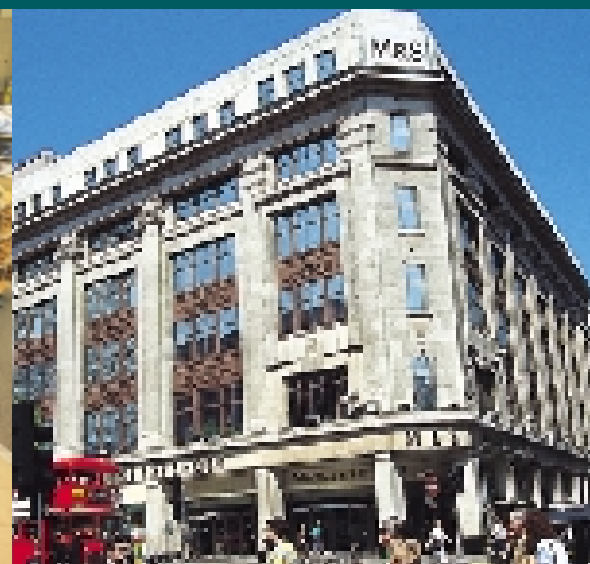




MARKS & SPENCER

ANNUAL REPORT AND FINANCIAL STATEMENTS 1998



OUR £2.2 BILLION EXPANSION PLAN

1997-98 THE STORY SO FAR . . .

MAY 1997

- We announce second major store for the City of London to open in Fenchurch Street in 2001.

JUNE 1997

- We unveil plans for the biggest M&S store in the world – 200,000 sq ft of selling space in the centre of Manchester – to open in 1999.

JULY 1997

- At the AGM, the Chairman announces the purchase from Littlewoods of 19 stores in prime high street locations.

SEPTEMBER 1997

- We reveal plans for five further stores for Germany – in Dortmund, Wuppertal, Essen and two in Frankfurt.

NOVEMBER 1997

- We start to roll out a new-generation till system in the UK and Continental Europe.

FEBRUARY 1998

- Work begins on converting Littlewoods stores to create 600,000 sq ft of extra selling space.

MARCH 1998

- We launch the first M&S mail order clothing catalogue.
- Cribbs Causeway, 102,000 sq ft department store, opens near Bristol.



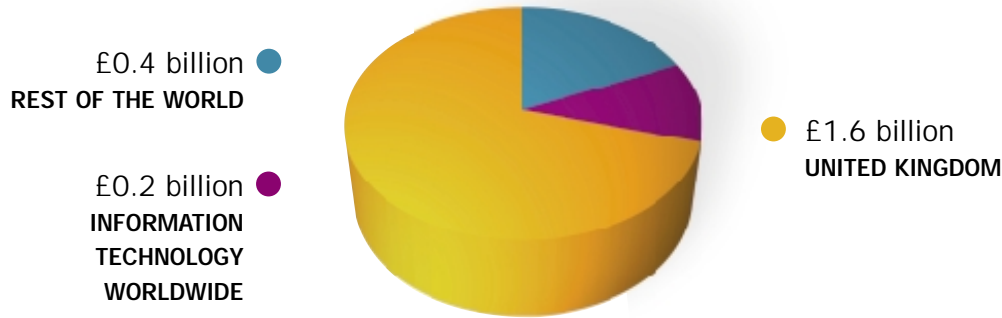
The British Quality of Management Award
1994, 1995, 1996, 1997



CAPITAL INVESTMENT

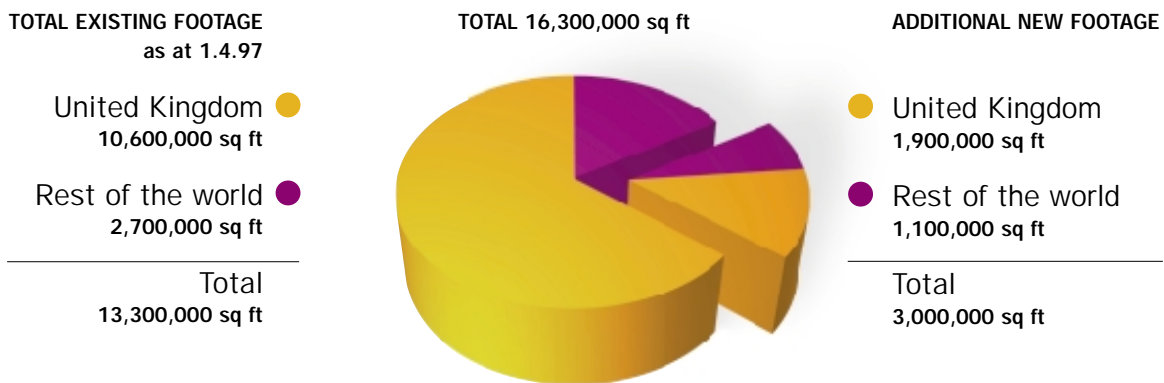
A THREE-YEAR PROGRAMME TO THE YEAR 2000

the spend



from 13.3 million sq ft to
16.3 million sq ft

23% more space



CHAIRMAN'S STATEMENT

Sir Richard Greenbury

I am pleased to report a further increase in profits and a year of good sales progress, particularly in clothing and home furnishings. Group turnover rose by £401m (+5.1%) to £8.24bn and pre-tax profits by £66m (+6%) to £1.17bn.

The final dividend recommended by the directors is 10.7p per share, making an ordinary dividend of 14.3p per share, an increase of 10%, reflecting the underlying financial strength of the business and our confidence in the future.

The effect of the high value of the pound on our results in continental Europe, the trading and economic collapse across the Far East and the cost of the Budget changes on funding the Company's pension scheme were broadly offset by an exceptional VAT credit of £53m.

The Group has embarked upon an expansion plan of unprecedented magnitude in the United Kingdom, continental Europe and the Far East.

THE THREE-YEAR PROGRAMME OF £2.2BN WILL ADD SOME 3.0M SQ FT BY MARCH 2000

During the year we added 620,000 sq ft of selling space worldwide, an investment of £740m. Over the next two years we will add a further 2.4m sq ft – 1.5m sq ft of which will be in the UK – bringing our UK selling space to 12.5m sq ft.

UK retail turnover increased by 5.5% to £6.7bn with sales of clothing, footwear and gifts increasing by 8.1% to £4.3bn including VAT, reflecting an increase in our already leading clothing market share. Relentless pursuit of product development means that today we can offer our customers a more extensive choice than ever.

Building on our experience in home delivery, at the end of the year we launched our first mail order clothing catalogue as a pilot scheme. This will complement our store-based offer and provide a valuable service for busy people and those living in remote areas.

We are rapidly developing a comprehensive, in-depth range of items for the home. A new stand-alone store in York allowed us to develop a display format appropriate to this kind of merchandise which will be repeated within the larger stores.

In a year during which competition among the major supermarket chains became even more intense, our food sales increased by 3%, adjusted for Easter trading, despite price deflation in several key areas.

Product development, backed by the highest quality and safety standards, remains the lifeblood of our food business, with one quarter of the product range new each year. This rate of innovation helps us to develop new ranges, based on our distinctive offer of speciality foods, to maintain our position in the market place. We are introducing in-store bakeries, rear-service delicatessen, hot food counters and more butchers' shops into all our larger stores to differentiate



ourselves further from the competition and provide new selling opportunities for our unique product ranges. Neighbourhood stores continue to progress well and further openings are planned.

Operating profit for financial services increased 18.1% to £89.4m. This is one of our fastest growing areas and contributes more than 8% of the Group's total operating profit. We completed an expansion of our financial services headquarters in Chester, enabling us to house a total of 1,200 people to deal with increased demand.

During the year we increased UK selling space by 410,000 sq ft. We opened four new stores, including a large edge-of-town store at Cribbs Causeway near Bristol and 16 stores were extended. The Group purchased 19 carefully selected stores from Littlewoods, at a cost of £192.5m, all funded from cash. These will provide some 600,000 sq ft of extra selling space in prime town and city centre sites close to existing Marks & Spencer stores. The new stores will become operational towards the end of 1998/99, during which year more than 1.0m sq ft will be added altogether, including a large edge-of-town store at Bluewater Park near Dartford in Kent.

