–			

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

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

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

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

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

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

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

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

REMUNERATION REPORT

3 DIRECTORS' PENSION INFORMATION (CONTINUED)

	Age at	Years of	Increase in transfer	Increase in pension	Accrued entitlement at year end	
	31 March 2000	service at 31 March 2000	value in excess of inflation ⁽¹⁾ during the year ended 31 March 2000 £000	earned in excess of inflation ⁽¹⁾ during the year ended 31 March 2000 £000	31 March 2000 ⁽²⁾ £000	31 March 1999 £000
Sir Richard Greenbury ⁽³⁾	63	46				465
P L Salsbury	50	29				227
P G McCracken	51	24				183
Lord Stone of Blackheath	57	32				230
R Aldridge	53	26				137
J R Benfield	50	29				138
R W C Colvill	59	15				89
Mrs C E M Freeman	47	25				97
B S Morris	52	29				69
J T Rowe	52	25				123
D K Hayes	51	30				135
S J Sacher	59	32				166
P P D Smith	59	33				153
J K Oates ⁽⁴⁾	57	15				302

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

(ii) Early Retirement Plan

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

REMUNERATION REPORT

3 DIRECTORS' PENSION INFORMATION (CONTINUED)

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

	Date of retirement	Awarded per annum £000	Period of payment

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

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

	Date of retirement	Early Retirement Pension paid during year to 31 March 2000 £000
JK Oates	31 January 1999	
PP D Smith	31 March 1999	
D K Hayes	31 May 1999	
C Littmoden	31 May 1999	
SJ Sacher	31 May 1999	
D G Trangmar	31 March 1998	
The Hon David Sieff	31 March 1997	

4 PAYMENTS TO FORMER DIRECTORS

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

	2000 £000	1999 £000
Lord Sieff of Brimpton		63
The Lord Rayner ⁽¹⁾		21
C V Silver		82
		166

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

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

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

5 LONG-TERM BENEFITS

The Company operates two types of share option scheme:

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

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

REMUNERATION REPORT

5 LONG-TERM BENEFITS (CONTINUED)

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

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

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

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

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

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

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

Directors' long-term benefits

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

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

The market price of the shares at the end of the financial year was •p; the highest and lowest share prices during the financial year were •p and •p respectively.

	At 1 April 1999	Granted during the year	Exercised/ lapsed during the year	At 31 March 2000	Option price (pence)	Exercise price (pence)	Option period
Sir Richard Greenbury							
Exercisable	87,458				329.0		May 95 – May 02
Not exercisable	881,290				390.0 ⁽¹⁾		May 95 – May 05
SAYE	4,434				389.0		Jan 02 – Jun 02
P L Salsbury							
Exercisable	204,824				323.0 ⁽¹⁾		May 94 – May 04
Not exercisable	435,134				480.0 ⁽¹⁾		May 97 – Jun 08
SAYE	5,550				351.0 ⁽¹⁾		Jan 03 – Jun 04
					557.0		Jun 03 – Jun 08
					229.0	333.25	
P G McCracken							
Exercisable	46,386				340.0 ⁽¹⁾		May 95 – May 03
Not exercisable	472,823				486.0 ⁽¹⁾		May 96 – Jun 08
SAYE	6,624				346.0 ⁽¹⁾		Jan 00 – Jun 05
					557.0		Jun 03 – Jun 08
					229.0	407.5	

(1) Weighted average price.

(2) SAYE grant or exercise.

REMUNERATION REPORT

5 LONG-TERM BENEFITS (CONTINUED)

	At 1 April 1999	Granted during the year	Exercised/ lapsed during the year	At 31 March 2000	Option price (pence)	Exercise price (pence)	Option period
Lord Stone of Blackheath							
Exercisable	96,335				345.0 ⁽¹⁾		May 97 – May 04
Not exercisable	442,784				478.0 ⁽¹⁾		May 97 – Jun 08
SAYE	5,429				359.0 ⁽¹⁾		Jan 02 – Jun 04
	155,513				557.0		Jun 03 – Jun 08
					229.0	407.5	
R Aldridge							
Exercisable	170,959				295.0 ⁽¹⁾		May 94 – May 04
Not exercisable	309,923				506.0 ⁽¹⁾		May 97 – Jun 08
SAYE	6,915				343.0 ⁽¹⁾		Jan 00 – Jun 05
					557.0		Jun 03 – Jun 08
					229.0	407.5	
JR Benfield							
Exercisable	44,984				329.0 ⁽¹⁾		May 95 – May 02
Not exercisable	318,190				477.0 ⁽¹⁾		May 95 – Jun 08
SAYE	6,915				343.0 ⁽¹⁾		Jan 00 – Jun 05
					557.0		Jun 03 – Jun 08
					229.0	407.5	
R W C Colvill							
Exercisable	162,270				300.0 ⁽¹⁾		May 94 – May 03
Not exercisable	204,130				421.0 ⁽¹⁾		May 96 – May 05
SAYE	10,355				299.0 ⁽¹⁾		Jan 00 – Jun 01
Mrs C E M Freeman							
Exercisable	70,949				338.0 ⁽¹⁾		May 95 – May 04
Not exercisable	223,077				507.0 ⁽¹⁾		May 97 – Jun 08
SAYE	4,728				374.0 ⁽¹⁾		Jan 02 – Jun 03
					557.0		Jun 03 – Jun 08
					229.0	407.5	
B S Morris							
Exercisable	49,736				335.0 ⁽¹⁾		May 95 – May 03
Not exercisable	227,414				465.0 ⁽¹⁾		May 96 – Jun 08
SAYE	4,601				375.0 ⁽¹⁾		Jan 01 – Jun 03
					557.0		Jun 03 – Jun 08
J T Rowe							
Exercisable	111,523				337.0 ⁽¹⁾		May 95 – May 03
Not exercisable	280,066				500.0 ⁽¹⁾		May 96 – Jun 08
SAYE	4,776				361.0 ⁽¹⁾		Jan 00 – Jun 02
					557.0		Jun 03 – Jun 08
D K Hayes							
Exercisable	59,343				333.0 ⁽¹⁾		May 95 – May 03
Not exercisable	285,151				472.0 ⁽¹⁾		May 96 – May 05
SAYE	5,399				361.0 ⁽¹⁾		Jun 99 – Nov 99
					557.0		Jun 99 – May 00
				5,895 ⁽²⁾	229.0	407.5	

(1) Weighted average price.

(2) SAYE grant or exercise.

