

Annual report and financial statements 2000

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 2000. The Chairman's Statement and Chief Executive's Review are contained in a separate report entitled Annual Review and Summary Financial Statement 2000.

This publication, together with the Annual Review and Summary Financial Statement 2000, comprise the full Annual Report and Accounts of Marks and Spencer p.l.c. for 2000, prepared in accordance with the Companies Act 1985.

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THE QUEEN'S AWARD FOR
TECHNOLOGICAL ACHIEVEMENT 1996
THE QUEEN'S AWARD FOR EXPORT
ACHIEVEMENT 1997
THE QUEEN'S AWARD FOR
INNOVATION 2000

Financial review

Group structure and performance measurement

We have four Operating Divisions: UK Retail, International Retail, Financial Services and Ventures. A fifth division, Property, is separately reported for internal purposes only.

UK Retail is organised into seven Customer Business Units: Womenswear, Menswear, Lingerie, Childrenswear, Home, Beauty and Foods.

We have refined the target setting and monitoring processes to ensure key performance criteria are fully linked to the creation of shareholder value. Each Operating Division has targets for operating profit and Value Created, the latter being defined as the contribution made over and above the cost of capital employed. For the Group, the weighted average cost of capital is 10%.

All investment decisions are made using discounted cashflow analysis, applying a hurdle rate determined by assessing the business risk appropriate to the specific Operating Division.

Group summary

Summary of results

	2000 53 WEEKS £m	1999 52 WEEKS £m
Turnover (ex VAT)	8,195.5	8,224.0
Operating profit (before exceptional items)	543.0	600.5
Exceptional operating charges	(72.0)	(88.5)
Operating profit (after exceptional items)	471.0	512.0
Profit on ordinary activities before tax	417.5	546.1
Basic earnings per share	9.0p	13.0p
Adjusted earnings per share	13.2p	15.6p
Dividend per share	9.0p	14.4p

Group turnover

	2000 53 WEEKS £m	1999 52 WEEKS £m
UK Retail	6,482.7	6,601.1
International Retail	1,348.2	1,274.3
Financial Services	364.6	348.6
Total	8,195.5	8,224.0

Profit on ordinary activities before tax of £417.5m (last year £546.1m) is shown after charging £139.7m for exceptional items (last year £82.3m).

This year's Financial Reporting period covers 53 weeks. An estimate of operating profit (before exceptional items) for a 52 week comparative period and the 53 week reporting period is shown below.

BEFORE EXCEPTIONAL ITEMS		
2000 53 WEEKS £m	52 WEEKS £m	1999 52 WEEKS £m

Operating Profit

UK Retail	420.1	386.8	478.9
Financial Services	115.9	115.9	110.7
International Retail:			
Europe	(6.1)	(9.4)	(26.8)
Americas	16.4	14.0	15.7
Far East	(3.3)	(4.3)	(3.5)
Total International	7.0	0.3	(14.6)
Excess interest charged to cost of sales of Financial Services	-	-	25.5
Total Operating Profit	543.0	503.0	600.5
Interest	14.2	14.2	27.9
Profit Before Tax	557.2	517.2	628.4
Adjusted earnings per share	13.2p	12.2p	15.6p

Review of performance by operating segment – UK Retail Sales

UK Retail sales for the 52 week comparative period were £6,351.1m (last year £6,601.1m). After adding sales for the 53rd week of £131.6m the total for the 53 week year was £6,482.7m.

An analysis of the movements in UK Retail sales (including VAT) for the 52 weeks is given below:

	FIRST QUARTER %	SECOND QUARTER %	15 WEEKS TO 8 JAN %	11 WEEKS TO 25 MARCH %	52 WEEKS TOTAL %
Clothing, footwear & gifts	(9.8)	(10.3)	(6.7)	(3.6)	(7.8)
Home furnishings	(1.6)	(11.6)	6.0	11.7	1.0
Foods	(1.2)	0.4	3.2	1.8	1.2
Total	(6.1)	(6.2)	(2.8)	(0.5)	(4.0)

Financial review

Estimated like for like sales for the same reporting periods are below:

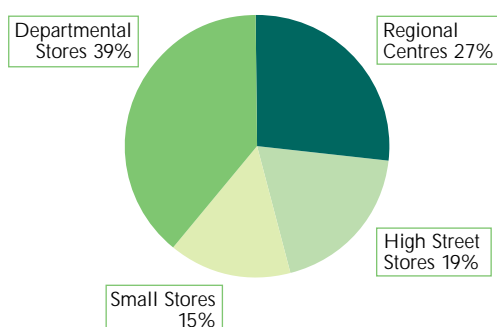
	FIRST QUARTER %	SECOND QUARTER %	15 WEEKS TO 8 JAN %	11 WEEKS TO 25 MARCH %	52 WEEKS TOTAL %
General	(14.6)	(15.1)	(9.2)	(6.0)	(11.1)
Foods	(4.2)	(2.5)	0.8	(0.1)	(1.3)
Total	(10.3)	(9.9)	(5.6)	(3.3)	(7.2)

We have changed our method of calculating like for like sales and now report the comparison of total sales with new and developed stores excluded. We have adopted this revised method for calculating like for like sales because it is more commonly used and therefore familiar. The previous method, which added back sales from deflected stores, is shown below for comparison:

	FIRST QUARTER %	SECOND QUARTER %	15 WEEKS TO 8 JAN %	11 WEEKS TO 25 MARCH %	52 WEEKS TOTAL %
General	(12.5)	(11.3)	(8.8)	(4.8)	(9.1)
Foods	(3.1)	(0.2)	1.2	0.6	(1.0)
Total	(9.3)	(7.0)	(5.3)	(2.5)	(5.9)

At the end of March 2000 we had 296 stores with a selling space of 12.27m sq ft compared with 11.96m sq ft the previous year, a weighted average increase of 6.1%.

The UK shape of the chain, based on closing footage, is shown below:



Cost of sales

On a 52 week comparative basis, the gross margin percentage improved over last year's level. However, the shortfall in sales led to an overall fall in gross profit.

Operating expenses

Operating expenses increased by 3% (on a 52 week comparative basis). The main cost movements were:

- £39m additional marketing costs, of which £13m is specifically attributable to increased advertising and £14m to the visual merchandising in stores.
- £13m additional consultancy fees principally arising from the supply chain review and the restructuring of the UK Retail business.
- £23m savings in estates and premises costs due to the reduction in the development programme.

International Retail

(All sales and profit comparatives are given on a 52 week basis at constant exchange rates.)

International Retail increased sales by 5.9%, and made an operating profit before exceptional items of £0.3m (last year, loss of £9.9m). The effect of the 53rd week was to increase full year profits to £7.0m.

In Europe, the second half performance was considerably better than the comparable period last year, helped by the closure of seven under-performing stores (three in France and four in Germany) and by the improved performance of our franchises, particularly in Greece and Turkey. There was a small improvement in the bought in margin, partly due to better buying practices. We opened new stores in Barcelona and Frankfurt, however overall footage reduced by 130,000 sq ft.

Sales in the Far East improved by 7% helped by an improving economy and by significantly increased local production. Costs have been well controlled and we have reduced operating losses from £14m to £4m.

Although sales in Brooks increased by 8%, higher mark-downs and additional costs arising from US expansion impacted on trading profits. Following a first half where operating losses were £5m compared to profits of £1m in the previous year, second half operating profits of £11m were in line with last year.

Kings Super Markets performed well, and we increased sales by 7% and operating profit by 5%. Three new stores were opened in the second half-year.

Financial Services

This Operating Division includes five profit centres:

- Store Cards
- Personal Lending
- Unit Trusts
- Life Assurance
- MS Insurance (Guernsey)

The overall results are given in the segmental analysis (see note 2, page 25).

The first four of the five profit centres are managed as a single operation (the results for the Life Assurance company being aggregated on an Embedded Value basis). MS Insurance derives the majority of its underwriting business from the other Financial Services activities.

The scale of current business levels is indicated below:

	ACCOUNT CARDS	PERSONAL LENDING	UNIT TRUSTS	LIFE ASSURANCE
Number of accounts/ policy holders (000s)				
2000	5,101	567	186	58
1999	5,166	548	171	30
Customer outstandings/funds under management (£m)				
2000	646	1,495	1,166	n/a
1999	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 (£139.7m)

- (a) UK Restructuring (£63.3m) – of this total, £16.0m of redundancy costs were reported at the half year in respect of the rationalisation of UK store management and the closure of a distribution centre. The additional £47.3m includes:
- Head Office costs of £18.5m mainly resulting from the restructuring of UK Retail into seven Customer Business Units
 - £28.8m which reflects reductions in store management supervision numbers.
- (b) European Restructuring (£17.0m) – the loss on sale of property of £8.3m relates to the European store closures announced during the period. After including the redundancy and related costs of £8.7m the total was £17.0m.
- (c) Canada (£45.4m) – the closure of our Canadian business was completed at a cost of £21m compared to an estimate of £25m. Goodwill previously written off to reserves of £24.4m increased the exceptional charge.

- (d) The net loss on other property disposals was £14.0m (excluding European store closures referred to in (b) above), of which a £17.2m loss relates to the disposal of The Gyle Shopping Centre (see note 4C, page 27). As an investment property, the Gyle had been revalued annually since its acquisition in January 1997 and the cumulative revaluation had been recognised through the Statement of Total Recognised Gains and Losses in previous years. As a consequence, the Group has realised a profit of £53.4m based on net sale proceeds less the original purchase price which has not been reflected in the profit and loss account.

Interest

Net interest income fell to £14.2m from £27.9m last year. This was caused by lower average sterling cash balances (including interest-bearing investments) of £422m (last year £820m), offset by an increase in sterling interest rates.

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 (see note 2, page 25). The total interest cost incurred by Financial Services was £105.5m (last year £102.3m).

Taxation

The Group tax charge for the year is £158.2m, giving an effective rate of 38% after exceptional charges. This is an increase on the previous year's rate of 32%. The increase results from certain exceptional charges and unrelieved losses arising overseas.

Earnings per share

An adjusted earnings per share figure of 13.2p (last year 15.6p) 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 9, page 29.

Dividend

The reduction of the dividend payout to 9.0p was a difficult decision for the Company, but our confidence in the future is reflected by the fact that shareholders will receive a payment equivalent to the full net profits for the year just ended. This will re-base the dividend to a level from which appropriate earnings cover can be re-established more quickly, improving our ability to invest in the Group's future growth.

Financial review

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 £206.2m increase in loans and advances to customers.

Of the resulting net debt of £1,251m, £1,616m relates to Financial Services. (See Balance Sheet commentary below.)

Cash flow analysis

	£m
Net debt at 31 March 1999	(1,182)
Cash inflow from Retail operating activities	728
Cash outflow from Financial Services operating activities	(87)
Capital expenditure (net of disposals)	(167)
Dividends	(413)
Tax	(146)
Other	16
Increase in net debt	(69)
Net debt at 31 March 2000	(1,251)

New footage

During the year, total worldwide footage (excluding Canadian closures) increased by 300,000 sq ft as shown below:

	sq ft
UK	300,000
Europe	(130,000)
North America	130,000
	300,000

Stores totalling 300,000 sq ft were closed in Canada, leaving net worldwide footage unchanged at 15.4m sq ft.

New store openings account for 66% of additional UK footage mainly because of the new Braehead store in Glasgow (91,000 sq ft) and the relocation of our Manchester store (198,400 sq ft replacing the 98,800 sq ft temporary site).

Seven European stores were closed during the year – Dortmund, Essen, Wuppertal and Frankfurt (Nord West Zentrum) in Germany and Grand Littoral (Marseille), Rouen and Parinor in France. Two new stores were opened (Plaza Catalunya in Barcelona and the Zeil in Frankfurt). The overall effect was to reduce European footage by 130,000 sq ft.

Brooks Brothers US opened 19 new stores, and closed four stores, resulting in net additional footage of 83,000 sq ft. Openings include a new flagship store at Fifth Avenue in New York (22,400 sq ft).

Capital expenditure

Capital expenditure (gross) during the year totalled £451m.

Capital expenditure is expected to fall in the financial year 2000/01. We plan to open a further 230,000 sq ft of selling space, 64% of which will be in the UK.

Financing

During the financial year the Medium Term Note ('MTN') programme was increased to £2.0bn and this has been used as a flexible and cost effective source of funds. 23 MTNs were issued during the year in various currencies with a sterling equivalent of £768m. Maturities ranged from 6 months to 7 years and were swapped into operating currencies. The Group's total outstandings within this programme at the end of the financial year were equivalent to £1,387m.

Other sources of finance were US\$ Commercial Paper and bank borrowings both in the London money market and by individual international subsidiaries. A committed facility of \$50m and uncommitted credit facilities of £655m are in place in the UK.

Details of the maturity profile of borrowings are given in note 21B, page 37.

During the year, both the leading credit agencies reduced the Group's long-term credit ratings: Standard & Poor's to AA and Moody's to Aa3.

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 1 April 2000

	RETAILING 2000 £m	FINANCIAL SERVICES 2000 £m	TOTAL GROUP 2000 £m
Fixed assets	4,282.0	16.4	4,298.4
Stocks	474.4	-	474.4
Loans & advances to customers	-	2,141.4	2,141.4
Other debtors	334.9	78.9	413.8
Net cash/(debt)	364.5	(1,615.9)	(1,251.4)
Trade & other creditors	(982.7)	(172.1)	(1,154.8)
Net assets	4,473.1⁽¹⁾	448.7	4,921.8

(1) Retailing includes £21.4m of liabilities classified as unallocated in the segmental analysis (see note 2, page 25).