There is no longer a typical Marks & Spencer store. Outlets vary enormously in size and each is

laid out and merchandised for a specific purpose – from a departmental store of 150,000 square feet serving a wide area such as at Newcastle to a sandwich shop in the City of London. Our 43 departmental stores allow us to display our expanding range of merchandise to good effect and offer a more complete shopping service than ever before. The extra space we are acquiring also enables us to create a more comfortable and convenient shopping environment – with improved facilities for elderly people and parents with young children, more and better fitting rooms and toilets, and, in the larger stores, coffee bars or restaurants.

**OPERATING PROFIT FOR FINANCIAL SERVICES
INCREASED 18.1% TO £89.4M,
CONTRIBUTING MORE THAN
8% OF TOTAL GROUP OPERATING PROFIT**

Against the background of a strong pound and economic collapse in the Far East, our overseas businesses generated total sales of £1.27bn, but operating profits were heavily affected and, after the costs associated with expansion, fell to £67.9m.

Outside the UK, sales in Europe made good progress when measured in local currencies and we

GROUP TURNOVER

1993	1994	1995	1996	1997	1998	5 YEAR GROWTH
£5,949.7m	£6,543.7m	£6,809.9m	£7,233.7m	£7,841.9m	£8,243.3m	UP 39%

GROUP PROFIT BEFORE TAX

1993	1994	1995	1996	1997	1998	5 YEAR GROWTH
£736.5m	£851.5m	£924.3m	£965.8m	£1,102.0m	£1,168.0m	UP 59%

EARNINGS PER SHARE

1993	1994	1995	1996	1997	1998	5 YEAR GROWTH
18.0p	20.9p	22.4p	23.3p	26.7p	29.1p	UP 62%

DIVIDENDS PER SHARE

1993	1994	1995	1996	1997	1998	5 YEAR GROWTH
8.1p	9.2p	10.3p	11.4p	13.0p	14.3p	UP 77%

added more than 80,000 sq ft of selling space. There was also substantial footage expansion in our franchise businesses. In the coming year nearly half a million square feet of retail selling space will be added worldwide, including four new stores in Germany and two in Spain.

Sales in our stores in Hong Kong were severely affected by the economic situation, as were those of all our franchise operations in the Far East. While slowing down our investment plans, we remain confident in the long-term future of the region. Brooks Brothers, which already has 66 shops in Japan, opened two franchise stores in Hong Kong in partnership with Dickson Concepts.

While trading conditions in North America remained very competitive, Brooks Brothers (US) produced further growth in sales and profits ahead of the sector; Brooks Brothers (Japan) was affected by the local economic situation. Kings Super Markets recorded another year of sales progress, although profits were affected by pre-opening and other non-trading costs. In Marks & Spencer Canada, our new chief executive officer is implementing strategies to take the business forward in this difficult market. We are

investigating the possibility of opening retail outlets in Latin America.

The Group is investing heavily in the infrastructure of the business. We are in the process of rolling out a new generation of tills across the chain at a cost of some £100 million. The new equipment is quicker, quieter and easier to operate. It will allow us to accept payment in a range of currencies, including the euro. By the year 2000, we will have replaced about 11,000 tills at the end of their economic life, across our stores in the UK and continental Europe. We have taken appropriate steps to avoid the problems associated with the so-called "millennium bug".

43 DEPARTMENTAL STORES

ALLOW US TO OFFER A MORE COMPLETE
SHOPPING SERVICE THAN EVER BEFORE

I would like to thank staff throughout the Group for their enthusiasm and hard work during the year. Their loyalty and commitment is our most valuable asset. We encourage all members of the company to develop as individuals to enable them,

whatever their position, to contribute to the success of the business. NVQs are firmly established within the Company as a key development and motivational tool; we are now one of the major participants in the NVQ process with many thousands of our sales and operations staff qualified in retail level 2. The UK Government's Investors in People scheme has been successfully adopted in two of our stores and is now being extended to others as well as to a large section of our head office.

I would like to pay tribute to our suppliers of goods and services who have worked closely with us in partnership to develop the business. Once again they have done an excellent job and their continued investment and increased commitment to supplying us augurs well for our combined futures.

The Group has always shown a high degree of social responsibility. This is exemplified by our commitment of over £10m to the communities in which we operate and our approach to environmental issues, both outlined on pages 28 to 31 of this report.

The Company's High Court libel action against Granada Television Limited in respect of its World in Action programme has been successfully concluded with an unreserved apology in open court from Granada, together with £700,000 of damages and costs. The Company's reputation for integrity in all its activities is of paramount importance and we will always take firm action to protect that position.

Our business has become increasingly complex, both operationally and in terms of product. It was, therefore, the right time to change the managing directors' portfolios so that they can gain experience across other areas of the Company. This has long been the practice at Board level and is particularly appropriate in the light of the challenges we face in the years ahead.

Don Trangmar retired at the end of the year after 32 years' service, including 14 as a director. On behalf of the Board, I would like to thank him for his substantial contribution, particularly in the

development of a very wide range of products. Shareholders will wish to join me in congratulating Andrew Stone on his elevation to the peerage.

Following a review of the Group's capital structure, the Board proposes to seek general authority from shareholders at the Annual General Meeting for the Company to make market purchases of its own shares. It has resolved to

WE ENCOURAGE ALL MEMBERS OF THE COMPANY TO CONTRIBUTE TO THE SUCCESS OF THE BUSINESS

suspend the current scrip dividend scheme and to introduce a dividend reinvestment plan for shareholders. Further information can be found in my letter accompanying this report.

The Board notes the Final Report of the Hampel Committee and the draft Combined Code on Corporate Governance which were published earlier this year and awaits the resultant amendments to the Stock Exchange Listing Rules.

The Group has entered a period of bold investment which will inevitably affect our profits over the next 18 months. However, we have always prudently managed our cash resources and, more important, taken the long-term view when growing your business. I am therefore confident that when the current expansion programme is completed we will remain as we are today the most profitable retailer in Europe.



Sir Richard Greenbury

MARKS & SPENCER PEOPLE

Expansion brings Marks & Spencer the challenges of managing change and maintaining quality of service across a workforce which during the year grew from 68,200 to 71,300. We are well prepared. Investment in training and development has led to improved performance by supervisors and junior management. During the year we took on 306 management trainees. Moreover, our focus on giving people wider roles spurs motivation and helps the organisation grow more smoothly.

More than 12,000 staff have now gained a National Vocational Qualification including 250 supervisors who have achieved level 3 equivalent to an 'A' level. We have extended the scheme abroad to Hong Kong. More sales assistants are developing specialist skills in areas such as jewellery, home furnishings or bra fitting. We encourage individuals to develop their careers and to contribute to discussion on work-related issues. We are also extending the Investors In People scheme to further areas of the business.

Finally we aim to inspire the Marks & Spencer staff of the future. Our new Working with Education initiative is helping stores nationwide to work practically with local schoolchildren and students in examining retail as a business – and as a career.



PROFESSIONAL SERVICE

Most of our store staff are trained by other staff on the sales floor. This helps them to learn swiftly and effectively, while building the team spirit so vital to delivering friendly, attentive and informed service.



SPECIAL EXPERTISE

Specialist services need specialist training – and Marks & Spencer staff are meeting the grade. We are building armies of experts in areas such as home furnishings and furniture, bra fitting and delicatessen. Such skills reflect both the commitment of staff and the diversity of what we offer.



FRIENDLY EXPERTISE

In our largest stores there are Financial Services Assistants trained to promote the range of financial products in a helpful and friendly way.



SMART ADVICE

Fashion designer Julien MacDonald – seen here with Sheilagh Brown, head of our womenswear design – is one of several leading designers sharing their expertise with Marks & Spencer. He has worked with us to create a distinctive, and successful, range of knitted lace co-ordinates. His skills contributed both to styling and to developing manufacturing processes that reproduce the hand-knit style.