REMUNERATION REPORT

5 LONG-TERM BENEFITS (CONTINUED)

	At 1 April 1999	Granted during the year	Exercised/ lapsed during the year	At 31 March 2000 ⁽³⁾	Option price (pence)	Exercise price (pence)	Option period
C Littmoden							
Exercisable	67,542				265.0 ⁽¹⁾		May 94 – May 02
Not exercisable	339,690				456.0 ⁽¹⁾		May 95 – May 05
SAYE	6,852				341.0 ⁽¹⁾		Jun 99 – Nov 99
					557.0		Jun 99 – May 00
					324.0 ⁽²⁾		Jun 99 – Nov 99
SJ Sacher							
Exercisable	190				254.0		May 94 – May 01
SAYE	3,930				229.0		Jan 99 – Jun 99
Not exercisable	309,436				374.0 ⁽¹⁾		May 94 – May 05
SAYE	8,053				342.0 ⁽¹⁾		Jan 00 – Jun 05
Lapsed							
PPD Smith							
Exercisable	2,047			-			
Not exercisable	283,004			-			
SAYE	9,825			-			
					291.0 ⁽¹⁾	392.0	
					229.0	407.5	
Lapsed							
JK Oates							
Exercisable	132,256				341.0 ⁽¹⁾		May 95 – May 04
Not exercisable	718,988				509.0 ⁽¹⁾		May 97 – May 05
SAYE	9,336				296.0 ⁽¹⁾		Feb 99 – July 99
					557.0		Feb 99 – Jan 00

(1) Weighted average price.

(2) SAYE grant or exercise.

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

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

(1) Weighted average price.

DIRECTORS' INTERESTS

DIRECTORS' INTERESTS IN SHARES

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

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

	At 31 March 2000	At 1 April 1999		At 31 March 2000	At 1 April 1999
Sir Richard Greenbury		71,800	B F Baldock		50,000
P L Salsbury		62,836	Sir Martin Jacomb		21,845
P G McCracken		58,101	Sir Michael Perry		8,357
Lord Stone of Blackheath		35,760	Dame Stella Rimington		3,086
R Aldridge		41,770	Sir Ralph Robins		2,514
J R Benfield		29,905	The Hon David Sieff		308,322
R W C Colvill		21,761	D K Hayes		18,419
Mrs C E M Freeman		59,147	C Littmoden		9,387
B S Morris		3,753	S J Sacher		297,143
J T Rowe		29,795	P P D Smith		2,000

(ii) Ordinary shares in the Company – trustee interests

	At 31 March 2000		At 1 April 1999	
	Charitable Trusts' Shares	Other Trusts' Shares	Charitable Trusts' Shares	Other Trusts' Shares
S J Sacher			20,000	101,095
The Hon David Sieff			22,000	43,789

DIRECTORS' RESPONSIBILITIES

Directors' responsibilities for preparing the financial statements

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

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

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

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

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

REPORT OF THE AUDITORS

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

We have audited the financial statements on pages • to •.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

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

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

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

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

BASIS OF AUDIT OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 March 2000 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

Chartered Accountants and Registered Auditors

London

• May 2000

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 2000.

PRINCIPAL ACTIVITIES

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

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

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

REVIEW OF ACTIVITIES AND FUTURE PERFORMANCE

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

POST BALANCE SHEET EVENTS

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

PROFIT AND DIVIDENDS

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

	£m
Ordinary shares	
Interim paid, •p per share (last year 3.7p)	
Proposed final, •p per share (last year 10.7p)	
Total ordinary dividends, •p per share (last year 14.4p)	

The final dividend will be paid on 30 July 2000 to shareholders whose names are on the Register of Members at the close of business on • May 2000.

CHANGES IN SHARE CAPITAL

During the year ended 31 March 2000, • ordinary shares in the Company were issued as follows:

- A** • under the terms of the 1984 Senior Staff Share Option Scheme at prices between •p and •p each.
- B** • under the terms of the 1987 Senior Staff Share Option Scheme at prices between •p and •p.
- C** • under the terms of the United Kingdom Employees' Save As You Earn Share Option Scheme at prices between •p and •p.

SUBSTANTIAL SHAREHOLDINGS

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

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

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

CREDITOR PAYMENT POLICY

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

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

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

Trade creditor days of the Company for the year ended 31 March 2000 were 12.9 days (9.2 working days), based on the ratio of Company trade creditors at the end of the year to the amounts invoiced during the year by trade creditors.

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

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

- Agree the terms of payment at the start of business with that supplier,
- Ensure that suppliers are aware of the terms of payment,
- Pay in accordance with its contractual and other legal obligations.

UNITED KINGDOM EMPLOYEES'

PROFIT SHARING SCHEMES

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

These shares are now purchased in the market: • ordinary shares were purchased by the Profit Sharing Trustees in respect of the 1998/99 allocation.

REPORT OF THE DIRECTORS

DIRECTORS AND THEIR INTERESTS

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

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

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

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

In accordance with Article 85 of the Company's Articles of Association, •, • and • retire by rotation and, being eligible, offer themselves for re-election. Brief biographical details are given on page • of the Annual Review and Summary Financial Statement.

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

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

EMPLOYEE INVOLVEMENT

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

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

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

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

We have long-established Employees' Profit Sharing and Savings-Related Share Option Schemes, membership of which is service-related.

EQUAL OPPORTUNITIES

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

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

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

EMPLOYEES WITH DISABILITIES

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

CHARITABLE AND POLITICAL CONTRIBUTIONS

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

ANNUAL GENERAL MEETING

The Notice of the Annual General Meeting to be held on • July 2000 (together with explanatory notes) is attached to your Form of Proxy.

By order of the Board

Sir Richard Greenbury, Chairman

London

• May 2000

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MARCH 2000

	Notes	2000 £m	1999 As restated £m
TURNOVER – continuing operations	2		8,224.0
Cost of sales			(5,450.7)
GROSS PROFIT			2,773.3
Net operating expenses	3		(2,261.3)
OPERATING PROFIT – continuing operations			
Before exceptional operating (charges)/income			600.5
Exceptional operating (charges)/income			(88.5)
TOTAL OPERATING PROFIT	2, 3		512.0
Profit/(loss) on sale of property and other fixed assets			6.2
Net interest income	4		27.9
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2		546.1
Analysed between:			
Profit on ordinary activities before taxation and exceptional items			634.6
Exceptional operating (charges)/income			(88.5)
Taxation on ordinary activities	5		(176.1)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION			370.0
Minority interests (all equity)			2.1
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	6		372.1
Dividends	7		(413.3)
RETAINED (LOSS)/PROFIT FOR THE YEAR	26		(41.2)
BASIC EARNINGS PER SHARE	8		13.0p
FULLY DILUTED BASIC EARNINGS PER SHARE	8		12.9p
ADJUSTED EARNINGS PER SHARE	8		15.8p
FULLY DILUTED ADJUSTED EARNINGS PER SHARE	8		15.7p

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31 MARCH 2000

	Notes	2000 £m	1999 As restated £m
PROFIT ATTRIBUTABLE TO SHAREHOLDERS			372.1
Exchange differences on foreign currency translation	26		15.0
Unrealised surpluses on revaluation of investment properties	26		34.1
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR			421.2
Prior year adjustment	26		
TOTAL RECOGNISED GAINS AND LOSSES SINCE LAST ANNUAL REPORT			