Loans and advances to customers have increased to £2.1bn (last year £1.9bn). Within this, £1.5bn 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 rate and currency exposures to 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 but, where appropriate, borrowings are arranged in local currencies or currency swaps are used to provide a natural hedge against overseas assets.

Interest rate exposures for Financial Services are managed, as far as practical, by matching the periods of borrowings and their interest basis with the periods 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 averaging 10-15 months.

The details of derivatives and other financial instruments required by the Financial Reporting Standard, FRS13, are shown in notes 18, 21 and 23 to the Accounts.

Y2K

The work necessary to ensure compliance of all our computer equipment, software and embedded systems was completed in good time for the Millennium. Over the Millennium weekend and the period covering 29 February there was no material disruption to the Group's operations.

We continue to monitor systems but do not expect further problems. The total cost of the programme to the Group was £25m.

EMU

Preparations for the introduction of the euro remain on target, with significant progress in a number of different areas. These include:

- (a) The roll-out of new tills to all European and UK stores was completed in October 1999.
- (b) Dual pricing (national currency and euro) has been introduced in The Netherlands and Germany and in all Food sections in stores in Continental Europe and the Republic of Ireland. During the course of the next 12 months, we will roll out dual pricing to our General sections reflecting the requirements of each country.

We expect the cost of the introduction of the euro in the first wave countries will be approximately £9m. Costs to date have not been material and we anticipate in the order of £5m will be incurred in the coming financial year.

Until the UK's position is resolved, we are careful to avoid significant financial commitment in the UK, but we also know that the work completed and in progress in Continental Europe will provide us with valuable precedents and experience.

We remain confident the second National Changeover Plan will provide us with sufficient time to make the necessary changes.

Accounting developments

Financial Reporting Standards 11-15 were adopted during the last financial year.

We have responded to the exposure drafts on 'Retirement Benefits' and 'Deferred Tax' and the discussion paper on 'Leases'. The most noticeable impact of these three proposals would be on our Group balance sheet, and we estimate that the leasing proposals would result in assets and liabilities in the region of £0.9bn being brought onto the balance sheet. This, in turn, would increase current gearing by 18 percentage points.

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 is committed to high standards of corporate governance and reports on how it applies the principles in the Combined Code as follows.

It has been a year of significant change during which the Board has reviewed its governance framework and updated those matters reserved to it following the Group's restructuring into five separate Operating Divisions: UK Retail, International Retail, Financial Services, Ventures and Property, each responsible for policy, decision-making and delivery of their own specific functions. Board Committees have also been reviewed and their remits updated. This reflects the importance of responsibility, accountability and risk being at the appropriate level.

Directors

As at 31 March 2000 the Board comprises 15 directors, six of whom are non-executive. Luc Vandevelde (appointed Chairman on 28 February 2000) and Peter Salisbury (Chief Executive) head the Board and work together as an effective partnership. Sir Martin Jacomb is the Company's senior independent director. Sir David Sieff is not considered independent for the purposes of the Combined Code because of his previously held executive position in the Company.

All directors have access to the advice and services of the Company Secretary, Graham Oakley, who ensures that the Board, which meets monthly, receives appropriate and timely information for its decision making, that Board procedures are followed and that statutory and regulatory requirements are met. He also assists the Chairman in ensuring that all directors are properly briefed on issues arising at Board meetings. Directors receive appropriate induction training when they join the Company and coaching to develop individual skills as required.

There is an established procedure whereby any director, wishing to do so in the furtherance of his or her duties, may take independent professional advice at the Company's expense.

Pursuant to the Company's Articles currently the nearest number to but not exceeding one third of the Board shall retire each year by rotation. In practice, all directors are required to offer themselves for re-election at least every three years and the Articles will be amended to reflect this practice when they are next revised.

Principal Board committees

Audit Committee: assists the Board in fulfilling its oversight responsibilities, primarily reviewing the reporting of financial and non-financial information to shareholders, the systems of internal control and risk management, and the audit process. It comprises six non-executive directors, chaired by Sir Martin Jacomb and meets at least three times annually. The external auditors and the chief internal auditor attend all meetings, which executive directors also have a right to attend.

Remuneration Committee: ensures the executive directors and senior management are appropriately rewarded, giving due regard to the financial and commercial health of the Company. It comprises five non-executive directors and meets at least four times annually. Dame Stella Rimington took over the chair from Brian Baldock on 1 July 1999 following his appointment at the time as non-executive Chairman of the Company.

Nomination Committee: keeps under review the Board structure, size and composition; selects and proposes to the Board suitable candidates for appointment as directors of the Company, and considers Board successional plans. It comprises six non-executive directors, chaired by Brian Baldock, and meets as required.

Corporate Social Responsibility Committee: provides the Board with an overview of the social and ethical impact of the Company's activities including community involvement, environmental management and ethical trading. It comprises four executive directors, one non-executive director and one divisional director, is chaired by Guy McCracken and meets at least three times annually.

Directors' remuneration

The Remuneration Report appears on pages 8 to 15 and contains a statement of remuneration policy and details of the remuneration of each director. The remuneration of non-executive directors is determined by the Chairman together with the other executive directors. The Board considers each year whether shareholders should be invited to consider separately the Remuneration Report at the AGM, and does not consider it necessary at the 2000 AGM, particularly as the introduction of new share schemes are themselves subject to shareholder approval.

Relations with shareholders

The Company is committed to ongoing communication across its entire shareholder base, whether institutional investors, private or employee shareholders. This is achieved through regular annual and interim reports, other trading statements and the AGM. The website at www.marksandspencer.com contains corporate and customer information updated on a regular basis.

Regular dialogue and presentations take place throughout the year with institutional investors. The AGM held in July in London is well attended by shareholders who receive a business presentation and have the opportunity to ask questions of the full Board including the chairs of the Audit, Remuneration and Nomination Committees. The results of the proxy votes are declared at the meeting and a résumé of the question and answer session is available after the Meeting.

Accountability and audit

Going concern: A statement in accordance with the going concern principle is included in the Financial Review on page 5.

Internal control: The Combined Code has extended the existing requirement that the Board reviews the effectiveness of the Group's system of internal financial controls to cover all controls including financial, operational, compliance and risk management. The Group has adopted the transitional approach for the Combined Code set out in the letter from the London Stock Exchange to listed companies in September 1999 and has continued to review and report upon internal financial controls.

Wider aspects of internal control: Nevertheless, the Board confirms that it has established the procedures necessary to review and report on internal controls for next year.

In particular:

- the Board has established a new corporate risk management process which will enable it to report that there is an “ongoing process for identifying, evaluating and managing the significant risks faced by the Company, that it has been in place for the year under review and that it is regularly reviewed by the Board”.
- the Audit Committee has extended its remit to include the monitoring of the new corporate risk management process on behalf of the Board by reviewing a programme of risk assessment activity and a report from internal audit on the risk assessment process.

Internal financial control

The Board has overall responsibility for the Group's systems of internal financial control and for monitoring their effectiveness. However, such systems are designed to provide reasonable, but not absolute, assurance against material misstatement or loss.

The Board maintains full control and direction over appropriate strategic, financial, organisation and compliance issues, and has reviewed the 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 globally.

The boards of the operating divisions review their annual and three year operating and capital plans with the relevant executive directors prior to submission to the parent Board for approval. This process includes the identification and assessment of the business and financial risks inherent in each operating area. Treasury policies are regularly reviewed by the Treasury Committee and any changes are approved by the Board.

The systems of internal financial control include:

- comprehensive budgeting systems with annual budgets approved by the Board
- regular consideration by the Board of year end forecasts
- clearly defined capital investment control guidelines and procedures which have been revised this year and agreed with the Board
- regular reporting of legal and accounting developments to the Board.

On behalf of the Board, the Audit Committee examines the effectiveness of the Group's systems of internal financial control primarily through agreeing the scope of the internal audit programme and reviewing its findings, reviews of the annual and interim 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 work of the internal audit department is focussed on areas of priority 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, Hilary Gay, each year on the department's work and findings and regular interim updates on specific issues. 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

The directors confirm that for the year ended 31 March 2000 the Company complied with all the Code provisions.

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 Dame Stella Rimington (Chairman), Brian Baldock, Sir Martin Jacomb, Sir Michael Perry and Sir Ralph Robins. Brian Baldock chaired the Committee until he was appointed Chairman of the Company from 23 June 1999, and Dame Stella Rimington was appointed as his successor from 1 July 1999. It recommends to the Board the Company's framework for retaining and 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 employees 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 employees as closely as possible with the interests of shareholders in promoting the Company's progress. Profit Sharing and SAYE schemes encouraging employees at all levels to acquire and hold shares in the Company are important elements of that policy. Share ownership remains very popular within the Company, illustrated by the fact that over 43,000 employees hold approximately 34 million shares in their own right and 38,000 employees hold options on 79 million shares under the SAYE scheme.

The Government has published draft legislation for the introduction of a new All-Employee Share Option Plan. In order to continue offering Profit Sharing to our employees, we are seeking shareholder approval to operate a new 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 an Executive 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 Chief Executive, executive directors and divisional

directors, the Committee is assisted by the Chairman in this review.

In July 1999, to reflect the performance of the business, no senior employee received an annual salary review, apart from salary increases which were awarded to Robert Colvill, Group Finance Director, and Clara Freeman, Director of UK Stores, Group Personnel and Communications to reflect the market position of these roles. The year under review reflects the first full year salary awarded to Peter Salisbury on his promotion to Chief Executive from 1 February 1999.

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.

An annual bonus scheme for other members of management was introduced in July 1999, with a range between 0% and 10% of salary paid for achievement against challenging business and individual performance targets. Awards of up to 5% have been made against individual targets.

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

Executive Share Option Scheme

We have looked at alternatives to the share option scheme and after consideration we have continued to use the policy and principles that are readily understood by the participants, fit the culture of the business and have 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 6 of this report. The needs of the business have dictated that in pursuing the objective of being more flexible and linking more closely to Company performance we will be seeking shareholder approval to make changes to our current scheme at the forthcoming AGM.

Senior management restructure

As part of the process of the restructure of the business, five executive directors, James Benfield, Lord Stone of Blackheath, Derek Hayes, Chris Littmoden and John Sacher, have left the business and Sir Richard Greenbury retired.

The policy for Early Retirement Pension, details of which are in section 5, facilitated the implementation of the new Business structure.

Recruitment of directors

During the year Luc Vandavelde was recruited as Executive Chairman on an annual salary of £650,000. Compensation was made for loss of benefits from his previous employment, given in the form of restricted shares at a cost of £1,997,000. Luc Vandavelde is also eligible for a bonus of 100% of salary covering his first thirteen months of employment, paid against the delivery of specific strategic and qualitative targets. In following periods his targets will be set against the same criteria as the other executive directors. As he was not resident in the UK at the time of his appointment, the Company has agreed to provide him with suitable accommodation, on which he will be assessed for tax.

Alan McWalter was also recruited as Director of Marketing.

Service contracts

During the year we introduced service contracts for all executive directors, divisional directors and executives. These contracts are terminable on 12 months' notice. Exceptions can be made where longer notice periods may be agreed for an initial period for new recruits. For example, Alan McWalter and Luc Vandeveld were appointed with service contracts entitling them to two years' notice reducing proportionately to one year during the first 12 months of their appointment. Non-executive directors do not have service contracts.

Non-executive directors

The remuneration of non-executive directors is determined by the Chairman together with the executive directors. Non-executive directors do not participate in the Company's Profit Sharing, Save As You Earn or Executive Share Option Schemes, annual bonus scheme or the Early Retirement Plan. Their fees are non-pensionable.

No increase in fees was made in the year under review other than for Brian Baldock in recognition of his appointment as Chairman following Sir Richard Greenbury's retirement, and for Dame Stella Rimington in recognition of her appointment as Chair of the Remuneration Committee.