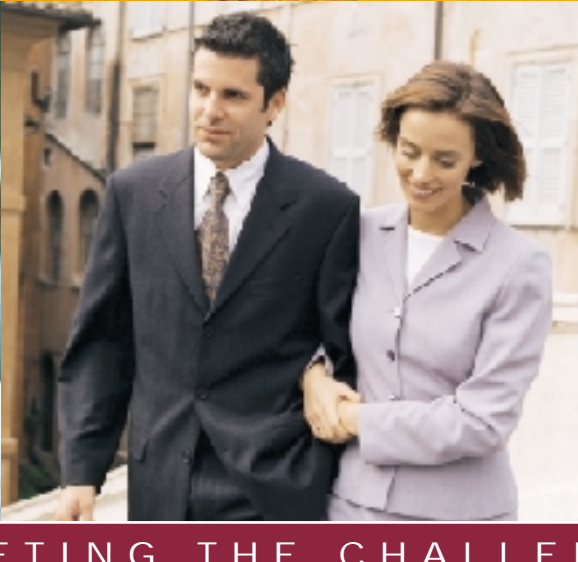
HELPING HAND

Manchester has faced a huge task in rebuilding its city centre after the bomb in 1996. Helping the effort is Gordon McKinnon, who is taking a two year secondment from Marks & Spencer to serve as Town Centre Manager for the city. He is one of 32 full time secondees involved in our community programme.



HEALTHY ADVICE

Diet and fitness expert Rosemary Conley is best known for her books and videos. However, she also influences millions of people in her role as a consultant to our “Healthy Choice” range of meals and snacks. Seen here with Harriet Carling, our selector for this very popular food range, Rosemary is one of several chefs and personalities who advise our food team.



MEETING THE CHALLENGE



Our challenge is clear – to retain our position as the leading clothing retailer in the UK, where our share in adult clothing continues to grow, while supporting our expansion overseas.

We constantly upgrade our product ranges through innovation and technical development. We now anticipate trends better and buy new fabrics and colours with greater confidence, so appealing to our broad customer base through a balance of styles – fashion and classic, formal and casual – across all our ranges.

Today's more relaxed approach to dressing has enabled us to build sales in our casual ranges for both women and men. Outstanding sales of women's casual trousers demonstrate our wide appeal, ranging from the fashionable bootleg shape to more classic styling in cotton and Tencel*. We sell more pairs of women's jeans than any other UK retailer. We had exceptional success with velvet, chenille, fleece and "soft touch" fabrics. In each case close links with fabric suppliers and garment manufacturers meant we could react swiftly within the season to maximise strong early sales. We meet modern demands for comfort and convenience with our growing use of stretch, non-iron and stain-resistant fabrics. Our technologists continue to work in partnership with fabric and garment suppliers to deliver the highest possible quality and performance.

Clothing
footwear & gifts

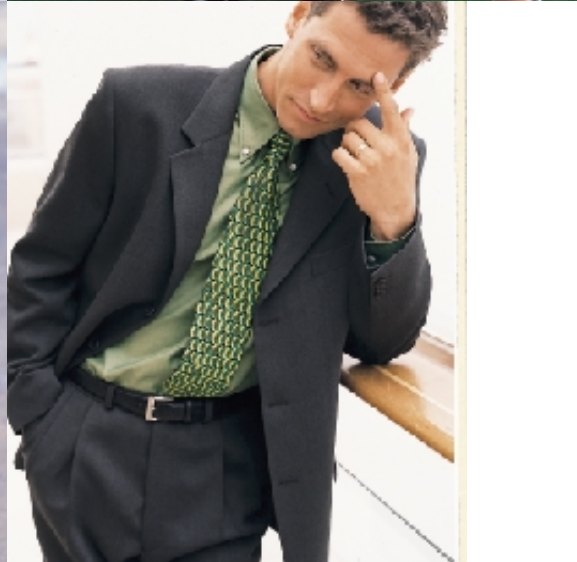
Customers today want greater choice in fabric and price. We are successfully tiering ranges to widen availability of premium fabrics, including cashmere and silk, while adding to such classic ranges as high-quality wool. The new Italian Collection for men and women broadens an already very strong range in tailoring. As sales space expands we will offer a wider choice in greater depth.

In recent seasons our selection of footwear and accessories has advanced rapidly to complement our clothing ranges. Stylish footwear is enabling us to gain

CONTINUES ON PAGE 10

PROMINENCE IN MORE AREAS	CONVENIENCE THROUGH TECHNOLOGY	WIDER DEMAND FOR GIFTS
<p>Marks & Spencer is now the biggest single retailer of women's shoes in Britain – and this proportion is rising steadily. Our freshly relaunched Classics brand is the country's fourth largest name in cosmetics, while our gold jewellery has advanced from Christmas hit to year-round favourite. Last year we introduced the country's top selling jazz CD. We are constantly transforming more product areas into dominant national contenders.</p>	<p>Technological breakthroughs continue to give M&S the edge in delivering convenience. We still score highly with past breakthroughs such as non-iron cotton shirts, machine-washable wool suits and stain-resistant Teflon* protection. More recently, lingerie sales have been boosted by body-sculpting styles that shape the figure and by 'secret support' achieved through innovative blends of Lycra* and other fibres.</p>	<p>UK gift-giving habits are changing. People now buy presents for all types of occasion and, increasingly, they are turning from designated 'gifts' to traditional ranges such as clothing – so long as these products have a touch of luxury. Marks & Spencer meets this demand with more luxury than ever before. From cashmere jumpers to seamfree lingerie, gold rings to dress waistcoats, we are clearly a destination for buying the special as much as</p>

* Registered trade mark.



CLOTHING, FOOTWEAR AND GIFTS CONTINUED FROM PAGE
9

a valuable share within the currently unsettled UK retail market for shoes. Accessories continue to grow strongly. Further development of real gold jewellery during the year, along with a wider costume jewellery range, firmly established our position in this new area. In addition, we relaunched our “Classic” cosmetics range and expanded the toiletries offer.

We again increased our dominant share of the UK lingerie market, where our new “Relax at home” range is developing alongside our successful glamour ranges.

Childrenswear is increasingly driven by adult trends. The year saw considerable success with girls’ versions of chenille jumpers and fur-trimmed jackets. Boyswear continued to suffer from the dominance of branded sportswear, though we made good progress with our own England and World Cup ranges. More colourful and stylish babywear proved popular. Overseas, formal childrenswear remains very successful – especially across continental Europe. As in all areas, we are building sales through adding a broader and more fashionable dimension to what we wear.

Creating the right shopping environment is crucial to building our increasingly successful business in home furnishings, kitchenware and furniture. The opening of our Marks & Spencer Home store in York helped us to evolve our offer through enhanced layout, dedicated facilities and specially trained staff. As Group footage increases, we will be able to extend this approach to a growing number of substantial home furnishings departments.

Kitchenware remains very strong with marked growth in cookware. This helps in turn to boost our wedding list business, which remains the UK's largest own-brand bridal registry service. Customers have responded well to the expanding range of non-iron bedding and we retain market leadership in supersoft bath towels. Furniture and furnishings are benefiting from greater display space and increasing customer awareness. We are also seeing growth in home accessories such as candles, picture frames and cushions.

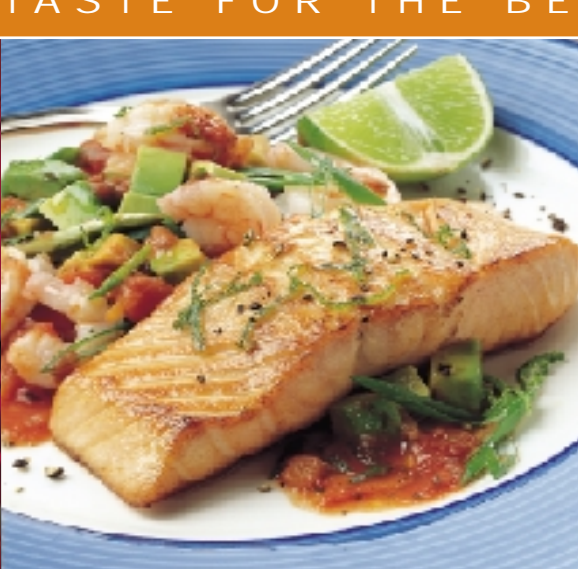
Home furnishings



EXTENDING OUR RANGE



A TASTE FOR THE BEST



While the UK food retail market is more competitive than ever, Marks & Spencer stays strongly focused on maintaining the ‘special’ in our speciality food and wines – to sustain our dominance of this sector by delivering the innovation and quality that customers want.

Our product range is stronger than ever, with 800 new products added in the past year alone. We protect our majority share of the market for ready meals with constant innovation. This included a 95% fat-free Chicken Kiev and other “Healthy Choice” meals, which also widened our appeal to younger consumers. Our technical expertise led to the Quick to Cook range of meals which adds convenience while maintaining excellent flavour and authenticity.