BALANCE SHEETS

AT 31 MARCH 2000

	Notes	THE GROUP		THE COMPANY	
		2000	1999 As restated	2000	1999 As restated
		£m	£m	£m	£m
FIXED ASSETS					
Tangible assets:					
Land and buildings			2,954.4		2,629.3
Fit out, fixtures, fittings and equipment			1,317.6		1,094.6
Assets in the course of construction			115.5		105.5
	11		4,387.5		3,829.4
Investments	12		61.2		406.7
			4,448.7		4,236.1
CURRENT ASSETS					
Stocks			514.7		354.0
Debtors:					
Receivable within one year	13		969.0		696.7
Receivable after more than one year	13		1,386.7		96.6
Investments	14		204.0		–
Cash at bank and in hand	15,16		281.5		36.1
			3,355.9		1,183.4
CURRENT LIABILITIES					
Creditors: amounts falling due within one year	17		2,029.8		827.3
NET CURRENT ASSETS			1,326.1		356.1
TOTAL ASSETS LESS CURRENT LIABILITIES					
			5,774.8		4,592.2
Creditors: amounts falling due after more than one year					
	18		772.6		–
Provisions for liabilities and charges	20		54.4		51.8
Deferred taxation	21		50.6		44.5
NET ASSETS			4,897.2		4,495.9
CAPITAL AND RESERVES					
Called up share capital	25		717.7		717.7
Share premium account			358.5		358.5
Revaluation reserve			531.0		533.2
Profit and loss account			3,276.7		2,886.5
SHAREHOLDERS' FUNDS (all equity)	26		4,883.9		4,495.9
Minority interests (all equity)			13.3		–
TOTAL CAPITAL EMPLOYED			4,897.2		4,495.9

APPROVED BY THE BOARD

• May 2000

Sir Richard Greenbury, Chairman

P L Salsbury, Chief Executive

R W C Colvill, Group Finance Director

CONSOLIDATED CASH FLOW INFORMATION

FOR THE YEAR ENDED 31 MARCH 2000

CASH FLOW STATEMENT

	Notes	2000		1999 As restated	
		£m	£m	£m	£m
OPERATING ACTIVITIES					
Received from customers				7,884.1	
Payments to suppliers				(5,464.2)	
Payments to and on behalf of employees				(1,153.9)	
Other payments				(793.1)	
Cash inflow from operating activities before exceptional items					472.9
Exceptional operating cash (outflow)/inflow	29A				(0.6)
CASH INFLOW FROM OPERATING ACTIVITIES	28				472.3
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	29B				29.0
TAXATION	29C				(345.9)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	29D				(628.1)
ACQUISITIONS AND DISPOSALS	29E				1.0
EQUITY DIVIDENDS PAID					(412.6)
Cash outflow before management of liquid resources and financing					(884.3)
MANAGEMENT OF LIQUID RESOURCES AND FINANCING					
Management of liquid resources	29F			180.6	
Financing	29G			505.0	
					685.6
(DECREASE)/INCREASE IN CASH					(198.7)

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

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

ACCOUNTING POLICIES

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

BASIS OF ACCOUNTING

The financial statements are drawn up on the historical cost basis of accounting, modified to include the valuation of certain United Kingdom properties at 31 March 1988 and the valuation of investment properties. Compliance with SSAP19, 'Accounting for Investment Properties' requires a departure from the requirements of the Companies Act 1985 relating to the depreciation of investment properties as explained below.

BASIS OF CONSOLIDATION

The Group financial statements incorporate the financial statements of Marks and Spencer p.l.c. and all its subsidiaries for the year ended 31 March 2000.

CURRENT ASSET INVESTMENTS

Current asset investments are stated at market value. All profits and losses from such investments are included in net interest income or in Financial Services turnover as appropriate.

DEFERRED TAXATION

Deferred taxation is accounted for at anticipated tax rates on differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. A deferred tax asset or provision is established to the extent that it is likely that an asset or liability will crystallise in the foreseeable future.

FIXED ASSETS

a Capitalised interest

Interest is not capitalised.

b Depreciation

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

Land: not depreciated;

Freehold and leasehold buildings over 50 years: depreciated to their estimated residual value over their estimated remaining economic lives (see also c below).

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

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

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

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

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

c Land and buildings

The Company's freehold and leasehold properties in the United Kingdom were valued on the basis of open market value for existing use in 1982. At 31 March 1988 those same properties (excluding subsequent additions and adjusted for disposals) were revalued. On adoption of FRS15, the Group has followed the transitional provisions to retain the book value of land and buildings which were revalued in 1988, but not to adopt a policy of revaluation in the future.

These values are retained subject to the requirement to test assets for impairment in accordance with FRS11.

d Investment properties

Investment properties are revalued annually and included in the balance sheet at their open market value. In accordance with SSAP19, no depreciation is provided in respect of investment properties.

This represents a departure from the Companies Act 1985 requirements concerning the depreciation of fixed assets. These properties are held for investment and the directors consider that the adoption of this policy is necessary to give a true and fair view.

LONG-TERM ASSURANCE BUSINESS

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

OPERATING LEASES

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

FOREIGN CURRENCIES

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

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

GOODWILL

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

The profit or loss arising on the sale of a previously acquired business includes the attributable goodwill.

PENSION CONTRIBUTIONS

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

Regular valuations are prepared by independent professionally qualified actuaries. These determine the level of contributions required to fund the benefits set out in the rules of the plans and to allow for the periodic increase of pensions in payment. The contributions and any variations from regular cost arising from the actuarial valuations are charged or credited to profits on a systematic basis over the estimated remaining service lives of the employees.

STOCKS

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

NOTES TO THE FINANCIAL STATEMENTS

1. Trading period

The results for the year comprise store sales and related costs for the 52 weeks to • March 2000 (last year 52 weeks to 27 March 1999). All other activities are for the year to 31 March 2000.

2. Segmental information

A CLASSES OF BUSINESS

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

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

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

	TURNOVER		OPERATING PROFIT		OPERATING ASSETS	
	2000 £m	1999 £m	2000 £m	1999 As restated £m	2000 £m	1999 As restated £m
Retailing		7,875.4		375.8		4,518.7
Before exceptional operating (charges)/income				464.3		
Exceptional operating (charges)/income (see note 3)				(88.5)		
Financial Services ⁽¹⁾		348.6		110.7		388.7
Total operating activities		8,224.0		486.5		4,907.4
Add: excess interest charged to cost of sales of Financial Services ⁽¹⁾				25.5		
Total operating profit				512.0		
Profit/(loss) on sale of property and other fixed assets				6.2		
Net interest income				27.9		
Profit on ordinary activities before taxation				546.1		
Unallocated (liabilities)/assets						(10.2)
Net assets						4,897.2

B GEOGRAPHICAL SEGMENTS⁽²⁾

	TURNOVER		OPERATING PROFIT		OPERATING ASSETS	
	2000 £m	1999 £m	2000 £m	1999 As restated £m	2000 £m	1999 As restated £m
United Kingdom						
Retail ⁽³⁾		6,601.1		454.4		3,965.8
Before exceptional operating (charges)/income				478.9		
Exceptional operating (charges)/income (see note 3)				(24.5)		
Financial Services ⁽¹⁾		348.6		110.7		388.7
		6,949.7		565.1		4,354.5
Overseas Retail						
Europe (excluding UK) ⁽⁴⁾		552.1		(90.9)		354.1
Before exceptional operating charges				(26.9)		
Exceptional operating charges (see note 3)				(64.0)		
The Americas		631.4		15.8		192.2
Far East ⁽⁴⁾		90.8		(3.5)		6.6
		1,274.3		(78.6)		552.9
Total operating activities		8,224.0		486.5		4,907.4
Add: excess interest charged to cost of sales of Financial Services ⁽¹⁾				25.5		
Total operating profit				512.0		