1 Directors' emoluments

	SALARY £000	PROFIT SHARE £000 (3)	BENEFITS £000 (4)	TOTAL 2000 £000	TOTAL 1999 £000
Chairman					
Luc Vandeveld ⁽¹⁾ (appointed 28 February 2000)	59	n/a	2,011	2,070	–
Chief Executive					
Peter Salisbury	560	13	20	593	439
Executive directors					
Roger Aldridge	290	7	16	313	312
Robert Colvill	373	9	20	402	342
Clara Freeman	250	6	14	270	230
Guy McCracken	390	10	19	419	409
Alan McWalter ⁽²⁾ (appointed 1 January 2000)	69	n/a	85	154	–
Barry Morris	220	5	17	242	230
Joe Rowe	290	7	21	318	302
Non-executive directors					
Brian Baldock ⁽⁹⁾ (Chairman 23 June 1999 to 27 February 2000)	177	n/a	1	178	50
Sir Martin Jacomb	34	n/a	n/a	34	34
Sir Michael Perry	34	n/a	n/a	34	34
Dame Stella Rimington ⁽⁸⁾	46	n/a	n/a	46	34
Sir Ralph Robins	34	n/a	n/a	34	34
Sir David Sieff	34	n/a	11	45	45
Retired directors (with effect from)					
James Benfield ⁽⁶⁾ (31 December 1999)	217	n/a	14	231	275
Lord Stone of Blackheath ⁽⁶⁾ (31 December 1999)	347	n/a	15	362	416
Sir Richard Greenbury ⁽⁶⁾⁽⁷⁾ (22 June 1999)	339	n/a	5	344	810
Derek Hayes ⁽⁶⁾ (31 May 1999)	85	n/a	9	94	275
Chris Littmoden ⁽⁵⁾⁽⁶⁾ (31 May 1999)	91	n/a	171	262	587
John Sacher ⁽⁶⁾ (31 May 1999)	84	n/a	5	89	293
Paul Smith ⁽⁵⁾ (31 March 1999)	n/a	n/a	n/a	n/a	679
Keith Oates (31 January 1999)	n/a	n/a	n/a	n/a	545
Total	4,023	57	2,454	6,534	6,375

Remuneration report

1 Directors' emoluments (continued)

- (1) Luc Vandavelde was appointed to the Board as Executive Chairman on 28 February 2000. Included within his benefits is compensation for loss of future benefits from his previous employer in the form of restricted shares at a cost of £1,997,000 (see section 2, below). As a result of this award, Luc Vandavelde is the highest paid director with total emoluments of £2,070,000. Last year, the highest paid director was Sir Richard Greenbury, whose emoluments were £810,000 with an accrued pension entitlement at the end of last year of £465,000.
- (2) Alan McWalter was appointed to the Board on 1 January 2000. Included within his benefits is compensation of £75,000 for loss of future benefits from his previous employer.
- (3) In line with all other employees, executive directors performing their duties mainly in the UK are allocated a profit share based on a percentage of their salary following the qualifying period. Further information on profit sharing is given in note 10C to the financial statements.
- (4) Benefits for UK directors relate mainly to the provision of cars, fuel and travel. In addition, a payment is made to both Luc Vandavelde and Alan McWalter in respect of pension (see section 2 below). For expatriate directors see footnote (5).
- (5) 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.
- (6) Included in the salary figures for Lord Stone of Blackheath, James Benfield, Derek Hayes, Chris Littmoden, John Sacher and Sir Richard Greenbury are contractual non-pensionable payments in lieu of holiday entitlement.
- (7) Sir Richard Greenbury retired as Chairman on 22 June 1999. His salary includes a 3 month payment in lieu of notice in accordance with his contract as Chairman.
- (8) Dame Stella Rimington was appointed Chairman of the Remuneration Committee on 1 July 1999 and received an associated increase of £16,000 pa.
- (9) Brian Baldock was appointed non-executive Chairman on 23 June 1999 on a salary of £220,000 pa.

2 Recruitment of directors

During the year, two new directors have been recruited and appointed to the Board on the following terms:

- (i) Luc Vandavelde
 - Salary of £650,000 pa.
 - Compensation for loss of future benefits from previous employer in the form of 808,080 'restricted shares' purchased on his behalf at a cost of £1,997,000. He is the beneficial owner of the shares but they will not be transferred to him until the third anniversary of employment irrespective of him being employed at that time or the second anniversary where employment is not renewed by the Company at the end of his initial two year contract (included within benefits in section 1).
 - Supplement of 16% of base salary to compensate for the fact that he is not a member of the Company Pension Scheme (included within benefits in section 1).
 - Award of shares under 1997 Executive Share Option Scheme with a market value at the date of employment of eight times salary including bonus (see section 6 – Long-term benefits).
- (ii) Alan McWalter
 - Salary of £275,000 pa.
 - A payment of £75,000 as compensation for loss of future benefits from previous employer (included within benefits in section 1).
 - Supplement of 10% of the difference between the pension earnings cap and his basic salary (see section 4 – Pensions) (included within benefits in section 1).
 - Award of shares under 1997 Executive Share Option Scheme with a market value at the date of employment of eight times salary (see section 6 – Long-term benefits).

3 Gains made on directors' share options

No Executive Share Options were exercised during the year. Two directors exercised SAYE contracts but gains were negligible (see section 6, page 14). Last year the total gain of £116,000 made by directors on the exercise of their share options included: Peter Salisbury £4,000, Roger Aldridge £7,000, Clara Freeman £14,000, Guy McCracken £7,000, James Benfield £7,000, Lord Stone of Blackheath £11,000, Derek Hayes £10,000 and Paul Smith £56,000.

4 Directors' pension information

Pension scheme

The executive directors, management and employees all participate in the Company's Pension Scheme. The Scheme is non-contributory, fully funded and the subject of an Independent Trust. The normal retirement age under the Pension Scheme for senior management is 60 to harmonise with the Company contractual retirement age. For all other employees the normal retirement date is aged 65 (previously 60) but for those employees who joined the Scheme prior to 1 January 1996 their accrued rights were not affected by the change of normal retirement date.

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 employees (including senior management) who joined the Scheme prior to 1 January 1996 no actuarial reduction is applied to pensions payable from the age of 58. Employees who joined the Scheme on or after 1 January 1996 are subject to an actuarial reduction in their pension if payment starts prior to their normal retirement age.

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 partner's pension of two-thirds of the member's prospective pension at the age of 65 (60 for senior management). 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.

	AGE AT 31 MARCH 2000	YEARS OF SERVICE AT 31 MARCH 2000 OR DATE OF RETIREMENT	INCREASE IN TRANSFER VALUE IN EXCESS OF INFLATION ⁽¹⁾ DURING THE YEAR ENDED 31 MARCH 2000 £000	INCREASE IN PENSION EARNED IN EXCESS OF INFLATION ⁽¹⁾ DURING THE YEAR ENDED 31 MARCH 2000 £000	ACCRUED ENTITLEMENT AT YEAR END 31 MARCH 2000 ⁽²⁾ £000	31 MARCH 1999 £000
Luc Vandeveld ⁽³⁾	49	–	–	–	–	–
Peter Salisbury	50	29	943	62	292	227
Roger Aldridge	53	26	365	23	162	137
Robert Colvill	59	15	381	20	109	89
Clara Freeman	47	25	296	21	120	97
Guy McCracken	51	24	335	22	207	183
Alan McWalter ⁽⁴⁾	46	n/a	9	1	1	n/a
Barry Morris	52	29	178	11	82	69
Joe Rowe	52	25	380	24	148	123
Retired directors						
James Benfield	50	29	717 ⁽⁷⁾	(23) ⁽⁸⁾	116	138
Lord Stone of Blackheath	57	32	1,267 ⁽⁷⁾	34	265	230
Sir Richard Greenbury ⁽⁵⁾	63	45	n/a	n/a	482	465
Derek Hayes	51	29	599 ⁽⁷⁾	(28) ⁽⁸⁾	107	135
Chris Littmoden	56	25	1,821 ⁽⁶⁾	76	140	64
John Sacher	59	31	138 ⁽⁷⁾	10	176	166

(1) Inflation has been assumed to be equivalent to the actual rate of price inflation which was 1.1% for the year to 30 September 1999. This measurement date accords with The Listing Rules.

Remuneration report

4 Directors' pension information (continued)

- (2) The pension entitlement shown above is that which would be paid on retirement based on service to 31 March 2000 or date of retirement if earlier.
- (3) Luc Vandavelde does not participate in the Company Pension Scheme (see section 1, footnote 4 – Directors' emoluments).
- (4) Alan McWalter joined the scheme on 1 January 2000, and is therefore subject to the statutory pension earnings 'cap' (£90,600 at 31 March 2000) which is reviewed by the Government annually. His pension is based on a uniform accrual of two-thirds of that 'cap' less the pension which he has accrued from membership of previous employers' pension schemes (see section 1, footnote 4 – Directors' emoluments).
- (5) Sir Richard Greenbury 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.
- (6) Chris Littmoden was, until immediately prior to his retirement on 31 May 1999, employed in North America, during which time his pension had ceased to accrue. His accrued entitlement at the time of his transfer to North America was £64,000. On the cessation of his overseas assignment, his accrued pension entitlement was restored fully, at a value of £140,000. This represents an increase in pension earned of £76,000 with a transfer value of £1,821,000.
- (7) The greater part of the actuarial increase in respect of these directors relates to the effect, on the year, of their full pension being paid immediately, following their retirement.
- (8) The accrued entitlement for James Benfield and Derek Hayes has fallen during the year. This reflects the fact that the reduction factor due to their early retirement more than offsets any increase in pension for service completed during the year.
- (9) The pension entitlement shown excludes any additional pension purchased by the member's Additional Voluntary Contributions.

5 Payments to former directors

Details of payments made under the Early Retirement Plan and other payments made to former directors during the year are:

	DATE OF RETIREMENT	PAYABLE UNTIL	PAID IN YEAR £000	PAID IN 1999 £000
Early retirement pensions⁽¹⁾				
James Benfield ⁽²⁾	31 December 1999	22 April 2009	17	–
Lord Stone of Blackheath ⁽²⁾	31 December 1999	7 September 2002	23	–
Derek Hayes ⁽³⁾	31 May 1999	19 November 2008	52	–
Chris Littmoden ⁽³⁾	31 May 1999	28 September 2003	70	–
John Sacher ⁽⁴⁾	31 May 1999	n/a	56	–
Paul Smith	31 March 1999	20 December 2000	65	–
Keith Oates ⁽⁵⁾	31 January 1999	3 July 2002	197	–
Don Trangmar	31 March 1998	16 November 1999	38	56
Unfunded pensions				
Lord Sieff of Brimpton ⁽⁶⁾	30 September 1985	Death	65	63
Clinton Silver ⁽⁶⁾	31 July 1994	Death	84	82
Other payments				
Lord Sieff of Brimpton ⁽⁷⁾	30 September 1985	31 October 1999	53	73
Clinton Silver ⁽⁸⁾	31 July 1994	30 September 1999	35	70

- (1) Under the Company's Early Retirement Plan 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 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. With effect from 31 March 2000, the Early Retirement Plan has been withdrawn.
- (2) James Benfield and Lord Stone were awarded £68,000 and £91,000 respectively pa.
- (3) Derek Hayes and Chris Littmoden were awarded £62,000 and £84,000 respectively pa.
- (4) John Sacher was awarded £53,000 pa and chose to commute this award for a lump sum of £56,000.
- (5) Keith Oates was awarded £166,000 pa. The payment above is for the 14 months since his date of retirement.
- (6) The pension scheme entitlement for Lord Sieff and Clinton Silver is supplemented by an additional, unfunded, pension paid by the Company.
- (7) Due to the continuing ill health of Lord Sieff the Company has met some costs relating to his necessary daily care assistant.
- (8) Payments made to Clinton Silver in respect of consultancy services provided to the Company.

6 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 one year's service and who open an approved savings contract. Inland Revenue rules limit the maximum amount which can be saved to £250 per month. When the savings contract is started options are granted to acquire the number of shares that the total savings will buy when the savings contract matures; options cannot normally be exercised until a minimum of three years has elapsed.
- (ii) an Executive Share Option Scheme, approved by shareholders in 1997, which is open to all senior management. 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.

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:

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

The market price of the shares at the end of the financial year was 250.5p; the highest and lowest share prices during the financial year were 461p and 222.75p respectively.

	AT 1 APRIL 1999 OR DATE OF APPOINTMENT	GRANTED DURING THE YEAR	EXERCISED/ LAPSED DURING THE YEAR	AT 31 MARCH 2000 OR DATE OF RETIREMENT	OPTION PRICE (PENCE)	EXERCISE PRICE (PENCE)	OPTION PERIOD
Luc Vandeveld ⁽²⁾							
Not exercisable	–	3,984,674	–	3,984,674	261.0	–	Mar 03 – Mar 10
Peter Salsbury							
Exercisable	204,824	–	–	351,895	359.0 ⁽¹⁾	–	May 94 – May 05
Not exercisable	435,134	–	–	727,539	421.0 ⁽¹⁾	–	May 98 – Jun 09
Granted	–	439,476	–	–	358.0	–	Jun 02 – Jun 09
SAYE	5,550	–	–	5,550	351.0 ⁽¹⁾	–	Jan 03 – Jun 04

(1) Weighted average price.

(2) Grant based on anticipated total earnings up to 31 March 2001 (including 100% bonus).