Close partnerships with suppliers ensure our produce remains the finest. Our meat, reared to our own specifications with both taste and safety in mind, is ever more popular among our seven million weekly food customers. More than 70 food technologists oversee quality throughout supply and distribution to maintain the standards on which our success is built.

As food shopping habits change, Marks & Spencer stays ahead. Taking advantage of the strategy plan for expanding footage, we are introducing a range of initiatives to enhance food shopping for our customers. Following the success of butchers’ shops, now in some 60 stores, we plan to add a further 35 during 1998/99 and introduce delicatessens, hot food counters and in-store bakeries in over 30 stores. These will provide greater personal service to match our outstanding product quality. We are opening more food-only neighbourhood stores with adjacent parking in suburban areas, while existing high street stores will benefit from improved Collect by Car facilities and, where suitable, services for home delivery. Such initiatives make Marks & Spencer an even more attractive destination for food shopping.

Food

GIVING OUR CUSTOMERS CONFIDENCE	DONATING UNSOLD FOOD	ESTABLISHING OUR BRAND OVERSEAS
<p>Consumers today have strong concerns about what they eat. So does Marks & Spencer. This is why we obsessively pursue the highest standards in food safety, working with our suppliers to set new industrial standards for purchasing raw materials and processing in factories. We also meet wider environmental concerns. All the eggs we sell are now free range, while we constantly work to minimise packaging and maximise our use of recyclable materials.</p>	<p>Each day, Marks & Spencer distributes food products which have passed their shelf expiry date but are still fine to eat. Since this scheme started 20 years ago, individual stores have formed partnerships with local organisations who can make best use of these goods. Such a policy helps both by reducing waste and by supporting those in need.</p>	<p>Food is a good way to introduce the Marks & Spencer brand to new markets abroad. It brings customers regularly into stores, particularly for highly popular novelties such as the traditional British three-corner sandwich or our ethnic meals. Food also establishes our standards of quality firmly from the start. While a sweater continues to show its quality after several washes, our produce shows its excellence from the first bite.</p>

Direct mail helps Marks & Spencer meet the core objective of providing customers with wider, easier access to our products. In recent years we have developed a flourishing mail order business primarily based on delivering home furnishings, flowers, hampers and wine direct to our customers' homes. This business has grown swiftly to achieve a turnover of more than £73 million. During the

Direct mail

year we extended this business with the successful launch of a nationwide schoolwear catalogue for the back-to-school period.

The systems supporting this business are versatile and highly productive. They also handle some £150 million of customer orders taken annually in our stores and delivered to stores for collection. In addition, we have accumulated considerable expertise over many years of handling the needs of our millions of M&S Account Cardholders.

Building on all this knowledge and skill, in the spring of 1998 we are piloting Marks & Spencer Direct, a ladies', men's and children's clothing catalogue designed to complement our retail offer in terms of product, style, image and price.



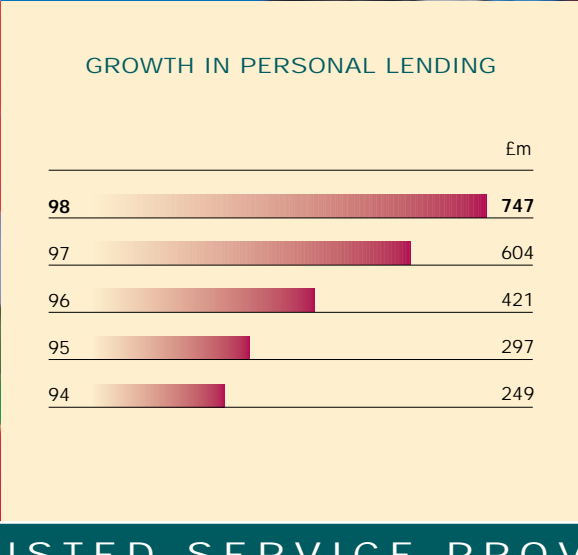


SERVICE TO YOUR DOOR

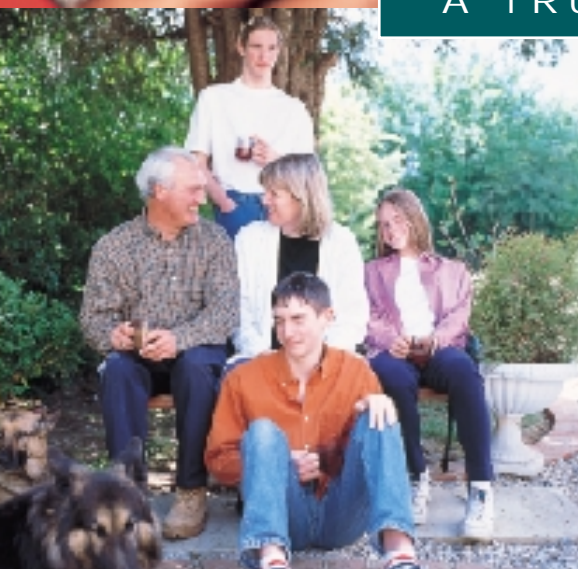
Aimed at a growing UK market for home shopping and backed by the strength of our brand, we expect Marks & Spencer Direct to develop significant extra business for the Company.

The scheme is being piloted in Scotland and south-east England with a 129-page catalogue featuring a carefully edited range of clothing. Further catalogues will be produced on a seasonal basis. Product, pricing and payment methods mirror those in stores.

Extensive use of the M&S Magazine to order featured merchandise from stores demonstrates the latent demand for this service. Prospective customers for the catalogue are easily accessible, mainly from our Chargecard database and selected stores. As we further develop the Company's customer information systems, so we will be able to meet the needs more closely of a growing number of customers.



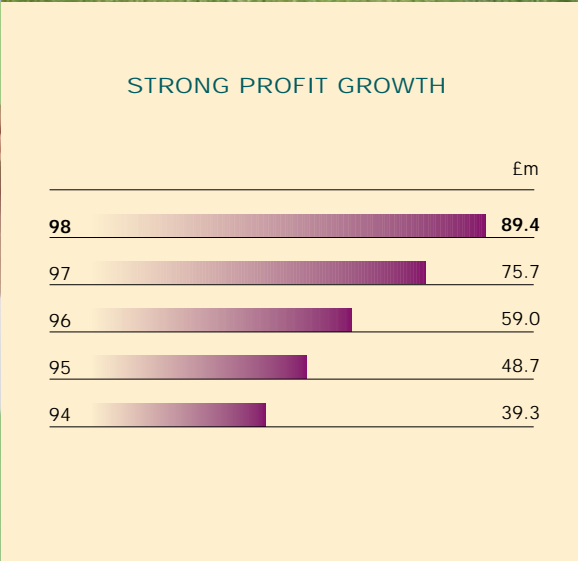
A TRUSTED SERVICE PROVIDER



M&S UNIT TRUSTS PERFORMANCE RANKINGS

Investment portfolio 6th out of 26
 Unit 100 companies 2nd out of 158
 UK Selection 30th out of 141

Source: Hindsight offer to bid 12 months to 31.3.98
 net income reinvestment



Financial services

FINANCIAL SERVICES IS ONE OF THE FASTEST GROWING AREAS OF MARKS & SPENCER,
CONTRIBUTING 8 PER CENT OF TOTAL GROUP PROFITS.

Financial services continues to be a profitable, high-growth area for Marks & Spencer. Operating profit rose by 18.1% to £89.4m during the year, so representing more than 8% of total Group operating profit. We extended facilities, expanded our staffing and information technology resources, signed up more than 560,000 Account Card holders and made good progress across personal lending, unit trusts, PEPs, personal pensions and life assurance.

POSITIONED FOR SUCCESS IN A DEVELOPING INDUSTRY

Financial services in the UK are changing as more high street names enter the market and customers demand more transparent products. Though competition is intensifying, opportunities are multiplying and M&SFS – with its strong name, high quality products and excellent service – is well positioned to succeed. What is more, we are well placed to serve the new markets being created by the Government's introduction of Individual Savings Accounts (ISAs) and stakeholder pensions.

During the year we completed the expansion of our head office in Chester. Staff numbers grew by 7% to more than 1,200. Major investment in information technology systems will help us boost customer service through speedier access to information and better call handling. Such system support – coupled with constant focus on staff training – gives M&SFS a vital advantage in this largely telephone- and mail-based industry.