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. Segmental information (CONTINUED)

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

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

	TURNOVER		OPERATING PROFIT	
	2000 £m	1999 £m	2000 £m	1999 £m
The Americas				
Brooks Brothers (including Japan)		345.9		12.4
Kings Super Markets		245.5		10.0
Marks & Spencer (including Canada) ⁽¹⁾		40.0		(4.6)
Corporate expenses		–		(2.0)
		631.4		15.8
Far East				
Stores		90.8		(14.5)
Other ⁽²⁾		–		11.0
		90.8		(3.5)

- (1) 1999 the operating loss for Marks & Spencer Canada included a charge for restructuring costs of £3.4m.
- (2) The profits generated from sourcing merchandise and technological services in Hong Kong, together with the costs of an overseas office in mainland China and related research costs in Taiwan and Japan, are grouped within Far East under "other".

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

3. Operating profit

	Before exceptional items £m	2000		1999
		Exceptional items £m	After exceptional items £m	As restated £m
Turnover				8,224.0
Cost of sales				(5,450.7)
Gross profit				2,773.3
Staff costs (see note 9)				1,107.9
Occupancy costs				288.3
Repairs, renewals and maintenance of fixed assets ⁽⁶⁾				103.6
Depreciation ⁽⁶⁾				300.4
Other costs ⁽³⁾⁽⁴⁾				461.1
Total net operating expenses ⁽⁵⁾				(2,261.3)
Operating profit				512.0

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

- (1) The £•m charge is in respect of UK restructuring costs and represents the cost of rationalising the Group's head office functions.
- (2) Following the recent deterioration in results, we reviewed the carrying value of fixed assets in accordance with FRS11, 'Impairment of Fixed Assets and Goodwill'. This review indicated that it would be appropriate to adjust the carrying value of European fixed assets. Accordingly, a provision of £•m was made in the first half of this year to adjust those fixed assets to their estimated recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS

3. Operating profit (CONTINUED)

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

	THE GROUP		THE COMPANY	
	2000 £m	1999 £m	2000 £m	1999 £m
Audit fees		0.9		0.4
Non-audit services				
PricewaterhouseCoopers		0.2		–
Coopers & Lybrand		0.2		–
Price Waterhouse		0.1		–
Total non-audit services		0.5		–

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

- (4) Other costs for last year are stated after crediting £•m received in respect of VAT overpaid on sales of earlier accounting periods following the Court of Appeal decision in a case brought by Littlewoods Home Shopping. The decision clarified how VAT should be calculated on retail sales, amending previous interpretation.
- (5) Included in total other expenses are rentals under operating leases, comprising £•m for hire of plant and machinery (last year £8.9m) and £•m of other rental costs (last year £111.4m).
- (6) As discussed in note 11B, the Group has amended its depreciation policy following the publication of FRS15. The effect of these changes is to increase the depreciation charge for the year by £•m (last year £39.4m) and reduce the charge for repairs and renewals by £•m (last year £18.3m). The net effect is to decrease operating profits for the years ended 31 March 2000 and 1999 by £•m and £•m respectively. In addition, the Group has accelerated depreciation on certain items of store equipment which are to be replaced next year, with the result that the depreciation charge for the year has been increased by a further £•m.

4. Net interest income

	2000		1999	
	£m	£m	£m	£m
Bank and other interest income			306.1	
Less: amounts included in turnover of Financial Services			(278.2)	
				27.9
Interest expenditure			(76.8)	
Less: intra group interest charged to cost of sales			76.8	
				–
Net interest income				27.9
Interest expenditure comprises:				
Amounts repayable within five years:				
Bank loans, overdrafts and commercial paper				(30.5)
Medium term notes				(36.2)
7% Guaranteed bonds 1999				(8.1)
US\$ Promissory note 1999				(2.0)
				(76.8)

NOTES TO THE FINANCIAL STATEMENTS

5. Taxation on ordinary activities

	2000		1999	
	£m	£m	£m	£m
The taxation charge comprises:				
Current taxation				
UK corporation tax at •% (last year 31%):				
Current year			169.2	
Prior years			(3.5)	
				165.7
Double taxation relief				–
				165.7
Overseas taxation				2.8
				168.5
Deferred taxation (see note 21)				
Current year			9.1	
Prior years			(1.5)	
				7.6
				176.1

6. Profit for the financial year

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

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

7. Dividends

	2000	1999
	£m	£m
Ordinary shares		
Interim paid of •p per share (last year 3.7p)		106.1
Proposed final of •p per share (last year 10.7p)		307.2
		413.3

8. Earnings per share

The calculation of earnings per ordinary share is based on earnings after tax and minority interests of £•m (last year £372.1m), and on • ordinary shares (last year 2,864,724,900), being the weighted average number of ordinary shares in issue during the year ended 31 March 2000.

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

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

	2000		1999 As restated	
	Basic p	Diluted p	Basic p	Diluted p
Basic earnings per share			13.0	12.9
Exceptional restructuring costs			0.6	0.6
Exceptional fixed asset provision			2.2	2.2
Exceptional operating income			–	–
Adjusted earnings per share			15.8	15.7

NOTES TO THE FINANCIAL STATEMENTS

8. Earnings per share (CONTINUED)

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

	Basic p	2000		1999 As restated	
		Diluted p	Basic p	Diluted p	
Basic earnings per share			13.0	12.9	
Exceptional fixed asset provision			2.2	2.2	
(Profit)/loss on disposal of property			(0.2)	(0.2)	
IIMR earnings per share			15.0	14.9	

9. Employees

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

		2000	1999
UK stores	Management and supervisory categories		4,105
	Other		52,931
UK head office	Management and supervisory categories		2,485
	Other		1,626
Financial Services	Management and supervisory categories		280
	Other		988
Overseas			13,077
			75,492

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

The aggregate remuneration and associated costs of Group employees were:

	Before exceptional items £m	2000		1999 £m
		Exceptional items £m	After exceptional items £m	
Wages and salaries				829.0
UK profit sharing (see note 9C)				14.8
Social security costs				62.0
Pension costs (see note 9A)				129.2
Staff welfare and other personnel costs				89.5
				1,124.5
Classified as:				
Staff costs (see note 3)				1,107.9
Manufacturing cost of sales				16.6
				1,124.5

NOTES TO THE FINANCIAL STATEMENTS

9. Employees (CONTINUED)

A PENSION COSTS

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

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

The latest actuarial valuation of the UK Scheme was carried out at 1 April 1999 by an independent actuary using the projected unit method. The key assumptions adopted were:

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

The latest actuarial valuation revealed a shortfall of £•m in the actuarial value of the assets of the UK Scheme of £•m compared to the actuarial liability for pension benefits. (The market value of assets at 1 April 1999 was £•m.) This represents a funding level of •%.