Remuneration report

6 Long-term benefits (continued)

	AT 1 APRIL 1999 OR DATE OF APPOINTMENT	GRANTED DURING THE YEAR	EXERCISED/ LAPSED DURING THE YEAR	AT 31 MARCH 2000 OR DATE OF RETIREMENT	OPTION PRICE (PENCE)	EXERCISE PRICE (PENCE)	OPTION PERIOD
Roger Aldridge							
Exercisable	170,959	–	–	168,478	299.0 ⁽¹⁾	–	May 94 – May 04
Not exercisable	309,923	–	–	366,099	482.0 ⁽¹⁾	–	May 97 – Jun 09
Granted	–	67,068	–	–	358.0	–	Jun 02 – Jun 09
Lapsed	–	–	13,373	–	–	–	–
SAYE	6,915	–	–	5,262	371.0 ⁽¹⁾	–	Jan 02 – Jun 05
SAYE exercisable	–	–	–	1,653	257.0	–	Jan 00 – Jun 00
Robert Colvill							
Exercisable	162,270	–	–	213,751	321.0 ⁽¹⁾	–	May 94 – May 04
Not exercisable	204,130	–	–	128,333	452.0 ⁽¹⁾	–	May 97 – May 05
Lapsed	–	–	24,316	–	–	–	–
SAYE	10,355	–	–	2,087	467.0	–	Jan 01 – Jun 01
SAYE exercised	–	–	8,268	–	257.0	259.0	–
Clara Freeman							
Exercisable	70,949	–	–	107,292	373.0 ⁽¹⁾	–	May 95 – May 05
Not exercisable	223,077	–	–	232,000	490.0 ⁽¹⁾	–	May 98 – Jun 09
Granted	–	57,424	–	–	358.0	–	Jan 04 – Jun 09
Lapsed	–	–	12,158	–	–	–	–
SAYE	4,728	–	–	4,728	374.0 ⁽¹⁾	–	Jan 02 – Jun 03
Guy McCracken							
Exercisable	46,386	–	–	46,386	340.0 ⁽¹⁾	–	May 95 – May 03
Not exercisable	472,823	–	–	518,959	475.0 ⁽¹⁾	–	May 96 – Jun 09
Granted	–	46,136	–	–	358.0	–	Jun 04 – Jun 09
SAYE	6,624	–	–	6,815	336.0 ⁽¹⁾	–	Jan 02 – Jun 05
SAYE grant	–	1,513	–	–	223.0	–	Jan 05 – Jun 05
SAYE exercised	–	–	1,322	–	257.0	259.0	–
Alan McWalter							
Not exercisable	–	721,310	–	721,310	305.0	–	Jan 03 – Jan 10
Barry Morris							
Exercisable	49,736	–	–	49,736	335.0 ⁽¹⁾	–	May 95 – May 03
Not exercisable	227,414	–	–	303,885	438.0 ⁽¹⁾	–	May 96 – Jun 09
Granted	–	76,471	–	–	358.0	–	Jun 04 – Jun 09
SAYE	4,601	–	–	4,601	375.0 ⁽¹⁾	–	Jan 01 – Jun 03
Joe Rowe							
Exercisable	111,523	–	–	111,524	337.0 ⁽¹⁾	–	May 95 – May 03
Not exercisable	280,066	–	–	363,826	467.0 ⁽¹⁾	–	May 96 – Jun 09
Granted	–	83,761	–	–	358.0	–	Jun 04 – Jun 09
SAYE	4,776	–	–	3,705	372.0 ⁽¹⁾	–	Jan 01 – Jun 02
SAYE exercisable	–	–	–	1,071	322.0	–	Jan 00 – Jun 00

(1) Weighted average price.

6 Long-term benefits (continued)

	AT 1 APRIL 1999 OR DATE OF APPOINTMENT	GRANTED DURING THE YEAR	EXERCISED/ LAPSED DURING THE YEAR	AT 31 MARCH 2000 OR DATE OF RETIREMENT	OPTION PRICE (PENCE)	EXERCISE PRICE (PENCE)	OPTION PERIOD
Retired directors							
James Benfield⁽³⁾							
Exercisable (84/87 scheme)	44,984	-	-	44,931	329.0 ⁽¹⁾	-	May 95 – May 03
Exercisable (97 scheme)	-	-	-	187,267	518.0 ⁽¹⁾	-	Jan 00 – Dec 00
Not exercisable	318,190	-	-	152,175	412.0 ⁽¹⁾	-	
Granted	-	37,004	-	-	358.0	-	Jan 00 – Dec 00
Lapsed	-	-	15,805	-	-	-	
SAYE	6,915	-	-	6,915	343.0 ⁽¹⁾	-	Jan 00 – Jun 00
Lord Stone of Blackheath⁽³⁾							
Exercisable (84/87 scheme)	96,335	-	-	96,335	345.0 ⁽¹⁾	-	May 96 – May 04
Exercisable (97 scheme)	-	-	-	155,513	557.0	-	Jan 00 – Dec 00
Not exercisable	442,784	-	-	287,271	435.0 ⁽¹⁾	-	
SAYE	5,429	-	-	5,429	359.0 ⁽¹⁾	-	Jan 00 – Jun 00
Sir Richard Greenbury⁽³⁾							
Exercisable (84/87 scheme)	87,458	-	-	87,458	329.0	-	May 95 – May 02
Not exercisable	881,290	-	-	881,290	390.0 ⁽¹⁾	-	
Derek Hayes⁽³⁾							
Exercisable (84/87 scheme)	59,343	-	-	67,732	344.0 ⁽¹⁾	-	May 95 – May 04
Exercisable (97 scheme)	-	-	-	98,138	557.0	-	Jun 99 – May 00
Not exercisable	285,151	-	-	166,466	435.0 ⁽¹⁾	-	
Lapsed	-	-	12,158	-	-	-	
Chris Littmoden⁽³⁾							
Exercisable (84/87 scheme)	67,542	-	-	67,542	265.0 ⁽¹⁾	-	May 94 – May 02
Exercisable (97 scheme)	-	-	-	120,479	557.0	-	Jun 99 – May 00
Not exercisable	339,690	-	-	215,622	401.0 ⁽¹⁾	-	
Lapsed	-	-	3,589	-	-	-	
John Sacher⁽³⁾							
Exercisable (84/87 scheme)	190	-	-	190	254.0	-	May 94 – May 01
Not exercisable	309,436	-	-	291,199	377.0 ⁽¹⁾	-	
Lapsed	-	-	18,237	-	-	-	

(1) Weighted average price

(3) All SAYE options for retired directors lapsed six months after their date of retirement.

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 Executive Share Option Schemes are shown on pages 30 and 31. Further information regarding employee share option schemes is given in note 10D. 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 OR DATE OF APPOINTMENT	
Luc Vandeveldel ⁽¹⁾	808,080	–	Joe Rowe	41,823 29,795
Peter Salsbury	90,474	62,836	Brian Baldock	70,000 50,000
Roger Aldridge	55,566	41,770	Sir Martin Jacomb	22,425 21,845
Robert Colvill	53,228	21,761	Sir Michael Perry	8,357 8,357
Clara Freeman	80,929	59,147	Dame Stella Rimington	3,209 3,086
Guy McCracken	68,875	58,101	Sir Ralph Robins	2,613 2,514
Alan McWalter	12,000	–	Sir David Sieff	306,381 308,322
Barry Morris	6,781	3,753		

(1) Award of restricted shares (see page 10 – Recruitment of directors).

(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
Sir David Sieff	22,000	45,951	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 6 and 7.

Auditors' report

Auditors' report to the members of Marks and Spencer p.l.c.

We have audited the financial statements on pages 20 to 45.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 16, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority 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 United Kingdom Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

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

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

We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

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
22 May 2000

Directors' report

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.

Profit and dividends

The profit for the financial year, after taxation and minority interests, amounts to £258.7m. The directors have declared dividends as follows:

	£m
Ordinary shares	
Interim paid, 3.7p per share (last year 3.7p)	106.3
Proposed final, 5.3p per share (last year 10.7p)	152.3
Total ordinary dividends, 9.0p per share (last year 14.4p)	258.6

The final dividend will be paid on 28 July 2000 to shareholders whose names are on the Register of Members at the close of business on 5 June 2000.

Share capital

(i) Issue of new shares

During the year ended 31 March 2000, 3,964,345 ordinary shares in the Company were issued as follows:

- A** 264,240 under the terms of the 1984 Executive Share Option Scheme at prices between 175p and 254p each.
- B** 28,331 under the terms of the 1987 Executive Share Option Scheme at prices between 329p and 341p.
- C** 3,671,774 issued into the Qualifying Employee Share Ownership Trust of which 3,203,511 were issued under the terms of the United Kingdom Employees' Save As You Earn Share Option Scheme at prices between 229p and 467p.

(ii) Purchase of own shares

The directors are authorised by the shareholders to purchase, in the market, the Company's own shares, as permitted under the Company's Articles of Association. Although no such purchases have been made, the directors will seek to renew the authority from its shareholders at the AGM.

Major shareholders

As at 14 May 2000, the Company's share register of substantial shareholdings showed the following interests in 3% or more of the Company's shares:

	ORDINARY SHARES	% SHARE CAPITAL
Brandes Investment Partners, L.P.	214,237,570	7.45%
Franklin Resources, Inc.	169,299,710	5.89%

In addition, JP Morgan have notified us that they are holding 122,828,784 ordinary shares (4.27%) as American Depositary Receipts, 111,358,482 of which are included in above figures for Brandes Investment Partners and Franklin Resources.

Directors and their interests

The current directors are listed on page 25 of the Annual Review and Summary Financial Statement.

Derek Hayes, Chris Littmoden and John Sacher retired as executive directors on 31 May 1999.

Sir Richard Greenbury retired as Chairman on 22 June 1999.

James Benfield and Lord Stone of Blackheath retired as executive directors on 31 December 1999.

Alan McWalter and Luc Vandevelde were appointed to the Board on 1 January 2000 and 28 February 2000 respectively.

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

Employee involvement

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

Employees are kept well informed of the performance and objectives of the Group through personal briefings, regular meetings and e-mail. These are supplemented by our employee publication, *On Your Marks*, and video presentations. 'Focus teams' in stores, distribution centres and head office provide opportunities for employee representatives to contribute to the everyday running of the business.

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

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

We have long-established Employees' Profit Sharing and Savings-Related Share Option Schemes, membership of which is service-related, details of which are given on page 30.

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 employees in the workforce if they become disabled during employment. We will actively retrain and adjust their environment where possible to allow them to maximise their potential.

Creditor payment policy

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

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).

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 14.9 days (10.7 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.

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.

Charitable and political contributions

During the year, we spent £14.1m in the UK in support of the community. Within this, direct donations to charitable organisations amounted to £4.0m. These figures include £6.9m for our programme of Millennium events and activities, of which £0.5m is a donation to the Children's Promise. No contributions were made to any political party.

Annual general meeting

The Notice of the Annual General Meeting to be held on 19 July 2000 (together with explanatory notes) is given in the booklet which accompanies this Report. The Special Business of the Meeting includes resolutions to adopt a new Executive Share Option Scheme and a new All-Employee Share Plan.

By order of the Board
Luc Vandeveld, Chairman
 London
 22 May 2000

Consolidated profit and loss account

NOTES	53 WEEKS ENDED 1 APRIL 2000			52 WEEKS ENDED 27 MARCH 1999			
	BEFORE EXCEPTIONAL ITEMS £m	EXCEPTIONAL ITEMS £m	AFTER EXCEPTIONAL ITEMS £m	BEFORE EXCEPTIONAL ITEMS £m	EXCEPTIONAL ITEMS £m	AFTER EXCEPTIONAL ITEMS £m	
Turnover – continuing operations	2	8,195.5	–	8,195.5	8,224.0	–	8,224.0
Cost of sales		(5,402.8)	–	(5,402.8)	(5,450.7)	–	(5,450.7)
Gross profit		2,792.7	–	2,792.7	2,773.3	–	2,773.3
Net operating expenses		(2,249.7)	(72.0)	(2,321.7)	(2,172.8)	(88.5)	(2,261.3)
Operating profit – continuing operations	2,3	543.0	(72.0)	471.0	600.5	(88.5)	512.0
Loss on termination of Canadian operation	4B						
Losses arising on closure		–	(21.0)	(21.0)	–	–	–
Goodwill previously written off to reserves		–	(24.4)	(24.4)	–	–	–
		–	(45.4)	(45.4)	–	–	–
(Loss)/profit on sale of property and other fixed assets	4C	–	(22.3)	(22.3)	–	6.2	6.2
Net interest income	5	14.2	–	14.2	27.9	–	27.9
Profit on ordinary activities before taxation	2	557.2	(139.7)	417.5	628.4	(82.3)	546.1
Taxation on ordinary activities	6	(177.2)	19.0	(158.2)	(183.7)	7.6	(176.1)
Profit on ordinary activities after taxation		380.0	(120.7)	259.3	444.7	(74.7)	370.0
Minority interests (all equity)		(0.6)	–	(0.6)	2.1	–	2.1
Profit attributable to shareholders	7	379.4	(120.7)	258.7	446.8	(74.7)	372.1
Dividends	8	(258.6)	–	(258.6)	(413.3)	–	(413.3)
Retained profit/(loss) for the period		120.8	(120.7)	0.1	33.5	(74.7)	(41.2)
Basic earnings per share	9			9.0p			13.0p
Fully diluted basic earnings per share	9			9.0p			12.9p
Adjusted earnings per share	9			13.2p			15.6p
Fully diluted adjusted earnings per share	9			13.2p			15.5p
Dividend per share	8			9.0p			14.4p

Note of historical cost profits and losses

NOTES	53 WEEKS ENDED 1 APRIL 2000 £m	52 WEEKS ENDED 27 MARCH 1999 £m	
Profit on ordinary activities before taxation		417.5	546.1
Realisation of property revaluation surplus	25	74.2	7.8
Revaluation element of depreciation charge	25	1.9	1.4
Historical cost profit on ordinary activities before taxation		493.6	555.3
Historical cost retained profit/(loss) for the period		76.2	(32.0)

Consolidated statement of total recognised gains and losses

NOTES	53 WEEKS ENDED 1 APRIL 2000 £m	52 WEEKS ENDED 27 MARCH 1999 £m	
Profit attributable to shareholders		258.7	372.1
Exchange differences on foreign currency translation	25	(16.8)	15.0
Unrealised surpluses on revaluation of investment properties	25	3.0	34.1
Total recognised gains and losses relating to the period		244.9	421.2