ACCOUNT CARD GROWTH

Net sales on the Account Card reached nearly £2 billion during the year. We

opened our five millionth account, making this the UK's most widely held store card, and giving us a current relationship with more than one in four of UK households. Although the financial services field remains highly competitive, there are exciting further opportunities for us to pursue.

STRONG PERSONAL LENDING PERFORMANCE

New advances rose by 23% to total £747 million. M&SFS has now lent more than £3 billion since it entered the personal loan market 10 years ago. Our Personal Reserve product, which gives borrowers a revolving credit facility, proved extremely popular in its first full year. We plan to extend the scheme to non-Account Card customers next year.

UNIT TRUSTS AND PEPs

We are recognised as one of the lowest-charging providers of unit trusts and PEPs at a time when customers are seeking ever better value for money. Unit trust sales of £201 million, together with strong market growth, led to our total funds under management rising by 65% to £850m. Investment performance of our unit trusts remained strong, in both absolute and relative terms.

PENSIONS & LIFE

Our pension products, also known to be some of the best value products on the market, gained even greater flexibility through their ability to accept transfers from other schemes. Life assurance continues to make steady progress. In early 1998 M&SFS was voted Best Direct Pension Provider by "Your Money Direct" magazine.

Development is well under way of Marks & Spencer's largest ever store, a state-of-the-art 200,000 sq ft, four-floor store in Manchester city centre set to open in time for the millennium. Featuring a full range of our new in-store customer services and facilities – not to mention a comprehensive selection of merchandise – we expect the new store to have a strong impact on our business in the north-west of England.



RESPONDING TO THE WAY PEOPLE LIKE TO SHOP Times are changing. We carefully examine how people like to shop so we can make their experience more pleasant and convenient. For example, we are introducing more fitting rooms and training staff specifically to sell jewellery or advise on interior decoration. Where possible, we have extended access for disabled shoppers. At the same time, fresh approaches to display enable us to present products more attractively and to link complementary merchandise from different areas.

United Kingdom

EXPANDING FOOTAGE ENABLES US TO GIVE MORE

CUSTOMERS ACCESS TO A WIDER SELECTION OF OUR GOODS.



INCREASING PRODUCT AND SERVICE OPPORTUNITIES

Finding good, new sites is the key to growing our business in the UK – whether to enter new locations or to broaden our offer to existing customers. It was significant, therefore, that we were able to select and purchase a portfolio of 19 well-located stores from Littlewoods during the year. In one step we gained an extra 600,000 sq ft of retail space, all complementing existing stores and in areas where returns per foot already indicated untapped demand.

The acquisition enables us to double the number of locations where we can offer our entire range. In Derby, where we have sought to expand for 10 years, the acquired store is twice the size of the existing one, while in Shrewsbury we are able to double the Womenswear department. Each new store will be designed and stocked to suit local needs. Fitting out started in the spring and the new stores will be opening over the course of 1998.

The Littlewoods purchase comes in addition to an exciting programme of growth planned for the period leading up to the millennium. In 1997/98 we opened a further 410,000 sq ft of space across the UK. The centrepiece of this was our 102,000 sq ft department store at Cribbs Causeway near Bristol, which opened at the end of March. This reflects the Company's strategy for anchoring major new shopping developments, while remaining committed to town centre development.

We opened neighbourhood stores in Whetstone, Greater London, and Newry in Northern Ireland. In addition we extended 16 existing stores by converting non-retail space, expanding premises or buying

adjacent buildings. A 19,000 sq ft expansion in Middlesbrough and a 23,000 sq ft stockroom conversion at the Metro store, together with the recent major development in Newcastle, brings our investment in the Northeast alone to more than £45 million in the past two years. The opening of the dedicated Home store in York advanced the home furnishing concepts introduced previously at Camberley and Pudsey, and has shown how combining different retail methods can improve overall performance.

TURNOVER	£6.70bn
OPERATING PROFIT	£936.7m
NUMBER OF STORES	289

IMPROVING STORE DESIGN AND LAYOUT TO MAKE SHOPPING MORE APPEALING

Through this expanded footage Marks & Spencer is rolling out service and design initiatives to meet greater customer demands for convenience and quality of shopping environment. Many of the new and modernised stores include in-store services such as bakeries, delicatessen counters, butchers' shops, coffee shops, toilets and baby changing rooms.

Store design is evolving too. We are carrying features from the brighter, more natural look introduced at Finsbury Pavement, Cologne and York through to new and refurbished stores. Within the next two years some two million sq ft, nearly a fifth of our total UK footage, will be fitted out or upgraded. This brings financial benefits from buying materials in bulk, while customers should appreciate the more appealing environments. Though expansion has accelerated, we are maintaining the same meticulous approach to planning and

OUR SOPHISTICATED USE OF TECHNOLOGY IS CENTRAL

TO DELIVERING THE SERVICES THAT CUSTOMERS WANT.

United Kingdom

CONTINUED

building new stores. In each case we seek to make the store cost-efficient, easy to manage and sympathetic to its environment.

The new space allows us to accelerate fresh approaches to displaying merchandise. More stores will feature a larger, dedicated department for home furnishing. It will be easier to give greater prominence to departments such as menswear. Indeed the newly acquired 35,000 sq ft store in Marble Arch will only sell menswear. Already stores are benefiting from closer working between display and sales supervisors and we are better integrating merchandise across departments.

DEVELOPING SUPPORT SYSTEMS TO SERVE OUR CUSTOMERS BETTER

We are substantially increasing investment in information technology to drive sales, enhance customer service and improve efficiency. Much of this investment is within stores, either through the roll-out of more efficient tills or through more sophisticated stock and customer ordering systems.

Technology is central to delivering the services that customers want. For example in-store ordering, whereby customers can have any St Michael product delivered to their local store within 48 hours, now represents 3.5% of our sales. Effective systems keep costs down in this growing area of business. So, too, with direct mail, where our major move into the clothing mail order business depends on advanced technology – not just to protect margins but also to deliver the innovation and reliability which build custom. Moreover, systems need to be integrated. We have linked our mail order fulfilment service

directly with other operations so that telephone order-takers can automatically process any assortment of goods in one transaction.

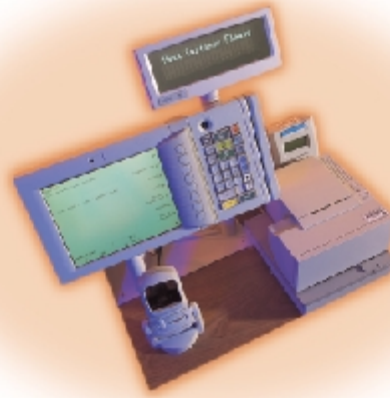
Store technology also has a positive impact on profitability. Already one quarter of the adult UK population visits a Marks & Spencer store each week, while our Account card gives us a known base of five million households. By using information more precisely, we can better target customers with offers that appeal specifically to them. Consolidating and segmenting databases is a key priority for the Company.

ENHANCING DISTRIBUTION TO SUPPORT GROWTH AT HOME AND ABROAD

We are strengthening our logistics capability to meet the demands of expansion. Our strategy is to minimise non-selling activities in stores by preparing stock in warehouses, increasing paperless transactions and consolidating administration regionally. We have enhanced our systems for merchandising and distributing food products in continental Europe.

We are also developing ways to establish international centres for servicing the Group's overseas operations. As our worldwide business grows, we are sourcing more products from local markets. The UK can no longer be the centre of all distribution – we are now researching a system which allows us to buy goods in any country, in any currency, and distribute them to the relevant retail destination on a minimum-stop basis.





By the year 2000 every Marks & Spencer store in Europe should feature the new generation of electronic till. Quicker, quieter and even more reliable than their predecessors, these tills are also simpler to operate. Further benefits come from their direct links to financial and information systems and their ability to accept international currencies, including the euro.



MORE SPACE, MORE SERVICES Expanding store footage means we can widen the service initiatives that enhance shopping at Marks & Spencer. Most widespread are our well-established butchers' shops, while in-store bakeries are bringing the aroma of freshly-baked bread to more locations. 1998 sees our first new-style delicatessens, featuring a broader range of high quality product than ever before. In most stores, to improve service, heavy shopping can be carried directly to customers' cars. And coffee bars – pioneered at our Leeds store – offer an attractive variety of coffees and patisserie.