The shortfall of £•m together with the unamortised accounting deficit relating to prior periods gives a total unamortised deficit of £•m. This will be amortised over a period of 12 years from 1 April 1999, being the remaining estimated service lives of the current scheme members.

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

The total UK pension cost is analysed as follows:

	2000 £m	1999 £m
Normal pension cost(1)		92.7
Amortisation of deficit		14.1
Net interest elements		5.5
Additional pension provision(2)		–
Total		112.3

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

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

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

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

B POST-RETIREMENT HEALTH BENEFITS

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

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

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

C UNITED KINGDOM EMPLOYEES' PROFIT SHARING SCHEMES

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

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

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

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

	Number of shares		Option price
	2000	1999	
Options granted			
January 1991		Expired	182p
January 1992		471,247	229p
January 1993		3,231,374	257p
January 1994		3,185,585	319p
January 1995		8,245,124	322p
January 1996		8,896,346	330p
January 1997		10,463,786	389p
January 1999		10,630,202	467p
January 2000		15,560,138	324p

NOTES TO THE FINANCIAL STATEMENTS

9. Employees (CONTINUED)

E SENIOR STAFF SHARE OPTION SCHEMES

Under the terms of the 1997 Scheme, following the announcement of the Company's results, the Board may offer options to purchase ordinary shares in the Company to executive directors and senior employees at the market price on a date to be determined prior to the date of the offer. No further options may be granted under the 1984 and 1987 Schemes. Outstanding options under each of the 1984 and 1987 Schemes continue to be bound by the Maximum Option Value which is limited to four times remuneration on exercise (further details are set out in the Remuneration Report on page •). Outstanding options granted under all senior option schemes are as follows:

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

10. Directors

A EMOLUMENTS

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

	2000 £000	1998 £000
Aggregate emoluments		6,375
Aggregate gains on exercise of share options		116
Termination payments		587

B TRANSACTIONS WITH DIRECTORS

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

NOTES TO THE FINANCIAL STATEMENTS

11. Tangible fixed assets

A TANGIBLE FIXED ASSETS

	Land & buildings £m	THE GROUP Fit out, fixtures, fittings & equipment £m	Assets in the course of construction £m	Total £m	Land & buildings £m	THE COMPANY Fit out, fixtures, fittings & equipment £m	Assets in the course of construction £m	Total £m
Cost or valuation								
As previously reported								
Reclassification of fit out (see 11B)								
Prior year adjustment (see 11B)								
At 1 April 1999 as restated	3,037.9	2,545.7	115.5	5,699.1	2,698.8	2,034.9	105.5	4,839.2
Additions								
Transfers								
Disposals								
Revaluation surplus								
Differences on exchange								
At 31 March 2000								
Accumulated depreciation								
As previously reported								
Reclassification of fit out (see 11B)								
Prior year adjustment (see 11B)								
At 1 April 1999 as restated	83.5	1,228.1	–	1,311.6	69.5	940.3	–	1,009.8
Depreciation for the year								
Disposals								
Differences on exchange								
At 31 March 2000								
Net book value								
At 31 March 2000								
At 31 March 1999 as restated	2,954.4	1,317.6	115.5	4,387.5	2,629.3	1,094.6	105.5	3,829.4

Analysis of land & buildings

	Freehold £m	THE GROUP Long leasehold £m	Short leasehold £m	Total £m	Freehold £m	THE COMPANY Long leasehold £m	Short leasehold £m	Total £m
At valuation								
At cost								
Accumulated depreciation								
Net book value								
At 31 March 2000								
At 31 March 1998 as restated	2,071.5	800.4	82.5	2,954.4	1,802.8	786.2	40.3	2,629.3

NOTES TO THE FINANCIAL STATEMENTS

11. Tangible fixed assets (CONTINUED)

B CHANGE OF ACCOUNTING POLICY

The Group has adopted FRS15, 'Tangible Fixed Assets' and has followed the transitional provisions to retain the book value of land and buildings, certain of which were revalued in 1988 (see 11D below).

Adoption has resulted in two key changes:

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

The Group has adopted FRS11, 'Impairment of Fixed Assets and Goodwill'. Included within the Group depreciation charge for fit out, fixtures, fittings and equipment for the year of £•m is an impairment loss of £•m relating to European properties. Further details are given in note 3.

C INVESTMENT PROPERTIES

Freehold land and buildings include investment properties as follows:

	THE GROUP £m	THE COMPANY £m
Cost or valuation		
At 1 April 1999	284.8	284.8
Additions at cost		
Revaluation surplus		
At 31 March 2000		

D TANGIBLE FIXED ASSETS AT COST

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

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

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

	2000 £m	1999 As restated £m
At valuation at 31 March 1975 ⁽¹⁾		333.6
At cost		1,567.5
At 31 March		1,901.1
Accumulated depreciation		109.3
Net book value at 31 March		1,791.8

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

NOTES TO THE FINANCIAL STATEMENTS

12. Fixed asset investments

A INVESTMENTS

	THE GROUP			Shares in Group undertakings ⁽⁴⁾	THE COMPANY		Total £m
	Joint venture ⁽¹⁾⁽²⁾	Other investments ⁽³⁾	Total £m		Loans to Group undertakings	Joint venture ⁽¹⁾	
	£m	£m	£m	£m	£m	£m	£m
At 1 April 1999	24.2	37.0	61.2	362.7	27.6	16.4	406.7
Additions							
Disposals							
Share of joint venture's property revaluation							
Repayment of loan							

At 31 March 2000

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

B PRINCIPAL SUBSIDIARY UNDERTAKINGS

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

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

NOTES TO THE FINANCIAL STATEMENTS

13. Debtors

	THE GROUP		THE COMPANY	
	2000 £m	1999 As restated £m	2000 £m	1999 £m
A AMOUNTS RECEIVABLE WITHIN ONE YEAR				
Trade debtors		45.1		26.2
Customer advances		653.0		–
Amounts owed by Group undertakings		–		488.3
Other debtors(1)		62.2		27.6
Prepayments and accrued income(2)		208.7		154.6
		969.0		696.7
B AMOUNTS RECEIVABLE AFTER MORE THAN ONE YEAR				
Advance Corporation Tax recoverable on the proposed final dividend		–		–
Less: amount offset against deferred taxation provision (see note 21)		–		–
		–		–
Customer advances		1,282.2		–
Other debtors(1)		20.5		15.6
Prepayments and accrued income(2)		84.0		81.0
		1,386.7		96.6

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

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

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

14. Current asset investments

	THE GROUP		THE COMPANY	
	2000 £m	1999 £m	2000 £m	1999 £m
Listed investments:				
Government securities		69.0		–
Listed in the United Kingdom		39.4		–
Listed overseas		54.4		–
Unlisted investments		41.2		–
		204.0		–

15. Cash at bank and in hand

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

NOTES TO THE FINANCIAL STATEMENTS

16. Analysis of financial assets

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

A INTEREST RATE AND CURRENCY ANALYSIS

	THE GROUP			1999 Total £m
	Fixed rate £m	Floating rate £m	2000 Non interest bearing £m	
Currency				
Sterling				1,667.2
US dollar				75.4
Other				81.9
				1,824.5