Balance sheets

AT 31 MARCH 2000

	NOTES	2000 £m	THE GROUP 1999 £m	2000 £m	THE COMPANY 1999 £m
Fixed assets					
Goodwill	12	1.3	-	-	-
Tangible assets:					
Land and buildings		2,774.1	2,954.4	2,458.5	2,629.3
Fit out, fixtures, fittings and equipment		1,386.7	1,317.6	1,145.3	1,094.6
Assets in the course of construction		81.3	115.5	44.8	105.5
	13	4,242.1	4,387.5	3,648.6	3,829.4
Investments	14	55.0	61.2	450.4	406.7
		4,298.4	4,448.7	4,099.0	4,236.1
Current assets					
Stocks		474.4	514.7	315.1	354.0
Debtors:					
Receivable within one year	15A	988.3	969.0	795.2	696.7
Receivable after more than one year	15B	1,566.9	1,386.7	80.3	96.6
Investments	16	386.4	204.0	-	-
Cash at bank and in hand	17	301.1	281.5	89.8	36.1
		3,717.1	3,355.9	1,280.4	1,183.4
Current liabilities					
Creditors: amounts falling due within one year	19	2,162.8	2,029.8	736.0	827.3
Net current assets		1,554.3	1,326.1	544.4	356.1
Total assets less current liabilities					
		5,852.7	5,774.8	4,643.4	4,592.2
Creditors: amounts falling due after more than one year	20	804.3	772.6	-	-
Provisions for liabilities and charges	22	126.6	105.0	113.0	96.3
Net assets		4,921.8	4,897.2	4,530.4	4,495.9
Capital and reserves					
Called up share capital	24	718.6	717.7	718.6	717.7
Share premium account		369.4	358.5	369.4	358.5
Revaluation reserve		457.9	531.0	458.9	533.2
Profit and loss account		3,359.4	3,276.7	2,983.5	2,886.5
Shareholders' funds (all equity)	25	4,905.3	4,883.9	4,530.4	4,495.9
Minority interests (all equity)		16.5	13.3	-	-
Total capital employed		4,921.8	4,897.2	4,530.4	4,495.9

Approved by the Board

22 May 2000

Luc Vandeveld, Chairman

Peter Salsbury, Chief Executive

Robert Colvill, Group Finance Director

Consolidated cash flow information

FOR THE YEAR ENDED 31 MARCH 2000

Cash flow statement

	NOTES	£m	2000	£m	£m	1999	£m
Operating activities							
Received from customers		7,989.9			7,884.1		
Payments to suppliers		(5,357.1)			(5,464.2)		
Payments to and on behalf of employees		(1,138.3)			(1,153.9)		
Other payments		(803.8)			(793.1)		
Cash inflow from operating activities before exceptional items			690.7			472.9	
Exceptional operating cash outflow	28A		(49.2)			(0.6)	
Cash inflow from operating activities	27		641.5			472.3	
Returns on investments and servicing of finance	28B		15.2			29.0	
Taxation	28C		(145.7)			(345.9)	
Capital expenditure and financial investment	28D		(167.0)			(628.1)	
Acquisitions and disposals	28E		(21.1)			1.0	
Equity dividends paid			(413.5)			(412.6)	
Cash outflow before management of liquid resources and financing			(90.6)			(884.3)	
Management of liquid resources and financing							
Management of liquid resources	28F	(162.5)			180.6		
Financing	28G	260.3			505.0		
			97.8			685.6	
Increase/(decrease) in cash			7.2			(198.7)	

Reconciliation of net cash flow to movement in net debt (see note 29)

	2000	1999
	£m	£m
Increase/(decrease) in cash	7.2	(198.7)
Cash outflow/(inflow) from increase/(decrease) in liquid resources	162.5	(180.6)
Cash inflow from increase in debt financing	(250.9)	(482.8)
Exchange movements	11.4	(0.2)
Movement in net debt	(69.8)	(862.3)
Net debt at 1 April	(1,181.6)	(319.3)
Net debt at 31 March	(1,251.4)	(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, applied consistently, is given below.

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.

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

Any impairment in value is charged to the 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 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.

Accounting policies

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

Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction. 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 is capitalised and amortised over its useful economic life. The profit or loss arising on the sale of a previously acquired business includes the attributable goodwill.

Pension contributions

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

Regular valuations are prepared by independent professionally qualified actuaries. These determine the level of contributions required to fund the benefits set out in the rules of the plans and 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 53 weeks to 1 April 2000 (last year 52 weeks to 27 March 1999). All other activities are for the year to 31 March 2000. All results are derived from continuing operations.

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 £m	2000 £m	1999 £m
Retailing activities	7,830.9	7,875.4	355.1	375.8	4,494.5	4,518.7
Before exceptional operating charges			427.1	464.3		
Exceptional operating charges (see note 4A)			(72.0)	(88.5)		
Financial Services ⁽¹⁾	364.6	348.6	115.9	110.7	448.7	388.7
Total operating activities	8,195.5	8,224.0	471.0	486.5	4,943.2	4,907.4
Add: excess interest charged to cost of sales of Financial Services ⁽¹⁾			-	25.5		
Total operating profit			471.0	512.0		
Loss on termination of Canadian operation			(45.4)	-		
(Loss)/profit on sale of property and other fixed assets			(22.3)	6.2		
Net interest income			14.2	27.9		
Profit on ordinary activities before taxation			417.5	546.1		
Unallocated liabilities					(21.4)	(10.2)
Net assets					4,921.8	4,897.2

B Geographical segments⁽²⁾

	TURNOVER		OPERATING PROFIT		OPERATING ASSETS	
	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m
United Kingdom						
Retail ⁽³⁾	6,482.7	6,601.1	356.8	454.4	3,905.2	3,965.8
Before exceptional operating charges			420.1	478.9		
Exceptional operating charges (see note 4A)			(63.3)	(24.5)		
Financial Services ⁽¹⁾	364.6	348.6	115.9	110.7	448.7	388.7
	6,847.3	6,949.7	472.7	565.1	4,353.9	4,354.5
International Retail						
Europe (excluding UK) ⁽⁴⁾	555.6	554.0	(14.8)	(90.8)	387.8	354.1
Before exceptional operating charges			(6.1)	(26.8)		
Exceptional operating charges (see note 4A)			(8.7)	(64.0)		
The Americas	691.4	629.5	16.4	15.7	201.2	192.2
Far East ⁽⁴⁾	101.2	90.8	(3.3)	(3.5)	0.3	6.6
	1,348.2	1,274.3	(1.7)	(78.6)	589.3	552.9
Total operating activities	8,195.5	8,224.0	471.0	486.5	4,943.2	4,907.4
Add: excess interest charged to cost of sales of Financial Services ⁽¹⁾			-	25.5		
Total operating profit			471.0	512.0		

(1) Financial Services operating profit is stated after charging £105.5m (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 £107.4m (last year £76.8m) (see note 5). Intra group interest of £nil (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.

Notes to the financial statements

2. SEGMENTAL INFORMATION (continued)

- (2) The geographical segments disclose turnover and operating profit by destination and reflect management responsibility. Following the closure of the Canadian operations and a realignment of management responsibility, franchise turnover and operating profits previously included within the Americas are now included within Europe. Comparatives have been restated accordingly.
- (3) UK Retail turnover including VAT comprises clothing, footwear and gifts £3,948.7m (last year £4,196.0m); home furnishings £319.1m (last year £308.0m) and foods £2,880.4m (last year £2,787.6m). VAT on UK Retail turnover was £665.5m (last year £690.5m).
- (4) Operating profit includes pre-opening costs of £2.0m (last year £14.4m) for Europe and £nil (last year £0.1m) for Far East.
- (5) Turnover originates in the following geographical segments: United Kingdom £6,990.4m (last year £7,082.2m); Europe £436.0m (last year £440.5m); The Americas £691.4m (last year £629.5m) and Far East £77.7m (last year £71.8m).
- (6) The value of goods exported from the UK, including shipments to international subsidiaries, amounted to £460.2m (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)	395.5	345.9	7.9	12.4
Kings Super Markets	273.7	245.5	11.1	10.0
Corporate expenses	–	–	(2.6)	(2.0)
	669.2	591.4	16.4	20.4
M&S Canada	22.2	38.1	–	(4.7)
	691.4	629.5	16.4	15.7
Far East				
Stores	101.2	90.8	(3.2)	(14.5)
Other ⁽¹⁾	–	–	(0.1)	11.0
	101.2	90.8	(3.3)	(3.5)

- (1) The profits generated from sourcing merchandise and technological services in Hong Kong, together with the costs of research into new markets in the region, are grouped within Far East under 'Other'. Due to changes affecting sourcing from the Far East, sourcing income for the year has fallen by £12.7m compared to last year, with a corresponding reduction in UK Retail operating costs.

The results of international subsidiaries have been translated using average rates of exchange ruling during the year. The movements in exchange rates used for translation, compared to the same period last year, have reduced international sales (excluding Canada) by £5.7m. The effect on the results of international operations is not significant.

3. OPERATING PROFIT

	2000			1999		
	BEFORE EXCEPTIONAL CHARGES £m	EXCEPTIONAL CHARGES £m	TOTAL £m	BEFORE EXCEPTIONAL CHARGES £m	EXCEPTIONAL CHARGES £m	TOTAL £m
Turnover	8,195.5	–	8,195.5	8,224.0	–	8,224.0
Cost of sales	(5,402.8)	–	(5,402.8)	(5,450.7)	–	(5,450.7)
Gross profit	2,792.7	–	2,792.7	2,773.3	–	2,773.3
Employee costs (see note 10)	1,096.2	68.2	1,164.4	1,083.4	24.5	1,107.9
Occupancy costs	287.8	–	287.8	288.3	–	288.3
Repairs, renewals and maintenance of fixed assets	89.5	–	89.5	103.6	–	103.6
Depreciation	261.6	–	261.6	236.4	64.0	300.4
Other costs ⁽¹⁾	514.6	3.8	518.4	461.1	–	461.1
Total net operating expenses ⁽²⁾	(2,249.7)	(72.0)	(2,321.7)	(2,172.8)	(88.5)	(2,261.3)
Operating profit	543.0	(72.0)	471.0	600.5	(88.5)	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.

3. OPERATING PROFIT (continued)

(1) 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	1.1	0.9	0.4	0.4
Non-audit services	2.8	0.5	2.2	-

Fees paid for non-audit services are for taxation advice, corporate finance and consulting services.

(2) Included in 'Total net operating expenses' are rentals under operating leases, comprising £2.3m for hire of plant and machinery (last year £8.9m) and £123.4m of other rental costs (last year £111.4m).

4. EXCEPTIONAL ITEMS**A Exceptional operating charges**

	2000 £m	1999 £m
UK redundancy costs ⁽¹⁾	63.3	24.5
European restructuring costs ⁽²⁾	8.7	-
Provision for impairment ⁽³⁾	-	64.0
Total exceptional operating charges	72.0	88.5

(1) The £63.3m charge for the year (of which £16m was reported at the half year) is in respect of the restructuring of UK Retail into customer business units, the rationalisation of store management and the refocussing of existing store roles to customer facing activities, and the closure of two distribution centres. The £24.5m charge last year represents the cost of rationalising the Group's head office functions.

(2) The European restructuring costs are in respect of store closures in France and Germany announced during the year.

(3) The £64.0m charge last year was in respect of the provision made to adjust the carrying value of European fixed assets in accordance with FRS11 'Impairment of Fixed Assets and Goodwill'.

B Loss on termination of Canadian operations

On 28 April 1999 the Group announced the closure of its Canadian operations. As a consequence its subsidiary, Marks and Spencer Canada Inc, ceased to trade in the first half of the year to 31 March 2000.

The loss on closure of the operations of £45.4m arises as follows:

	2000 £m	1999 £m
Trading losses since 28 April 1999	0.6	-
Net closure costs	20.4	-
Loss before goodwill previously written off to reserves	21.0	-
Goodwill previously written off to reserves	24.4	-
Loss on termination of operations	45.4	-

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

	2000 £m	1999 £m
Loss on sale of properties relating to European store closures ⁽¹⁾	(8.3)	-
Loss on sale of investment properties ⁽²⁾	(16.1)	-
Profit arising on other disposals	2.1	6.2
(Loss)/profit on sale of property and other fixed assets	(22.3)	6.2

(1) The loss of £8.3m relates to the European store closures announced during the year. Including the restructuring cost of £8.7m disclosed in note 4A above this gives rise to total closure costs of £17.0m.

(2) The loss on the sale of investment properties is in respect of the disposals of The Gyle Shopping Centre and a property in Newcastle. Overall, the Group has realised a profit of £58.1m based on the original purchase cost which has not been reflected in the profit and loss account. The properties have been revalued annually since their acquisition by the Group and the cumulative revaluation surplus of £74.2m has been recognised through the Statement of Total Recognised Gains and Losses in previous years.

Notes to the financial statements

5. NET INTEREST INCOME

	2000		1999	
	£m	£m	£m	£m
Bank and other interest income	309.3		306.1	
Less: amounts included in turnover of Financial Services	(293.2)		(278.2)	
		16.1		27.9
Interest expenditure	(107.4)		(76.8)	
Less: interest charged to cost of sales of Financial Services	105.5		102.3	
Intra group interest charged to cost of sales of Financial Services (see note 2)	-		(25.5)	
		(1.9)		-
Net interest income		14.2		27.9
Interest expenditure comprises:				
Amounts repayable within five years:				
Bank loans, overdrafts and other borrowings		(33.2)		(30.5)
Medium term notes		(74.2)		(36.2)
7% Guaranteed bonds 1998		-		(8.1)
US\$ Promissory note 1998		-		(2.0)
		(107.4)		(76.8)

6. TAXATION ON ORDINARY ACTIVITIES

	2000		1999	
	£m	£m	£m	£m
The taxation charge comprises:				
Current taxation				
UK corporation tax at 30% (last year 31%):				
Current year	151.1		169.2	
Prior years	2.7		(3.5)	
		153.8		165.7
Overseas taxation		6.4		2.8
		160.2		168.5
Deferred taxation (see note 22)				
Current year	(1.9)		9.1	
Prior years	(0.1)		(1.5)	
		(2.0)		7.6
		158.2		176.1

Included in the tax charge for the year is a credit of £19.0m (last year £7.6m) which is attributable to exceptional operating charges.