Europe

ALTHOUGH TRADING CONDITIONS IN EUROPE REMAIN DIFFICULT,
THIS IS A GOOD TIME TO INVEST FOR LONG-TERM GROWTH.

Twenty-three years after Marks & Spencer's first continental store opened at Boulevard Haussmann in Paris, we are now accelerating our expansion into Europe on two fronts – through our own stores into the major economies and through franchise partnerships into countries where we can benefit from our partners' local expertise.

This strategy is on course. Despite a disappointing year of trading – affected both by the strength of sterling and by continued retail recession across much of the continent – we firmly believe Europe's major economies will return to strength in the medium term. Meanwhile, the current conditions are creating excellent opportunities for property acquisition.

TURNOVER	£538.2m
OPERATING PROFIT	£32.8m
NUMBER OF MARKS & SPENCER STORES	37
NUMBER OF FRANCHISE STORES	53

The Group currently owns 37 stores in France, Belgium, Holland, Spain, Germany and the Republic of Ireland. In addition there are 53 franchise stores across 15 countries in Europe and the Middle East.

SELECTIVE EXPANSION

When siting new stores, we seek to build critical mass around capital cities or across important conurbations, such as the Rhine-Ruhr area in Germany. Having entered Germany with our well-received Cologne store last year, we have taken advantage of the recession to acquire five further sites in this, the largest retail market in Europe.

In France, 10 of our 20 stores are in the Paris area, which houses 20% of the country's population; this market remains our most significant on the continent. We opened one new store in Spain and plan further expansion next year, including the extension of our Madrid flagship store. The Group is also expanding in Belgium, the Netherlands and the Republic of Ireland.

As business grows, we are better tuning our product range to local tastes. While much success comes from innovative St Michael products, such as washable silk jumpers and ethnic foods, we are actively establishing the brand values of quality, value and service which underpin consistent success.

FRANCHISE GROWTH

Tough trading conditions have not deterred our franchise partners from sharing our long-term confidence. Three new stores opened in Turkey during the year, including one in the capital city Ankara. A new store opened in Dubai, our first in the Gulf. Footage in Greece and Cyprus grew considerably through new and extended stores. We sustained our initial impact in eastern Europe by swiftly enlarging footage in the Czech Republic and announcing a franchise partner for Poland.





Marks & Spencer has ambitious plans for Germany. By the year 2000 we intend to open five new stores in the country, operating from prime sites already acquired in Essen, Dortmund, Wuppertal and Frankfurt (two sites) in addition to our busy, existing store in



A SANDWICH'S JOURNEY TO PARIS Prepared in Luton using the freshest ingredients, this chicken tikka sandwich starts its refrigerated journey at 2.30pm. Two hours later it arrives at our Faversham depot, ready for dispatch to the Continent. By 7.00pm the sandwich is on the road again, arriving at the Channel Tunnel by 8.00pm, then continuing through the night to reach our Rue de Rivoli store in central Paris before dawn. There it is snapped up by Parisians keen to savour this popular take-away. Such precise logistics underpin the quality and innovation of our

Far East

DESPITE A SAVAGE DOWNTURN IN ASIAN ECONOMIES, WE ARE CONFIDENT

THAT OUR LONG-TERM STRATEGY FOR THIS REGION IS ON TRACK.

This was a very mixed year. While the first quarter saw us sustain highly profitable growth throughout the region, the remaining months brought a sudden and critical drop in retail spending across many markets.

Although the difficult conditions seem set to continue in the medium term, Marks & Spencer's positioning as an affordable, high-quality Western brand remains durable. Our excellent franchise partners are maintaining high standards and we have made important progress in developing our regional operations, particularly in local sourcing, distribution, training and management.

During the year the number of owned and franchised stores rose by nine to 43, while total footage increased by 28% to 477,000 sq ft. For the future we have reviewed the timing, but not the strategy, of further expansion.

TURNOVER	£128.3m
OPERATING PROFIT	£18.3m
NUMBER OF MARKS & SPENCER STORES	10
NUMBER OF FRANCHISE STORES	33

BUILDING THE BRAND IN HONG KONG

Our 10 stores in Hong Kong represent all our directly-owned business in the Far East. We opened two suburban stores there during the year, demonstrating our ability to move beyond central districts into areas where we serve mainly local customers. This expertise is of value to our representative office in Shanghai, where we are studying the most practical ways to develop a retail business in mainland China.

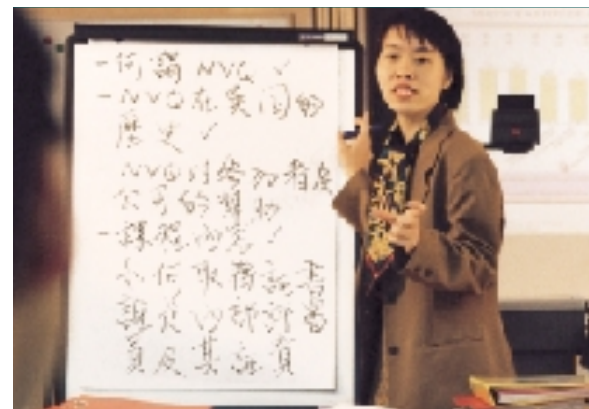
Recognition of our brand and of M&S as a blue-chip employer is growing in Hong Kong. Sales grew strongly prior to the downturn and we made good progress in management training and our innovatory programme for National Vocational Qualifications.

A SIGNIFICANT FRANCHISE BUSINESS ACROSS THE REGION

Throughout our overseas operations we adjust strategy to suit local conditions. For much of the Far East the Group operates through franchise stores, which have proved effective for swiftly and profitably growing into new markets, while limiting our capital risk. Currently there are 33 franchise stores in six markets across the region. These businesses have inevitably been hit by the region's economic difficulties. However, the positive response of our partners, coupled with the underlying strength of our offer, gives us confidence in their long-term prospects.

During the year new stores opened in Thailand, the Philippines and Indonesia. Three stores opened by our franchise partner in Korea – the first in this market – were unfortunately hit by the economic crisis before they became established. They may face some rationalisation in coming months.

In Australia we formed a partnership with an experienced local clothing retailer. If the right sites emerge in Sydney and Melbourne, we hope to open franchise footage in this new market in the coming year.





The sheer volume of our international retail business – combined with the recent strength of sterling – makes it logical for us to source locally where we can. This means a greater role for merchandise controllers like Christine Choi from our Hong Kong office (pictured left) to develop relationships with local manufacturers helping them to deliver the quality and flexibility we need.



BUILDING A STRONG FOUNDATION OF EXPERTISE OVERSEAS Wherever we operate overseas, we steadily introduce the initiatives that spread skills across all levels of our organisation. NVO training is supported strongly in Hong Kong, even though it is not a locally-recognised qualification, while management training is creating the bedrock of expertise so essential to successful expansion. Penny Yip is our first secondee in the Far East. As well as selling menswear in Shatin, Hong Kong, she is helping young people with learning difficulties through part-time work with a local

The Americas

ANOTHER YEAR OF SIGNIFICANT IMPROVEMENT SAW BROOKS BROTHERS STEER CONFIDENTLY TOWARDS GROWTH AND IMPROVED PROFITABILITY.

Brooks Brothers US – the largest of our three operations in North America – sustained profitable growth in a challenging market. Kings Super Markets delivered another good result. In Canada, a newly-appointed chief executive officer is implementing a strategy to take the business forward.

NEW STRUCTURE AND FRESH INITIATIVES DRIVING GROWTH

Brooks Brothers continues to gain share in the US men's clothing market and is consistently among the best performing retailers in like-for-like sales. This improvement reflects successful restructuring of the business to achieve greater focus within separate streams of operation. Openings and closures during the year saw the total number of stores in the US rise by seven to 119. Outlet stores continue to perform strongly, while the mail order business has been improved by investment in a new warehouse management system improving order fulfilment.

Womenswear ranges are developing well, particularly careerwear. We are planning dedicated womenswear stores next year.

BROOKS BROTHERS IN ASIA

The opening of nine new stores contributed to a satisfactory result from Brooks Brothers (Japan). With 19 years of trading experience and brand exposure behind us, we expect a swift return to previous levels of business once trading conditions improve. Two franchise stores opened in Hong Kong. We expect the Far East to become a strong market for Brooks Brothers, because of the region's receptiveness to US culture and the brand's aspirational status.