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

B ANALYSIS OF FIXED INTEREST RATES

	FIXED RATE FINANCIAL ASSETS	
	Weighted average interest rate %	Weighted average period for which rate is fixed Years
Currency		
Sterling		
US dollar		
Other		

C ANALYSIS OF FINANCIAL ASSETS

	THE GROUP	
	2000 £m	1999 £m
Cash at bank and in hand		281.5
Current asset investments		204.0
Customer advances falling due in more than one year		1,282.2
Fixed asset investments		37.0
Other amounts receivable after more than one year		19.8
		1,824.5

17. Creditors: amounts falling due within one year

	THE GROUP		THE COMPANY	
	2000 £m	1999 £m	2000 £m	1999 £m
Bank loans, overdrafts and commercial paper		445.8		-
Other borrowings (see note 19B)		466.8		-
Trade creditors		214.7		163.7
Amounts owed to Group undertakings		-		-
Taxation		98.3		72.7
Social security and other taxes		14.1		2.3
Other creditors(1)		244.5		146.4
Accruals and deferred income		238.4		135.0
Proposed final dividend		307.2		307.2
		2,029.8		827.3

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

NOTES TO THE FINANCIAL STATEMENTS

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

	THE GROUP		THE COMPANY	
	2000 £m	1999 £m	2000 £m	1999 £m
Medium term notes		665.4		–
Other creditors		107.2		–
		772.6		–

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

19. Analysis of financial liabilities

A INTEREST RATE AND CURRENCY ANALYSIS

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

	THE GROUP			
	Fixed rate £m	Floating rate £m	2000 Total £m	1999 Floating rate £m
Currency				
Sterling				1,289.0
US dollar				203.6
Other				181.7
				1,674.3

The floating rate sterling borrowings are at interest rates at or below LIBOR. The US dollar borrowings are linked to interest rates related to LIBOR. These rates are for periods ranging from one month to six months. The fixed rate sterling borrowings are at a weighted average rate of •% and the weighted average time for which the rate is fixed is • years. There were no fixed rate borrowings in 1999.

B MATURITY OF FINANCIAL LIABILITIES

	THE GROUP	
	2000 £m	1999 £m
Repayable within one year:		
Bank loans, overdrafts and commercial paper		445.8
Medium term notes		466.8
73/8% Guaranteed bonds 1998(1)		–
US\$ Promissory note 1998(1)		–
Other creditors		22.1
		934.7
Repayable between one and two years:		
Medium term notes		165.1
Other creditors		24.9
		190.0
Repayable between two and five years:		
Medium term notes		500.3
Other creditors		36.9
		537.2
Repayable in five years or more:		
Other creditors		12.4
		1,674.3

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

NOTES TO THE FINANCIAL STATEMENTS

19. Analysis of financial liabilities (CONTINUED)

C BORROWING FACILITIES

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

20. Provisions for liabilities and charges

	THE GROUP £m	THE COMPANY £m
Post-retirement health benefits		
At 1 April 1999	27.8	27.8
Utilised during the year		
Interest charged		
At 31 March 2000		
Restructuring provisions		
At 1 April 1999	26.6	24.0
Additions during the year		
Utilised during the year		
Exchange differences		
At 31 March 2000		
Total at 31 March 2000		
Total at 31 March 1999	54.4	51.8

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

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

21. Deferred taxation

A ANALYSIS OF DEFERRED TAX PROVISION

	THE GROUP		THE COMPANY	
	2000 £m	1999 As restated £m	2000 £m	1999 £m
Deferred tax provision arising on short-term timing differences		58.9		52.8
Deferred tax asset arising on post-retirement health benefits		(8.3)		(8.3)
		50.6		44.5
Recoverable ACT offset against deferred tax provision (see note 13)		–		–
At 31 March		50.6		44.5
The movement in deferred tax comprises:				
At 1 April as previously stated		41.8		39.0
Prior year adjustment		1.2		–
At 1 April as restated		43.0		39.0
Charged to the profit and loss account (see note 5)		7.6		5.5
Exchange differences		–		–
At 31 March		50.6		44.5

NOTES TO THE FINANCIAL STATEMENTS

21. Deferred taxation (CONTINUED)

B UNPROVIDED DEFERRED TAXATION

	THE GROUP		THE COMPANY	
	2000 £m	1999 £m	2000 £m	1999 £m
Excess of capital allowances over depreciation on tangible fixed assets		219.7		204.3

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

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

22. Currency analysis of net assets

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

	THE GROUP					
	2000		1999			
	Net assets by currency of operations ⁽¹⁾ £m	Gross debt ⁽²⁾ £m	Net assets £m	Net assets by currency of operations ⁽¹⁾ £m	Gross debt ⁽²⁾ £m	Net assets £m
Currency						
Sterling assets/liabilities				5,905.4	(1,289.0)	4,616.4
Matched assets/liabilities ⁽³⁾						
US dollar				285.0	(203.6)	81.4
Other				373.9	(174.5)	199.4
Sterling plus total matched assets/liabilities				6,564.3	(1,667.1)	4,897.2

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

23. Fair values of financial instruments

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

	THE GROUP			
	2000		1999	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Assets/(liabilities)				
Customer advances falling due in more than one year			1,282.2	1,300.2
Current asset investments ⁽¹⁾			204.0	204.0
Fixed asset investments ⁽²⁾			37.0	37.0
Cash at bank and in hand ⁽¹⁾			281.5	281.5
Borrowings due within one year ⁽¹⁾			(934.7)	(936.1)
Financial liabilities due after more than one year ⁽¹⁾			(739.6)	(745.4)
Interest rate swaps ⁽³⁾			–	(12.7)
Forward foreign currency contracts ⁽³⁾			–	9.7
FTSE 100 put options ⁽⁴⁾			4.2	8.4

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

NOTES TO THE FINANCIAL STATEMENTS

24. Hedges of future transactions

As described in the Financial Review on page 4, the Group's policy is to maintain foreign exchange cover in respect of exports from the UK to subsidiaries. It does this using forward foreign currency contracts. At 31 March 2000 the Group had hedged approximately 1% of the foreign currency exports expected in the following 12 months.

At 31 March 2000 there were £0.1m of net gains on forward foreign currency contracts (last year £9.7m of net gains). None of these were recognised at the balance sheet date. All outstanding net gains are expected to be dealt with in the profit and loss account for the period ending 31 March 2000.

During the period ended 31 March 2000, all of the net gains not recognised at 31 March 1999 were dealt with in the profit and loss account.

25. Called up share capital

	THE COMPANY	
	2000	1999
	£m	£m
Authorised:		
• ordinary shares of 1p each		800.0
Allotted, called up and fully paid:		
• ordinary shares of 1p each (last year 2,870,622,953)		717.7

• ordinary shares having a nominal value of £0.1m were allotted during the year under the terms of the Company's share schemes which are described in note 9. The aggregate consideration received was £0.1m. Contingent rights to the allotment of shares are also described in note 9.