7. 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 £258.7m (last year £372.1m) includes £280.6m (last year £371.6m) which is dealt with in the financial statements of the Company.

8. DIVIDENDS

	2000	1999
	£m	£m
Ordinary shares		
Interim paid of 3.7p per share (last year 3.7p)	106.3	106.1
Proposed final of 5.3p per share (last year 10.7p)	152.3	307.2
Total ordinary dividend of 9.0p per share (last year 14.4p)	258.6	413.3

9. EARNINGS PER SHARE

The calculation of earnings per ordinary share is based on earnings after tax and minority interests and the weighted average number of ordinary shares in issue during the year.

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 charges. It has been calculated to allow the shareholders to gain a clearer understanding of the trading performance of the Group. Last year, adjusted earnings only excluded exceptional operating charges and comparatives have therefore been restated accordingly. Details of the adjusted earnings per share are set out below:

	2000			1999		
	£m	BASIC pence per share	DILUTED pence per share	£m	BASIC pence per share	DILUTED pence per share
Basic earnings	258.7	9.0	9.0	372.1	13.0	12.9
Exceptional restructuring costs	53.0	1.8	1.8	16.9	0.6	0.6
Exceptional fixed asset provision	–	–	–	64.0	2.2	2.2
Loss on disposal of Canadian operations	45.4	1.6	1.6	–	–	–
Loss/(profit) on disposal of property	22.3	0.8	0.8	(6.2)	(0.2)	(0.2)
Adjusted earnings	379.4	13.2	13.2	446.8	15.6	15.5

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.

	2000			1999		
	£m	BASIC pence per share	DILUTED pence per share	£m	BASIC pence per share	DILUTED pence per share
Basic earnings	258.7	9.0	9.0	372.1	13.0	12.9
Exceptional fixed asset provision	–	–	–	64.0	2.2	2.2
Loss on disposal of Canadian operations	45.4	1.6	1.6	–	–	–
Loss/(profit) on disposal of property	22.3	0.8	0.8	(6.2)	(0.2)	(0.2)
IIMR earnings	326.4	11.4	11.4	429.9	15.0	14.9

The weighted average number of ordinary shares used in the calculation of earnings per share are as follows:

	2000 m	1999 m
Weighted average ordinary shares in issue during the year ended 31 March	2,872.1	2,864.7
Potentially dilutive share options under the Group's share option schemes	13.6	18.6
Weighted average ordinary shares for fully diluted earnings per share	2,885.7	2,883.3

10. EMPLOYEES

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

		2000	1999
UK stores	Management and supervisory categories	3,885	4,105
	Other	54,545	52,931
UK head office	Management and supervisory categories	2,379	2,485
	Other	1,441	1,626
Financial Services	Management and supervisory categories	320	280
	Other	1,127	988
Overseas		11,960	13,077
		75,657	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 52,156 (last year 51,306).

The aggregate remuneration and associated costs of Group employees were:

	2000			1999		
	BEFORE EXCEPTIONAL CHARGES £m	EXCEPTIONAL CHARGES £m	TOTAL £m	BEFORE EXCEPTIONAL CHARGES £m	EXCEPTIONAL CHARGES £m	TOTAL £m
Wages and salaries	834.4	52.4	886.8	813.7	15.3	829.0
UK profit sharing (see note 10C)	11.8	0.6	12.4	14.2	0.6	14.8
Social security costs	59.3	1.0	60.3	61.5	0.5	62.0
Pension costs (see note 10A)	120.5	4.0	124.5	122.1	7.1	129.2
Employee welfare and other personnel costs	89.1	10.2	99.3	88.5	1.0	89.5
	1,115.1	68.2	1,183.3	1,100.0	24.5	1,124.5
Classified as:						
Employee costs (see note 3)	1,096.2	68.2	1,164.4	1,083.4	24.5	1,107.9
Manufacturing cost of sales	18.9	–	18.9	16.6	–	16.6
	1,115.1	68.2	1,183.3	1,100.0	24.5	1,124.5

Notes to the financial statements

10. EMPLOYEES (continued)

A Pension costs

The total pension cost for the Group was £124.5m (last year £129.2m) of which £112.1m relates to the UK Scheme (last year £112.3m), £2.6m relates to the Early Retirement Plan (last year £6.6m) and £9.8m 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 1998 by an independent actuary using the projected unit method. The key assumptions adopted were:

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

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

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

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

The total UK pension cost is analysed as follows:

	2000 £m	1999 £m
Normal pension cost ⁽¹⁾	93.9	92.7
Amortisation of deficit	14.1	14.1
Net interest elements	4.1	5.5
Total	112.1	112.3

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

As shown in note 15, the Company has pre-paid pension costs of £175.0m. This includes the partial funding of the deficit, offset by the amortisation and interest elements shown above, with the balance being pre-paid contributions to the UK Scheme.

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

B Post-retirement health benefits

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

At 31 March 1999, the Company re-assessed this liability in accordance with the advice of an independent qualified actuary. The discounted present value of £27.7m (see note 22) has been fully provided. The valuation assumed a premium inflation of 7.5% and an after-tax discount rate of 7.0%. There is a matching deferred taxation asset of £8.3m.

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

C United Kingdom and Republic of Ireland profit sharing schemes

The amount of profit which will be allocated this year, in the form of ordinary shares in the Company, has been fixed at £12.4m (last year £14.8m), representing 2.5% (last year 3%) of the earnings of 44,145 (last year 43,550) eligible employees.

These shares are now purchased in the market: 3,154,036 ordinary shares were purchased by the Profit Sharing Trustees in respect of the 1998/1999 allocation.

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 1992	Expired	471,247	229p
January 1993	1,390,015	3,231,374	257p
January 1994	2,559,142	3,185,585	319p
January 1995	7,146,133	8,245,124	322p
January 1996	7,189,225	8,896,346	330p
January 1997	7,209,963	10,463,786	389p
January 1998	5,901,130	10,630,202	467p
January 1999	11,282,225	15,560,138	324p
January 2000	36,500,221	–	223p

10. EMPLOYEES (continued)**E Executive Share Option Schemes**

Under the terms of the 1997 Scheme 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 8). Outstanding options granted under all executive share option schemes are as follows:

	NUMBER OF SHARES		OPTION PRICE	OPTION DATES
	2000	1999		
Options granted (1984 Scheme)				
May 1990	133,346	211,154	206p	May 1993 – May 2000
May 1991	748,546	780,681	254p	May 1994 – May 2001
May 1992	1,652,102	1,652,102	329p	May 1995 – May 2002
May 1993	1,233,053	1,258,712	341p	May 1996 – May 2003
October 1993	19,576	26,989	399p	Oct 1996 – Oct 2003
May 1994	1,878,391	1,916,384	404p	May 1997 – May 2004
October 1994	21,541	21,541	402p	Oct 1997 – Oct 2004
May 1995	1,566,969	1,606,315	414p	May 1998 – May 2005
May 1996	58,950	58,950	458p	May 1999 – May 2006
November 1996	6,172	6,172	486p	Nov 1999 – Nov 2006
June 1997	39,844	51,228	527p	June 2000 – June 2007
(1987 Scheme)				
May 1993	961,837	972,669	341p	May 1996 – May 2000
October 1993	30,701	46,114	399p	Oct 1996 – Oct 2000
May 1994	1,138,068	1,171,729	404p	May 1997 – May 2001
October 1994	9,288	9,288	402p	Oct 1997 – Oct 2001
May 1995	1,425,660	1,465,006	414p	May 1998 – May 2002
May 1996	1,654,620	1,714,111	458p	May 1999 – May 2003
November 1996	39,507	39,507	486p	Nov 1999 – Nov 2003
June 1997	2,032,282	2,116,225	527p	June 2000 – June 2004
(1997 Scheme – Tier 1)				
June 1998	385,355	414,282	557p	June 2001 – June 2008
November 1998	265,785	265,785	404p	Nov 2001 – Nov 2008
June 1999	985,394	–	358p	June 2002 – June 2009
November 1999	95,323	–	278p	Nov 2002 – Nov 2009
January 2000	360,655	–	305p	Jan 2003 – Jan 2010
March 2000	1,992,337	–	261p	Mar 2003 – Mar 2010
(1997 Scheme – Tier 2)				
June 1998	4,979,790	5,637,154	557p	June 2003 – June 2008
November 1998	117,825	117,825	404p	Nov 2003 – Nov 2008
June 1999	2,491,935	–	358p	June 2004 – June 2009
November 1999	59,352	–	278p	Nov 2004 – Nov 2009
January 2000	360,655	–	305p	Jan 2005 – Jan 2010
March 2000	1,992,337	–	261p	Mar 2005 – Mar 2010

11. DIRECTORS**A Emoluments**

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

	2000 £000	1999 £000
Aggregate emoluments	6,534	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

12. GOODWILL

Goodwill arising in the year relates to the Group's acquisition of a 65% interest in Splendour.com for a cash consideration of £3m. Net assets at the time of acquisition were £2.7m, including £3m of cash. There were no fair value adjustments. The goodwill is being amortised on a straight line basis over five years.

13. 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								
At 1 April 1999	3,037.9	2,545.7	115.5	5,699.1	2,698.8	2,034.9	105.5	4,839.2
Additions	85.0	186.6	179.0	450.6	30.3	152.1	101.2	283.6
Transfers	61.2	149.3	(210.5)	-	59.8	102.1	(161.9)	-
Disposals	(286.1)	(103.0)	-	(389.1)	(253.0)	(51.9)	-	(304.9)
Revaluation surplus	1.8	-	-	1.8	1.8	-	-	1.8
Differences on exchange	(31.1)	(21.7)	(2.7)	(55.5)	-	-	-	-
At 31 March 2000	2,868.7	2,756.9	81.3	5,706.9	2,537.7	2,237.2	44.8	4,819.7
Accumulated depreciation								
At 1 April 1999	83.5	1,228.1	-	1,311.6	69.5	940.3	-	1,009.8
Depreciation for the year	14.2	247.4	-	261.6	11.0	201.3	-	212.3
Disposals	(1.9)	(94.4)	-	(96.3)	(1.3)	(49.7)	-	(51.0)
Differences on exchange	(1.2)	(10.9)	-	(12.1)	-	-	-	-
At 31 March 2000	94.6	1,370.2	-	1,464.8	79.2	1,091.9	-	1,171.1
Net book value								
At 31 March 2000	2,774.1	1,386.7	81.3	4,242.1	2,458.5	1,145.3	44.8	3,648.6
At 1 April 1999	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	868.3	437.9	13.5	1,319.7	868.3	437.9	13.5	1,319.7
At cost	1,001.7	421.4	125.9	1,549.0	728.5	409.8	79.7	1,218.0
	1,870.0	859.3	139.4	2,868.7	1,596.8	847.7	93.2	2,537.7
Accumulated depreciation	19.7	8.5	66.4	94.6	13.7	8.3	57.2	79.2
Net book value								
At 31 March 2000	1,850.3	850.8	73.0	2,774.1	1,583.1	839.4	36.0	2,458.5
At 1 April 1999	2,071.5	800.4	82.5	2,954.4	1,802.8	786.2	40.3	2,629.3

B 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
Disposals (see note 4C)		(232.1)
Revaluation surplus		1.8
At 31 March 2000		54.5

13. TANGIBLE FIXED ASSETS (continued)**C 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 three investment properties have been valued at open market value in accordance with the RICS Appraisal and Valuation Manual as at 31 March 2000 by external valuers, Gerald Eve, Chartered Surveyors and DTZ Debenham Tie Leung, Chartered Surveyors. The valuations of these investment properties are based on the apportionment of larger valuations to exclude an owner occupied Marks & Spencer store in each case. They exclude any income or outgoings attributable to the owner occupied Marks & Spencer stores which have been assumed to continue trading.

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 £m
At valuation at 31 March 1975 ⁽¹⁾	333.6	333.6
At cost	1,478.9	1,567.5
At 31 March	1,812.5	1,901.1
Accumulated depreciation	117.1	109.3
Net book value at 31 March	1,695.4	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.

14. FIXED ASSET INVESTMENTS**A Investments**

	THE GROUP			SHARES IN GROUP UNDERTAKINGS ⁽⁴⁾ £m	LOANS TO GROUP UNDERTAKINGS £m	THE COMPANY		
	JOINT VENTURE ⁽¹⁾⁽²⁾ £m	OTHER INVESTMENTS ⁽³⁾ £m	TOTAL £m			JOINT VENTURE ⁽¹⁾ £m	OTHER INVESTMENTS ⁽³⁾ £m	TOTAL £m
At 1 April 1999	24.2	37.0	61.2	362.7	27.6	16.4	–	406.7
Additions	0.5	15.4	15.9	0.4	41.9	–	7.8	50.1
Disposals	–	(22.8)	(22.8)	–	–	–	(5.9)	(5.9)
Share of joint venture's property revaluation	1.2	–	1.2	–	–	–	–	–
Repayment of loan	(0.5)	–	(0.5)	–	–	(0.5)	–	(0.5)
At 31 March 2000	25.4	29.6	55.0	363.1	69.5	15.9	1.9	450.4

- (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 £9.8m (last year £10.3m) of loans and accumulated reserves of £9.5m (last year £7.8m).
- (3) Other investments include listed securities held by a subsidiary. The difference between their book value and market value is negligible. Other investments also include 708,263 shares in the Company held by employee share trusts ('the Trusts'). Of these shares, 468,263 were held by the Marks and Spencer p.l.c. Qualifying Employee Share Ownership Trust (see note 24) and 240,000 shares were held by other trusts. At 31 March 2000, shares held by the Trusts had a book value of £1.9m.
- (4) Shares in Group undertakings of £363.1m (last year £362.7m) are stated after cumulative amounts written off of £543.6m (last year £543.6m).