KINGS SUPER MARKETS

This high quality supermarket operation – which shares Marks & Spencer's commitment to freshness, service and value – delivered another year of sales progress although profits were affected by pre-opening and other non-trading costs. Two new stores during the year increased penetration of the valuable New Jersey market. The new store at Florham Park is pioneering new concepts such as a food demonstration area which offers a high standard of hot and cold take-away meals.

CANADA

Marks & Spencer Canada recorded a slight improvement in sales though the market remains difficult and profitability was affected by reorganisational costs. We have appointed David Stewart, a highly experienced Canadian retailer, as CEO. He is implementing strategies to improve performance.

New initiatives are attracting a wider range of customers. We are introducing brighter, more contemporary store layouts, modernising the brand image while retaining its essential qualities of tradition and service. Price-tiered displays target customers more accurately and encourage them to upgrade their purchases.

TURNOVER	£606.2m
OPERATING PROFIT	£16.8m
MARKS & SPENCER CANADA	43
NUMBER OF BROOKS BROS STORES/FRANCHISES	191
NUMBER OF KINGS SUPER MARKETS	22
OTHER FRANCHISES	5





A dozen of our UK store staff came to New York – home of the delicatessen – to prepare for the introduction of delicatessens in UK stores during 1998. Staff from our Kings Super Markets in New Jersey showed them how to match the finest speciality foods with the finest levels of personal service.



MEETING THE HIGHEST EXPECTATIONS American shoppers expect supreme standards of service. Fortunately these are the hallmarks of our two operations in the USA. Brooks Brothers – which has been selling elegant clothes to discerning customers since 1818 – has boosted its richly traditional appeal through more contemporary display, while retaining its legendary expertise of service. Kings Super Markets satisfies a similarly demanding clientele – the food shoppers of New Jersey – with high quality products, breathtaking displays and informed personal attention.

The community

During the year Marks & Spencer contributed more than £10 million to the communities in which we operate. Mostly we gave cash donations to carefully selected organisations where our help can bring real benefit. Our support is targeted at small, local initiatives in the fields of health and care, community development, environment and the arts.

Our well established secondment programme continued to channel expert resources



OPENING YOUNG EYES TO ART

The Magic Lantern project brings the works of great painters into the classrooms of London schools. It is an excellent way to introduce children to fine art, then fuel their interest with discussions of technique and demonstrations of materials actually used by the artists. Diana Schomberg, seen here with pupils at the Macauley Church of England School in Battersea, trains all the project's tutors. She ensures they give dynamic presentations to bring the pictures alive. Marks & Spencer has been involved with Magic Lantern since its formation. We provide funding to help the project visit schools.



HELPING THE HELPERS

Those who spend their lives caring for others often need support themselves. The Carers National Association is a charity which helps carers across the country with advice and support. It aims its services at people like Yvonne Hippolyte, seen here with her son Leon who is 29 and has cerebral palsy. Though she now has some home care help, Yvonne has always looked after Leon herself. For her, as for so many helpers, such consistent support is vital to help him become more independent. Marks & Spencer has supported Carers National Association for many years. As a company we are well aware of the need for its good work because many of our own staff are carers themselves.

where it is needed. More than 260 staff took part during the year, either on part-time projects or longer term assignments. We are extending this policy overseas, where secondment is proving a powerful way to export the values that are important to us.

Further support came from the many other staff involved in their own community. With every pound they raised matched pound-for-pound by the company, a total of £750,000 went to benefit local causes. We contributed through many other programmes such as our charity Christmas cards, education-business links and the donation of date-expired food.



SPEAKING OUT AGAINST DRUGS

There is a culture of drug misuse among young Scots which runs more deeply than anywhere else in Britain. That is why Scotland Against Drugs (SAD) was launched in 1996. Its objective is to change this culture by raising awareness of the problem among young people, parents, educators and employers. Fiona Rose (seen here on the right) spent 14 months working with SAD, seconded from her role as assistant personnel manager at our Fosse Park store in Leicester. She brought the charity her skills in organising projects and influencing people, while her experience there enabled her on return to be promoted to personnel manager in Inverness store. Such a secondment benefits everyone involved.



OVERCOMING DISABILITY THROUGH SPORT

The Special Olympics World Games bring together 8,000 athletes with mental disabilities from 152 countries. Their motto is "Let me win; but if I cannot win, let me be brave in the attempt". Aside from the main four yearly summer and winter events, there are many national and local events. Marks & Spencer has supported the UK organisation since 1980. More recently we have started helping in Spain where Guy Dixon, manager of our Valencia store, is vice-president of the Spanish organisation.

The environment, health and safety

As a major international retailer Marks & Spencer has a wide and complex impact on the environment. Our endeavours to minimise this impact are equally diverse. From reducing packaging to building more energy-efficient stores, and from designing quieter lorries to raising animals more humanely, we are driven by one ambition – to extend environmental awareness into every aspect of our operations.



ENCOURAGEMENT FOR RECYCLING

New legislation in the UK requires companies which make or use large amounts of packaging to fund recycling schemes. Marks & Spencer, which has been advising the Government on this legislation since 1993, has responded by joining forces with several suppliers and UK Waste Management Ltd to launch the first scheme of the initiative called Recycle UK. Based in Bath and backed by Friends of the Earth, this scheme works with local authorities in Bath and sends lorries round local areas to collect packaging waste put out by households in special plastic boxes outside their homes. We hope this pioneering project will become a model for other schemes nationwide.



NEW HOMES FOR OLD PCS

The speed of technological change means we constantly have to discard computers and tills, even though many still have life left in them. No longer, though, do we simply have to throw them away. Thanks to an IT recycling initiative, almost 300 PCs have found new homes, such as the Chorleywood Primary School, Buckinghamshire seen here. Before arrival at the school or charity each machine is fully cleaned and reconditioned. Other redundant equipment, which is beyond a second life, goes to a special recycling centre we run jointly with computer firm ICL. This strips out precious and reusable parts before carefully disposing of the remainder. Besides helping the environment, this helps business too. For every £1 we spend on recycling, we save around £3 in equipment and disposal costs.

What's good for the world should also be good for business. Greater environmental responsibility often improves efficiency and productivity. We work closely with our suppliers to pursue high environmental standards at every stage of production.

It is also vital that all our own premises are safe places to work or visit. From board level through regional committees to individual stores, we have systems for maintaining safety as both a priority and an essential value within our culture. Managing the risk in this way is important to staff, customers and shareholders alike.



A FRIENDLY OFFICE

The new office building for Marks & Spencer Financial Services in Chester is a good example of 'green' architectural design. In addition to its attractive features, using natural brick and other materials to blend better with its surroundings, the building aims both to help the environment and to make its inhabitants as comfortable as possible. There is a choice between air conditioning and natural ventilation, which cuts fuel consumption and provides more fresh air. Large windows bring in more natural light, while external blinds react automatically to the movement of the sun. New methods of insulation further boost efficiency. Where possible, we hope to extend these principles to other new buildings developed by the Group.



CREATING A SAFETY CULTURE

Health and safety is a priority in all our operations. Our nationwide network of occupational health advisers works closely with store safety officers to provide services as diverse as medical check-ups, accident investigation and store risk assessment. More store safety officers are working towards – or have gained – the challenging NVQ level 3 health and safety qualification. This requires developing skills in communicating policy and chairing meetings as much as identifying risks and examining incidents. With such all-round expertise at store level, we are better placed to create a safer environment for customers and staff.

BOARD OF DIRECTORS

Executive directors



SIR RICHARD GREENBURY
Chairman

Age 61
Non-executive director of Zeneca Group plc. Member of the supervisory board Philips Electronics N.V.

KEITH OATES
Deputy Chairman and Joint Managing Director

Age 55
Capital Expenditure, Finance, Financial Services, The Americas and Far East Retail & Franchises, Legal, Audit, Group Estates, Store Development, HO Premises.
Non-executive director of Diageo plc and British Telecommunications plc. Member of Financial Services Authority, CBI Council, English Sports Council.

GUY McCracken
Joint Managing Director

Age 49
UK Store Operations, Personnel, Corporate & External Affairs, IT and Physical Distribution.
Director of CORDA. Non-executive Chairman of Duchy Originals Ltd.

PETER SALSURY
Joint Managing Director

Age 48
General Merchandise, European Retail and Franchise Operations, International Franchise Group, Direct Mail and International Procurement.
President of Institute for Employment Studies. Non-executive director of TR Property Investment Trust PLC. Member of the Government's 'Better Regulation Task Force'.