Of the 1p ordinary shares referred to above, 1p ordinary shares were subscribed for by the Marks and Spencer p.l.c. Qualifying Employee Share Ownership Trust (the "QUEST") at market value of £0.1m. These shares were allocated to employees, including executive directors, in satisfaction of options exercised under the Marks and Spencer United Kingdom Employees' Save As You Earn Share Option Scheme. The Company provided £0.1m to the QUEST for this purpose. The cost of this contribution has been transferred by the Company directly to the profit and loss account reserve (see note 26).

26. Shareholders' funds

	THE GROUP		THE COMPANY	
	2000	1999	2000	1999
	£m	£m	£m	£m
Called up share capital (see note 25)		717.7		717.7
Share premium account:				
At 1 April		325.7		325.7
Shares issued relating to scrip dividends		–		–
Shares issued under the Company's share schemes		32.8		32.8
At 31 March		358.5		358.5
Revaluation reserve:				
At 1 April		506.1		509.7
Surplus on revaluation of investment properties		32.7		32.7
Share of joint venture's movement in revaluation reserve		1.4		–
Revaluation surplus realised on disposals		(7.8)		(7.8)
Revaluation element of depreciation charge		(1.4)		(1.4)
At 31 March		531.0		533.2

NOTES TO THE FINANCIAL STATEMENTS

26. Shareholders' funds (CONTINUED)

	THE GROUP		THE COMPANY	
	2000 £m	1999 As restated £m	2000 £m	1999 As restated £m
Profit and loss account reserve:				
At 1 April as previously stated		3,518.4		3,132.4
Prior year adjustment (see notes 11B and 21A)		(212.1)		(200.8)
At 1 April as restated		3,306.3		2,931.6
Revaluation element of depreciation charge		1.4		1.4
Revaluation surplus realised on disposals		7.8		7.8
Amounts added back in respect of scrip dividends		-		-
Amounts deducted in respect of shares issued to the QUEST (see note 25)		(12.6)		(12.6)
Retained (loss)/profit for the year		(41.2)		(41.7)
Exchange differences on foreign currency translation		15.0		-
At 31 March		3,276.7		2,886.5
Shareholders' funds at 31 March – all equity		4,883.9		4,495.9

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

27. Reconciliation of movements in Group shareholders' funds

	THE GROUP	
	2000 £m	1999 As restated £m
Profit attributable to shareholders		372.1
Dividends		(413.3)
		(41.2)
Other recognised gains and losses relating to the year		49.1
New share capital subscribed		34.9
Amounts deducted from profit and loss account reserve in respect of shares issued to the QUEST		(12.6)
Amounts added back to profit and loss account reserve in respect of scrip dividends		-
Net additions to shareholders' funds		30.2
Shareholders' funds at 1 April as previously stated		5,065.8
Prior year adjustment		(212.1)
Shareholders' funds at 1 April as restated		4,853.7
Shareholders' funds at 31 March		4,883.9

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

	THE GROUP	
	2000 £m	1999 As restated £m
Operating profit		512.0
Exceptional operating items (see note 3)		88.5
Operating profit before exceptional items		600.5
Depreciation (excluding £•m impairment provision)		236.4
Increase in stocks		(7.6)
Increase in customer advances		(363.0)
Increase in other debtors		(8.0)
Increase in creditors		14.6
Net cash inflow before exceptional items		472.9
Exceptional operating cash (outflow)/inflow (see note 29A)		(0.6)
Net cash inflow from operating activities		472.3

NOTES TO THE FINANCIAL STATEMENTS

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

	THE GROUP	
	2000 £m	1999 As restated £m
A EXCEPTIONAL OPERATING CASH FLOWS		
UK restructuring costs paid		(0.6)
VAT recovered from HM Customs & Excise		-
Exceptional operating cash (outflow)/inflow		(0.6)
B RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
Interest received		29.8
Dividends paid to minorities		(0.8)
Net cash inflow from returns on investments and servicing of finance		29.0
C TAXATION		
UK corporation tax paid		(337.2)
Overseas tax paid		(8.7)
Cash outflow for taxation		(345.9)
D CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		
Purchase of tangible fixed assets		(663.0)
Sale of tangible fixed assets		25.5
Purchase of fixed asset investments		-
Sale of fixed asset investments		9.4
Net cash outflow for capital expenditure and financial investment		(628.1)
E ACQUISITIONS AND DISPOSALS		
Increase in investment in subsidiary by the minority		-
Repayment of loan by joint venture		1.0
Cash inflow for acquisitions and disposals		1.0
F MANAGEMENT OF LIQUID RESOURCES		
Decrease in cash deposits treated as liquid resources		140.2
Net (purchase)/sale of government securities		(14.2)
Net (purchase)/sale of listed investments		(0.7)
Net sale of unlisted investments		55.3
Cash inflow from decrease in liquid resources		180.6
G FINANCING		
Increase/(decrease) in bank loans, overdrafts and commercial paper treated as financing		29.5
Repayment of 73/8% Guaranteed bonds		(150.0)
Repayment of US\$ Promissory note		(268.7)
Issue of medium term notes		859.3
Increase in other creditors treated as financing		12.7
Debt financing as shown in analysis of net debt (see note 30)		482.8
Shares issued under employees' share schemes		22.2
Net cash inflow from financing		505.0

NOTES TO THE FINANCIAL STATEMENTS

30. Analysis of net debt

	At 1 April 1999 £m	Cash flow £m	Exchange movement £m	At 31 March 2000 £m
Net cash:				
Cash at bank and in hand (see note 16)	281.5			
Less: deposits treated as liquid resources (see below)	(178.6)			
	102.9			
Bank loans, overdrafts and commercial paper (see note 19B)	(445.8)			
Less: amounts treated as financing (see below)	384.7			
	(61.1)			
Net cash per cash flow statement	41.8			
Liquid resources:				
Deposits included in cash (see above)	178.6			
Current asset investments (see note 14)	204.0			
Liquid resources per cash flow statement and note 29F	382.6			
Debt financing:				
Bank loans, overdrafts and commercial paper treated as financing (see above)	(384.7)			
73/8% Guaranteed bonds (see note 19B)	–			
US\$ Promissory note (see note 19B)	–			
Medium term notes (see note 19B)	(1,132.2)			
Other creditors (see note 19B)	(89.1)			
Debt financing (see note 29G)	(1,606.0)			
Net debt	(1,181.6)			

31. Post balance sheet events

On 28 April 1999, the Group announced the closure of its Canadian operations. As a consequence, its subsidiary, Marks & Spencer Canada Inc, will cease to operate during the financial year ending 31 March 2000. The total cost of closure is estimated to be £25m, excluding goodwill of £24.4m previously written off to reserves.

On 10 May 1999, the Group announced the rationalisation of its UK store management. The total cost of this rationalisation is estimated to be £14m.