Notes to the financial statements

14. FIXED ASSET INVESTMENTS (continued)

B Principal subsidiary undertakings

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

	PRINCIPAL ACTIVITY	COUNTRY OF INCORPORATION AND OPERATION	PROPORTION OF VOTING RIGHTS AND SHARES HELD BY:	
			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 & Spencer Finance Inc	Holding Company	United States	100%	–
Marks and Spencer Ventures Limited	Holding Company	Great Britain	100%	–
Marks & Spencer (France) SA	Retailing	France	–	100%
SA Marks and Spencer (Belgium) NV	Retailing	Belgium	–	100%
Splendour.com Limited	Retailing	UK	–	65%
Marks and Spencer (España) SA	Retailing	Spain	–	100%
Marks and Spencer (Portugal) Lda	Retailing	Portugal	–	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%
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 & Spencer Finance p.l.c.	Finance	Great Britain	100%	–
Marks and Spencer Property Holdings Limited	Property Investment	Great Britain	100%	–

15. DEBTORS

A Amounts receivable within one year

	THE GROUP		THE COMPANY	
	2000 £m	1999 £m	2000 £m	1999 £m
Trade debtors	44.4	45.1	26.5	26.2
Customer advances	663.3	653.0	–	–
Amounts owed by Group undertakings	–	–	599.1	488.3
Other debtors ⁽¹⁾	61.9	62.2	21.9	27.6
Prepayments and accrued income ⁽²⁾	218.7	208.7	147.7	154.6
	988.3	969.0	795.2	696.7

B Amounts receivable after more than one year⁽³⁾

Customer advances	1,478.1	1,282.2	–	–
Other debtors ⁽¹⁾	17.1	20.5	12.5	15.6
Prepayments and accrued income ⁽²⁾	71.7	84.0	67.8	81.0
	1,566.9	1,386.7	80.3	96.6

(1) Other debtors include an interest free loan to an officer of the Company of £55,735 (last year £38,094).

(2) Prepayments and accrued income includes £175.0m (last year £188.2m) in respect of the UK Pension Scheme. Of this, £67.8m (last year £81.0m) is included in amounts receivable after more than one year.

(3) Amounts receivable after more than one year include £76.0m (last year £84.7m) of non-financial assets which have been excluded from the analysis in note 18.

16. CURRENT ASSET INVESTMENTS

	THE GROUP		THE COMPANY	
	2000 £m	1999 £m	2000 £m	1999 £m
Listed investments:				
Government securities	74.0	69.0	-	-
Listed in the United Kingdom	47.0	39.4	-	-
Listed overseas	59.8	54.4	-	-
Unlisted investments	11.6	41.2	-	-
Short-term deposits ⁽¹⁾	194.0	-	-	-
	386.4	204.0	-	-

(1) Short-term deposits comprise deposits with banks and other financial institutions with initial maturity of more than three months.

17. CASH AT BANK AND IN HAND

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

18. ANALYSIS OF FINANCIAL ASSETS

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

A Interest rate and currency analysis

	THE GROUP							
	2000			TOTAL £m	1999			TOTAL £m
FIXED RATE £m	FLOATING RATE £m	NON-INTEREST BEARING £m	FIXED RATE £m		FLOATING RATE £m	NON-INTEREST BEARING £m		
Currency								
Sterling	96.7	1,912.0	77.1	2,085.8	112.6	1,525.3	29.3	1,667.2
US dollar	17.0	29.4	4.0	50.4	9.9	62.4	3.1	75.4
Other	21.2	39.7	10.9	71.8	32.1	36.2	13.6	81.9
	134.9	1,981.1	92.0	2,208.0	154.6	1,623.9	46.0	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			
	2000 WEIGHTED AVERAGE INTEREST RATE %	1999 WEIGHTED AVERAGE INTEREST RATE %	2000 WEIGHTED AVERAGE PERIOD FOR WHICH RATE IS FIXED YEARS	1999 WEIGHTED AVERAGE PERIOD FOR WHICH RATE IS FIXED YEARS
Currency				
Sterling	7.0	6.7	7.5	5.1
US dollar	6.0	6.4	7.3	8.9
Other	4.4	6.2	6.1	3.0

C Analysis of financial assets

	THE GROUP	
	2000 £m	1999 £m
Cash at bank and in hand	301.1	281.5
Current asset investments	386.4	204.0
Customer advances falling due in more than one year	1,478.1	1,282.2
Fixed asset investments	29.6	37.0
Other amounts receivable after more than one year	12.8	19.8
Financial assets as defined by FRS13	2,208.0	1,824.5
Customer advances falling due in less than one year	663.3	653.0
Financial assets including short-term customer advances	2,871.3	2,477.5

Notes to the financial statements

19. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	THE GROUP		THE COMPANY	
	2000 £m	1999 £m	2000 £m	1999 £m
Bank loans and overdrafts	469.0	445.8	29.3	–
Medium term notes (see note 21B)	700.4	466.8	–	–
Trade creditors	219.3	214.7	180.8	163.7
Amounts owed to Group undertakings	–	–	9.3	–
Taxation	112.8	98.3	82.9	72.7
Social security and other taxes	30.1	14.1	21.6	2.3
Other creditors ⁽¹⁾	254.3	244.5	138.3	146.4
Accruals and deferred income	224.5	238.4	121.4	135.0
Proposed final dividend	152.4	307.2	152.4	307.2
	2,162.8	2,029.8	736.0	827.3

(1) Other creditors include £27.1m (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.

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

	THE GROUP		THE COMPANY	
	2000 £m	1999 £m	2000 £m	1999 £m
Medium term notes (see note 21B)	686.1	665.4	–	–
Other creditors ⁽¹⁾⁽²⁾	118.2	107.2	–	–
	804.3	772.6	–	–

(1) Other creditors include £56.3m (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 £58.2m (last year £33.0m) of non-financial liabilities which have been excluded from the analysis in note 21.

21. ANALYSIS OF FINANCIAL LIABILITIES

A Interest rate and currency analysis

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

	THE GROUP		THE GROUP		THE GROUP	
	FIXED RATE £m	FLOATING RATE £m	2000 TOTAL £m	FIXED RATE £m	FLOATING RATE £m	1999 TOTAL £m
Currency						
Sterling	100.0	1,408.3	1,508.3	100.0	1,189.0	1,289.0
US dollar	–	183.8	183.8	–	203.6	203.6
Other	–	250.5	250.5	–	181.7	181.7
	100.0	1,842.6	1,942.6	100.0	1,574.3	1,674.3

The floating rate sterling and US dollar borrowings are linked to interest rates related to LIBOR. These rates are for periods ranging from one month to six months. The fixed rate sterling borrowings are at a weighted average rate of 6.8% and the weighted average time for which the rate is fixed is 3.3 years.

21. ANALYSIS OF FINANCIAL LIABILITIES (continued)**B Maturity of financial liabilities**

	THE GROUP	
	2000 £m	1999 £m
Repayable within one year:		
Bank loans, overdrafts and commercial paper	469.0	445.8
Medium term notes	700.4	466.8
Other creditors	27.1	22.1
	1,196.5	934.7
Repayable between one and two years:		
Medium term notes	95.2	165.1
Other creditors	23.3	24.9
	118.5	190.0
Repayable between two and five years:		
Medium term notes	571.0	500.3
Other creditors	31.5	36.9
	602.5	537.2
Repayable in five years or more:		
Medium term notes	19.9	–
Other creditors	5.2	12.4
	25.1	12.4
	1,942.6	1,674.3

(1) Financial liabilities include £3.7m (last year £7.2m) of other creditors which is excluded from the reconciliation of net debt in note 29.

C Borrowing facilities

At 31 March 2000, 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 2000 these amounted to £533.3m (last year £691.7m).

Notes to the financial statements

22. PROVISIONS FOR LIABILITIES AND CHARGES

	THE GROUP £m	THE COMPANY £m
Post-retirement health benefits⁽¹⁾		
At 1 April 1999	27.8	27.8
Utilised during the year	(2.2)	(2.2)
Interest charged	2.1	2.1
At 31 March 2000	27.7	27.7
UK and European restructuring⁽²⁾		
At 1 April 1999	24.0	24.0
Additions during the year	72.0	63.3
Utilised during the year	(49.2)	(44.7)
Exchange differences	(0.1)	-
At 31 March 2000	46.7	42.6
Canadian closure⁽³⁾		
At 1 April 1999	2.6	-
Additions during the year	20.4	-
Utilised during the year	(19.2)	-
Exchange differences	0.2	-
At 31 March 2000	4.0	-
Deferred taxation⁽⁴⁾		
At 1 April 1999	50.6	44.5
Credited to the profit and loss account (see note 6)	(2.0)	(1.8)
Exchange differences	(0.4)	-
At 31 March 2000	48.2	42.7
Total at 31 March 2000	126.6	113.0
Total at 31 March 1999	105.0	96.3

- (1) The £27.7m 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 10B for further details).
- (2) The provision for UK and European restructuring costs relates to the ongoing costs of restructuring the Group's UK and European operations. The balance at 31 March 2000 primarily relates to the restructuring of UK Retail into customer business units and the refocussing of existing store roles to customer facing activities. The majority of these costs are expected to be incurred during the next financial year.
- (3) The Canadian restructuring costs relate to the costs incurred in closing the Group's Canadian operations. The balance at 31 March 2000 primarily relates to surplus properties and is expected to be utilised over the next three years.
- (4) The deferred tax provision consists of £56.5m (last year £58.9m) arising on short-term timing differences offset by £8.3m (last year £8.3m) arising on post-retirement health benefits.

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	155.7	219.7	141.5	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 international subsidiaries.

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

A 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			
	BOOK VALUE £m	2000 FAIR VALUE £m	BOOK VALUE £m	1999 FAIR VALUE £m
Assets/(liabilities)				
Customer advances falling due in more than one year	1,478.1	1,474.2	1,282.2	1,300.2
Current asset investments ⁽¹⁾	386.4	386.4	204.0	204.0
Fixed asset investments ⁽²⁾	29.6	29.6	37.0	37.0
Cash at bank and in hand ⁽¹⁾	301.1	301.1	281.5	281.5
Borrowings due within one year ⁽¹⁾	(1,196.1)	(1,199.6)	(934.7)	(936.1)
Financial liabilities due after more than one year ⁽¹⁾	(746.1)	(737.4)	(739.6)	(745.4)
Interest rate swaps ⁽³⁾	–	(2.6)	–	(12.7)
Forward foreign currency contracts ⁽³⁾	–	20.2	–	9.7
FTSE 100 put options ⁽⁴⁾	2.2	3.1	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.

B Hedges of future transactions

As described in the Financial Review on page 5, 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 80% of the foreign currency exports expected in the following 12 months.

At 31 March 2000, there were £20.2m 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 2001.

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.

C Currency risk

The effect of currency exposures arising from the translation of overseas investments is mitigated by Group borrowings in the local currencies of its main operating subsidiaries. Gains and losses arising on net investments in overseas subsidiaries are recognised in the Statement of Total Recognised Gains and Losses.

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

24. CALLED UP SHARE CAPITAL

	THE COMPANY	
	2000 £m	1999 £m
Authorised:		
3,200,000,000 ordinary shares of 25p each	800.0	800.0
Allotted, called up and fully paid:		
2,874,587,298 ordinary shares of 25p each (last year 2,870,622,953)	718.6	717.7

3,964,345 ordinary shares having a nominal value of £0.9m were allotted during the year under the terms of the Company's share schemes which are described in note 10. The aggregate consideration received was £10.7m. Contingent rights to the allotment of shares are also described in note 10.

Of the 3,964,345 ordinary shares referred to above, 3,671,774 ordinary shares were subscribed for by the Marks and Spencer p.l.c. Qualifying Employee Share Ownership Trust (the 'QUEST') at market value of £11.2m. Of these shares, 3,203,511 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 £1.1m 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 25). At 31 March 2000, 468,263 shares were held by the QUEST (see note 14).