NOTES TO THE FINANCIAL STATEMENTS

32. Commitments and contingent liabilities

	THE GROUP		THE COMPANY	
	2000 £m	1999 £m	2000 £m	1999 £m
A Commitments in respect of properties in the course of development		151.5		134.8
B Guarantees by the Company in respect of debt instruments issued by subsidiaries		–		1,258.3
C Guarantees made in the ordinary course of business on behalf of overseas subsidiaries.		–		161.7

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

E Other material contracts

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

F Commitments under operating leases

At 31 March 2000 annual commitments under operating leases were as follows:

	THE GROUP		THE COMPANY	
	Land & buildings £m	Other £m	Land & buildings £m	Other £m
Expiring within one year				
Expiring in the second to fifth years inclusive				
Expiring in more than five years				

33. Foreign exchange rates

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

	SALES AVERAGE RATE		PROFIT AVERAGE RATE		BALANCE SHEET RATE	
	2000	1999	2000	1999	2000	1999
Republic of Ireland		1.15		1.15		1.18
France		9.64		9.74		9.81
Belgium		59.24		60.00		60.32
Germany		2.85		2.87		2.92
The Netherlands		3.24		3.28		3.30
Spain		243.90		246.01		248.79
United States		1.66		1.66		1.61
Canada		2.51		2.51		2.44
Hong Kong		12.83		12.84		12.51
Japan		209.16		206.75		191.18

34. Related party transactions

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

GROUP FINANCIAL RECORD

FOR THE YEAR ENDED 31 MARCH

	2000 £m 52 weeks	1999 £m 52 weeks	1998 £m 52 weeks	1997 £m 52 weeks	1996 £m 52 weeks
PROFIT AND LOSS ACCOUNT⁽¹⁾⁽²⁾					
Turnover:					
General		4,765.1	4,811.4	4,601.7	4,181.4
Foods		3,110.3	3,157.1	3,024.1	2,871.3
Financial Services		348.6	274.8	216.1	181.0
Total turnover (excluding sales taxes)		8,224.0	8,243.3	7,841.9	7,233.7
Retailing – continuing		7,875.4	7,968.5	7,625.8	7,030.3
– discontinued		–	–	–	22.4
Financial Services		348.6	274.8	216.1	181.0
Operating profit					
United Kingdom		565.1	1,014.1	931.3	852.4
Europe (excluding UK) ⁽⁴⁾		(90.9)	31.8	37.0	31.7
Americas ⁽³⁾		15.8	16.8	21.0	13.9
Far East		(3.5)	18.3	32.7	26.0
Excess interest charged to cost of sales of Financial Services		25.5	22.7	–	–
Total operating profit		512.0	1,103.7	1,022.0	924.0
Analysed as:					
Before exceptional operating (charges)/income		600.5	1,050.5	1,022.0	924.0
Exceptional operating (charges)/income		(88.5)	53.2	–	–
Retailing – continuing		375.8	991.6	946.3	867.2
– discontinued		–	–	–	(2.2)
Financial Services		110.7	89.4	75.7	59.0
Excess interest charged to cost of sales of Financial Services		25.5	22.7	–	–
Loss on disposal of discontinued operations		–	–	–	(25.0)
Profit/(loss) on disposal of property and other fixed assets		6.2	(2.8)	(1.8)	(4.2)
Net interest income		27.9	54.1	65.9	57.6
Profit before taxation		546.1	1,155.0	1,086.1	952.4
Taxation on ordinary activities		(176.1)	(338.7)	(346.1)	(312.0)
Minority interests		2.1	(0.4)	(1.3)	(1.2)
Profit attributable to shareholders		372.1	815.9	738.7	639.2
Dividends		(413.3)	(409.1)	(368.6)	(320.9)
(Loss)/profit for the year		(41.2)	406.8	370.1	318.3
BALANCE SHEET⁽¹⁾					
Tangible fixed assets		4,387.5	3,964.8	3,412.0	3,246.4
Fixed asset investments		61.2	69.7	36.6	46.0
Current assets		3,355.9	3,401.5	3,203.0	2,874.3
Total assets		7,804.6	7,436.0	6,651.6	6,166.7
Creditors due within one year		(2,029.8)	(2,345.0)	(1,775.1)	(1,674.9)
Total assets less current liabilities		5,774.8	5,091.0	4,876.5	4,491.8
Creditors due after more than one year		(772.6)	(187.2)	(495.8)	(497.8)
Provisions for liabilities and charges		(54.4)	(31.0)	(31.8)	(35.0)
Deferred taxation		(50.6)	–	–	–
Net assets		4,897.2	4,872.8	4,348.9	3,959.0

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

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

(3) Inclusive of discontinued operations.

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

GROUP FINANCIAL RECORD

FOR THE YEAR ENDED 31 MARCH

	2000 £m 52 weeks	1999 £m 52 weeks	1998 £m 52 weeks	1997 £m 52 weeks	1996 £m 52 weeks
CASH FLOW⁽¹⁾⁽²⁾					
Net cash inflow from operating activities		472.3	967.7	903.1	804.1
Returns on investments and servicing of finance		29.0	56.1	65.4	55.7
Taxation		(345.9)	(342.3)	(318.6)	(296.8)
Capital expenditure and financial investment		(628.1)	(788.3)	(419.1)	(325.1)
Acquisitions and disposals		1.0	2.6	(0.2)	(4.9)
Equity dividends paid		(412.6)	(325.8)	(305.6)	(271.3)
Cash (outflow)/inflow before management of liquid resources and financing		(884.3)	(430.0)	(75.0)	(38.3)
Management of liquid resources		180.6	226.6	91.3	(127.7)
Financing		505.0	307.4	64.7	113.5
(Decrease)/increase in cash		(198.7)	104.0	81.0	(52.5)
Decrease/(increase) in net funds defined by FRS1		862.3	380.8	35.5	4.3
KEY PERFORMANCE MEASURES⁽¹⁾					
Gross margin ⁽³⁾⁽⁴⁾	$\frac{\text{Gross profit}}{\text{Turnover}}$	33.4%	35.2%	34.9%	34.7%
Net margin ⁽³⁾⁽⁴⁾	$\frac{\text{Operating profit}}{\text{Turnover}}$	5.9%	13.1%	13.0%	12.8%
Net margin excluding exceptional items ⁽⁵⁾		7.0%	12.5%	–	–
Profitability ⁽³⁾	$\frac{\text{Profit before tax}}{\text{Turnover}}$	6.6%	14.0%	13.8%	13.6%
Profitability excluding exceptional items ⁽⁵⁾		7.7%	13.4%	–	–
Earnings per share (Defined by FRS14)	$\frac{\text{Standard earnings}^{(6)}}{\text{Weighted average ordinary shares in issue}}$	13.0p	28.6p	26.1p	22.8p
Earnings per share adjusted for exceptional items		15.8p	27.3p	–	23.7p
Earnings per share (Defined by IIMR)	$\frac{\text{Headline earnings}^{(7)}}{\text{Weighted average ordinary shares in issue}}$	15.0p	28.7p	26.2p	23.8p
Dividend per share		14.4p	14.3p	13.0p	11.4p
Dividend cover	$\frac{\text{Profit attributable to shareholders}}{\text{Dividends}}$	0.9	2.0	2.0	1.9
Return on equity ⁽³⁾	$\frac{\text{Profit after tax and minority interests}}{\text{Average shareholders' funds}}$	7.6%	17.8%	17.9%	17.1%
Capital expenditure ⁽¹⁾		£683.1m	£750.2m	£431.6m	£309.0m

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

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

(3) Based on results reported as continuing operations.

(4) Based on segmental results.

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

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

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

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