Notes to the financial statements

25. SHAREHOLDERS' FUNDS

	THE GROUP		THE COMPANY	
	2000 £m	1999 £m	2000 £m	1999 £m
Called up share capital (see note 24)	718.6	717.7	718.6	717.7
Share premium account:				
At 1 April	358.5	325.7	358.5	325.7
Shares issued under the Company's share schemes	10.9	32.8	10.9	32.8
At 31 March	369.4	358.5	369.4	358.5
Revaluation reserve:				
At 1 April	531.0	506.1	533.2	509.7
Surplus on revaluation of investment properties	1.8	32.7	1.8	32.7
Share of joint venture's movement in revaluation reserve	1.2	1.4	–	–
Revaluation surplus realised on disposals	(74.2)	(7.8)	(74.2)	(7.8)
Revaluation element of depreciation charge	(1.9)	(1.4)	(1.9)	(1.4)
At 31 March	457.9	531.0	458.9	533.2
Profit and loss account reserve:				
At 1 April	3,276.7	3,306.3	2,886.5	2,931.6
Revaluation element of depreciation charge	1.9	1.4	1.9	1.4
Revaluation surplus realised on disposals	74.2	7.8	74.2	7.8
Goodwill reinstated in respect of closure of Canada	24.4	–	–	–
Amounts deducted in respect of shares issued to the QUEST (see note 24)	(1.1)	(12.6)	(1.1)	(12.6)
Retained profit/(loss) for the year	0.1	(41.2)	22.0	(41.7)
Exchange differences on foreign currency translation	(16.8)	15.0	–	–
At 31 March	3,359.4	3,276.7	2,983.5	2,886.5
Shareholders' funds at 31 March – all equity	4,905.3	4,883.9	4,530.4	4,495.9

Cumulative goodwill of £428.9m (last year £453.3m) arising on the acquisition of US 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.

26. RECONCILIATION OF MOVEMENTS IN GROUP SHAREHOLDERS' FUNDS

	THE GROUP	
	2000 £m	1999 £m
Profit attributable to shareholders	258.7	372.1
Dividends	(258.6)	(413.3)
	0.1	(41.2)
Other recognised gains and losses relating to the year	(13.8)	49.1
New share capital subscribed	11.8	34.9
Amounts deducted from profit and loss account reserve in respect of shares issued to the QUEST	(1.1)	(12.6)
Goodwill transferred to profit and loss account on closure of Canada	24.4	–
Net additions to shareholders' funds	21.4	30.2
Shareholders' funds at 1 April	4,883.9	4,853.7
Shareholders' funds at 31 March	4,905.3	4,883.9

27. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	THE GROUP	
	2000 £m	1999 £m
Operating profit	471.0	512.0
Exceptional operating charges (see note 4A)	72.0	88.5
Operating profit before exceptional charges	543.0	600.5
Depreciation (excluding £64.0m impairment provision last year)	261.6	236.4
Decrease/(increase) in stocks	40.3	(7.6)
Increase in customer advances	(206.2)	(363.0)
Decrease/(increase) in other debtors	0.9	(8.0)
Increase in creditors	51.1	14.6
Net cash inflow before exceptional items	690.7	472.9
Exceptional operating cash outflow (see note 28A)	(49.2)	(0.6)
Net cash inflow from operating activities	641.5	472.3

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

	THE GROUP	
	2000 £m	1999 £m
A Exceptional operating cash flows		
UK redundancy costs paid	(44.7)	(0.6)
European restructuring costs paid	(4.5)	-
Exceptional operating cash outflow	(49.2)	(0.6)
B Returns on investments and servicing of finance		
Interest received	17.8	29.8
Interest paid	(2.0)	-
Dividends paid to minorities	(0.6)	(0.8)
Net cash inflow from returns on investments and servicing of finance	15.2	29.0
C Taxation		
UK corporation tax paid	(143.5)	(337.2)
Overseas tax paid	(2.2)	(8.7)
Cash outflow for taxation	(145.7)	(345.9)
D Capital expenditure and financial investment		
Purchase of tangible fixed assets	(447.5)	(663.0)
Sale of tangible fixed assets	266.0	25.5
Purchase of fixed asset investments	(1.9)	-
Sale of fixed asset investments	16.4	9.4
Net cash outflow for capital expenditure and financial investment	(167.0)	(628.1)
E Acquisitions and disposals		
Closure of Canadian operations	(15.4)	-
Repayment of loan by joint venture	0.5	1.0
Acquisition of minority interest	(6.2)	-
Cash (outflow)/inflow for acquisitions and disposals	(21.1)	1.0
F Management of liquid resources		
Decrease in cash deposits treated as liquid resources	18.4	140.2
Net purchase of government securities	(5.0)	(14.2)
Net purchase of listed investments	(12.9)	(0.7)
Net sale of unlisted investments	31.0	55.3
Net increase in short-term deposits	(194.0)	-
Cash (outflow)/inflow from (increase)/decrease in liquid resources	(162.5)	180.6

Notes to the financial statements

28. ANALYSIS OF CASH FLOWS GIVEN IN THE CASH FLOW STATEMENT (continued)

THE GROUP	
2000	1999
£m	£m

G Financing

Increase in bank loans, overdrafts and commercial paper treated as financing	2.3	29.5
Repayment of 7% Guaranteed bonds	–	(150.0)
Repayment of US\$ Promissory note	–	(268.7)
Issue of medium term notes	254.3	859.3
(Decrease)/increase in other creditors treated as financing	(5.7)	12.7
Debt financing as shown in analysis of net debt (see note 29)	250.9	482.8
Shares issued under employees' share schemes	9.4	22.2
Net cash inflow from financing	260.3	505.0

29. 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 18C)	281.5	20.5	(0.9)	301.1
Less: deposits treated as liquid resources (see below)	(178.6)	18.4	0.1	(160.1)
	102.9	38.9	(0.8)	141.0
Bank loans, overdrafts and commercial paper (see note 21B)	(445.8)	(34.0)	10.8	(469.0)
Less: amounts treated as financing (see below)	384.7	2.3	(5.0)	382.0
	(61.1)	(31.7)	5.8	(87.0)
Net cash per cash flow statement	41.8	7.2	5.0	54.0
Liquid resources:				
Deposits included in cash (see above)	178.6	(18.4)	(0.1)	160.1
Current asset investments (see note 16)	204.0	180.9	1.5	386.4
Liquid resources per cash flow statement and note 28F	382.6	162.5	1.4	546.5
Debt financing:				
Bank loans, overdrafts and commercial paper treated as financing (see above)	(384.7)	(2.3)	5.0	(382.0)
Medium term notes (see note 21B)	(1,132.2)	(254.3)	–	(1,386.5)
Other creditors (see note 21B)	(89.1)	5.7	–	(83.4)
Debt financing (see note 28G)	(1,606.0)	(250.9)	5.0	(1,851.9)
Net debt	(1,181.6)	(81.2)	11.4	(1,251.4)

30. 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	103.9	151.5	101.1	134.8
B Guarantees by the Company in respect of debt instruments issued by subsidiaries	–	–	1,780.8	1,258.3
C Guarantees made in the ordinary course of business on behalf of overseas subsidiaries	–	–	129.2	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	6.2	1.2	0.6	1.1
Expiring in the second to fifth years inclusive	28.0	2.2	4.3	1.8
Expiring in more than five years	80.0	–	41.6	–
	114.2	3.4	46.5	2.9

31. 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	1.24	1.15	1.24	1.15	1.31	1.18
France	10.29	9.64	10.24	9.74	10.94	9.81
Belgium	63.39	59.24	63.55	60.00	67.27	60.32
Germany	3.07	2.85	3.08	2.87	3.26	2.92
The Netherlands	3.41	3.24	3.45	3.28	3.68	3.30
Portugal	–	–	–	–	334.34	–
Spain	262.20	243.90	257.33	246.01	277.48	248.79
United States	1.62	1.66	1.61	1.66	1.60	1.61
Canada	2.35	2.51	2.35	2.51	2.32	2.44
Hong Kong	12.57	12.83	12.51	12.84	12.43	12.51
Japan	177.16	209.16	175.88	206.75	163.91	191.18

32. 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 53 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	4,629.6	4,765.1	4,811.4	4,601.7	4,181.4
Foods	3,201.3	3,110.3	3,157.1	3,024.1	2,871.3
Financial Services	364.6	348.6	274.8	216.1	181.0
Total turnover (excluding sales taxes)	8,195.5	8,224.0	8,243.3	7,841.9	7,233.7
Retailing – continuing	7,830.9	7,875.4	7,968.5	7,625.8	7,030.3
– discontinued	–	–	–	–	22.4
Financial Services	364.6	348.6	274.8	216.1	181.0
Operating profit					
United Kingdom	472.7	565.1	1,014.1	931.3	852.4
Europe (excluding UK) ⁽³⁾	(14.8)	(90.8)	31.9	37.3	31.7
Americas ⁽⁴⁾	16.4	15.7	16.7	20.7	13.9
Far East	(3.3)	(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	471.0	512.0	1,103.7	1,022.0	924.0
Analysed as:					
Before exceptional operating (charges)/income	543.0	600.5	1,050.5	1,022.0	924.0
Exceptional operating (charges)/income	(72.0)	(88.5)	53.2	–	–
Retailing – continuing	355.1	375.8	991.6	946.3	867.2
– discontinued	–	–	–	–	(2.2)
Financial Services	115.9	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)
Loss on closure of Canadian operation	(45.4)	–	–	–	–
(Loss)/profit on disposal of property and other fixed assets	(22.3)	6.2	(2.8)	(1.8)	(4.2)
Net interest income	14.2	27.9	54.1	65.9	57.6
Profit before taxation	417.5	546.1	1,155.0	1,086.1	952.4
Taxation on ordinary activities	(158.2)	(176.1)	(338.7)	(346.1)	(312.0)
Minority interests	(0.6)	2.1	(0.4)	(1.3)	(1.2)
Profit attributable to shareholders	258.7	372.1	815.9	738.7	639.2
Dividends	(258.6)	(413.3)	(409.1)	(368.6)	(320.9)
Profit/(loss) for the year	0.1	(41.2)	406.8	370.1	318.3
Balance sheet⁽¹⁾					
Intangible fixed assets	1.3	–	–	–	–
Tangible fixed assets	4,242.1	4,387.5	3,964.8	3,412.0	3,246.4
Fixed asset investments	55.0	61.2	69.7	36.6	46.0
Current assets	3,717.1	3,355.9	3,401.5	3,203.0	2,874.3
Total assets	8,015.5	7,804.6	7,436.0	6,651.6	6,166.7
Creditors due within one year	(2,162.8)	(2,029.8)	(2,345.0)	(1,775.1)	(1,674.9)
Total assets less current liabilities	5,852.7	5,774.8	5,091.0	4,876.5	4,491.8
Creditors due after more than one year	(804.3)	(772.6)	(187.2)	(495.8)	(497.8)
Provisions for liabilities and charges	(126.6)	(105.0)	(31.0)	(31.8)	(35.0)
Net assets	4,921.8	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) 1999 reflects £64m provision for impairment of fixed assets.

(4) Inclusive of discontinued operations.

	2000 £m 53 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	641.5	472.3	967.7	903.1	804.1	
Returns on investments and servicing of finance	15.2	29.0	56.1	65.4	55.7	
Taxation	(145.7)	(345.9)	(342.3)	(318.6)	(296.8)	
Capital expenditure and financial investment	(167.0)	(628.1)	(788.3)	(419.1)	(325.1)	
Acquisitions and disposals	(21.1)	1.0	2.6	(0.2)	(4.9)	
Equity dividends paid	(413.5)	(412.6)	(325.8)	(305.6)	(271.3)	
Cash outflow before management of liquid resources and financing	(90.6)	(884.3)	(430.0)	(75.0)	(38.3)	
Management of liquid resources	(162.5)	180.6	226.6	91.3	(127.7)	
Financing	260.3	505.0	307.4	64.7	113.5	
Increase/(decrease) in cash	7.2	(198.7)	104.0	81.0	(52.5)	
Decrease in net funds defined by FRS1	69.8	862.3	380.8	35.5	4.3	
Key performance measures⁽¹⁾						
Gross margin ⁽³⁾⁽⁴⁾	$\frac{\text{Gross profit}}{\text{Turnover}}$	34.1%	33.4%	35.2%	34.9%	34.7%
Net margin ⁽³⁾⁽⁴⁾	$\frac{\text{Operating profit}}{\text{Turnover}}$	5.7%	5.9%	13.1%	13.0%	12.8%
Net margin excluding exceptional items ⁽⁵⁾		6.6%	7.0%	12.5%	13.0%	12.8%
Profitability ⁽³⁾	$\frac{\text{Profit before tax}}{\text{Turnover}}$	5.1%	6.6%	14.0%	13.8%	13.6%
Profitability excluding exceptional items ⁽⁶⁾		6.8%	7.6%	13.4%	13.9%	13.6%
Earnings per share (Defined by FRS14)	$\frac{\text{Standard earnings}^{(7)}}{\text{Weighted average ordinary shares in issue}}$	9.0p	13.0p	28.6p	26.1p	22.8p
Earnings per share adjusted for exceptional items		13.2p	15.6p	27.4p	26.2p	23.8p
Earnings per share (Defined by IIMR)	$\frac{\text{Headline earnings}^{(8)}}{\text{Weighted average ordinary shares in issue}}$	11.4p	15.0p	28.7p	26.2p	23.8p
Dividend per share		9.0p	14.4p	14.3p	13.0p	11.4p
Dividend cover	$\frac{\text{Profit attributable to shareholders}}{\text{Dividends}}$	1.0	0.9	2.0	2.0	1.9
Return on equity ⁽³⁾	$\frac{\text{Profit after tax and minority interests}}{\text{Average shareholders' funds}}$	5.3%	7.6%	17.8%	17.9%	17.1%
Capital expenditure ⁽¹⁾	£450.6m	£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 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 2000 exclude exceptional operating charges of £72.0m in respect of UK and European restructuring costs.

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 4A). 1998 excludes exceptional operating income of £53.2m in respect of VAT.

(6) Excludes operating exceptional items referred to in (5) above together with non-operating exceptional items.

(7) Standard earnings are defined as profit after tax and minority interests.

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