LORD STONE OF BLACKHEATH
Joint Managing Director

Age 55
Food Group.
President of British Overseas Trade Group for Israel. Governor of Weizmann Institute of Science. Non-executive director of Thorn plc.

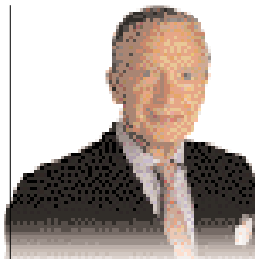
From left to right:
Peter Salsbury,
Keith Oates,
Sir Richard Greenbury,
Lord Stone
and Guy McCracken.

Non-executive directors



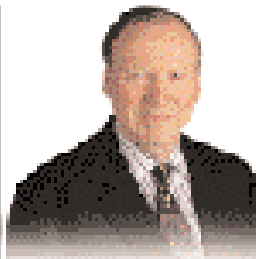
BRIAN BALDOCK CBE

Age 63
Appointed in 1996. Deputy Chairman of Guinness plc until June 1996 and prior to that Group Managing Director. Chairman of Wellington Finance plc and director of Cornhill Insurance plc and Dalgety plc.



SIR MARTIN JACOMB

Age 68
Appointed in 1991. Chairman of the British Council, the Prudential Corporation plc and Delta plc, and director of Rio-Tinto plc.



SIR MICHAEL PERRY CBE

Age 64
Appointed in 1996. Served 39 years with Unilever plc and was Chairman between 1992 and 1996. Chairman of Centrica plc and Dunlop Slazenger Group Ltd, Deputy Chairman of Bass plc and a member of the supervisory board of Royal Ahold.



DAME STELLA RIMINGTON DCB

Age 62
Appointed in 1997. Worked for the Security Service (MI5) for 27 years and was Director General from 1992 to April 1996. Chairman of the Institute of Cancer Research, a director of B.G. plc and GKR Group.



SIR RALPH ROBINS

Age 65
Appointed in 1992. Appointed Chairman of Rolls-Royce plc in 1992 after 37 years with the Group. Director of Standard Chartered plc, Schroders plc and Cable and Wireless plc. Chairman of the Defence Industries Council.



THE HON DAVID SIEFF

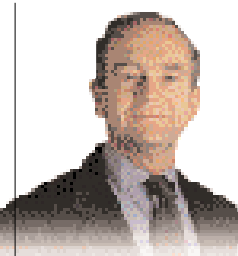
Age 59
Relinquished his executive director responsibilities when he became a non-executive director on 1 April 1997. Chairman of the National Lottery Charities Board and a member of the board of Business in the Community.



ROGER ALDRIDGE
Age 51
Group Estates,
Store Development
HO Premises.
*Member of Industrial
Development Board of
Northern Ireland.
Director of National
Retail Planning Forum.*



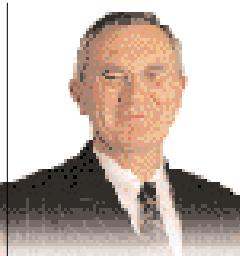
JAMES BENFIELD
Age 48
Menswear, Home
Furnishings and
Direct Mail.
*Member of the
advisory board of
Frowein & Co GmbH.*



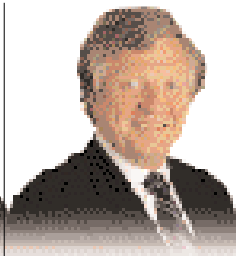
ROBERT COLVILL
Age 57
Finance, Financial
Services.
*Non-executive director
of Witan Investment
Co plc. Chairman of
Money Advice Trust.*



CLARA FREEMAN
Age 45
Personnel,
Corporate &
External Affairs.
*Director of Roffey
Park Management
College. Non-executive
director of Focus
Central London TEC.*



DEREK HAYES
Age 49
European Retail
and Franchise
Operations,
International
Franchise Group.



**CHRIS
LITTMODEN CBE**
Age 54
The Americas,
including
Franchises.
*Special adviser to the
Ministry of Defence,
Director of British-
American Chamber of
Commerce, Director
of Food Marketing
Institute of America.*



BARRY MORRIS
Age 50
Food Group,
Liaison with Israel.
*Vice-Chairman of
British-Israel Chamber
of Commerce.
Chairman of the
British Friends of the
Shenkar College.*



JOE ROWE
Age 50
Womenswear,
Childrenswear,
General
Merchandise
Design and
Technology.
*Member of Advisory
Board, Warwick
Business School.*



**JOHN SACHER
CBE**
Age 57
IT, Physical
Distribution.
*Chairman of Whitehall
& Industry Group,
Chairman of
Westminster Forum.*



PAUL SMITH
Age 57
Far East Retail
and Franchise.
*Fellow of Institute of
Personnel
Management.
Chairman of the
Board of Trustees
of Befrienders
International.*



DON TRANGMAR
Age 58
Menswear,
General
Merchandise
Technology.
*Retired 31/3/98.
Trustee of Sick
Children's Trust.*

Divisional directors

KEITH BOGG
Information technology and
physical distribution
MIKE BURGER
Childrenswear
GEOFFREY DART
Seconded as Chief
Executive of NAAFI
JEFF DENTON
Corporate finance
BOB FEE
Food operations
JEAN-MARC GENIS
Brussels liaison office
BRIAN GODBOLD
Design
SIMON GOLDSTEIN
Men's formalwear
RUSSELL HODGKINSON
Women's formalwear
MIKE JOHNSON
General merchandise
operations and marketing
ALAN LAMBERT
European merchandise

CHRIS LEWIS
Overseas procurement – Far East
JIM McALLISTER
London stores
JIM McCALLUM
Store operations
JIM McDONALD
Retail and franchise
operations Far East
VINCE McGINLAY
Men's casualwear
CLIVE NICKOLDS
European store operations
and personnel
DAVID NORRGROVE
Strategy unit
NICK PENNY
Group estates
STEVE POMFRET
Direct mail
ALISON REED
Financial control

PHILIP SELLWOOD
Home furnishings
JIM STOCKS
General merchandise technology
and packaging development
MICHAEL TAYLOR
Foods – produce and protein
DAVID TOWELL
Marks & Spencer Financial Services
HUGH WALKER
Foods – prepared dishes
NIGEL WHINNETT
Lingerie, footwear, hosiery, accessories,
toiletries and cosmetics
ROGER WHITESIDE
Foods – long life and bakery
KIM WINSER
Women's casualwear
RICHARD WOLFF
International franchise group
GORDON YEOMAN
International franchise group.
Retired 31/3/98
MARTIN VAN ZWANENBERG
Food technology

COMPANY SECRETARY
GRAHAM OAKLEY

CHIEF ACCOUNTANT
TONY LENZ

PRESIDENT AND CEO,
BROOKS BROTHERS
JOSEPH GROMEK

PRESIDENT AND CEO,
KINGS SUPER MARKETS
JIM MEISTER

PRESIDENT AND CEO,
MARKS & SPENCER CANADA
DAVID B STEWART

FINANCIAL REVIEW

SALES

An analysis of the 5.8% increase in UK sales (including VAT) for the year is given below, divided between the three product groups and the four reporting periods for the year:

	First Quarter Inc %	Second Quarter Inc %	17 weeks to 24 Jan Inc %	9 weeks to 28 Mar Inc %	Total Inc %
Clothing, Footwear & Gifts	9.7	7.8	8.4	4.9	8.1
Home Furnishings	13.8	7.5	6.9	2.4	7.8
Foods	0.8	3.9	2.8	0.9	2.3
Total	6.2	6.3	6.4	3.1	5.8

Our food price deflation for the year averaged -0.5% .

In calendar years 1996 and 1997, the timing of Easter was such that the important pre-Easter weeks both fell within our 1996/97 financial year. For 1998, the corresponding week falls within our 1998/99 financial year. Adjusting for this, food sales in the nine weeks to 28 March grew by 3.2% and for the year as a whole by 3.0%.

The analysis of overseas sales is given in the segmental analysis on page 53, with the sales increases given based on average and constant rates of exchange. At constant rates, total overseas sales grew by 7.3%

FOOTAGE AND NEW STORES

The increase in footage was more concentrated towards the end of the financial year as shown in the table below:

Net sales footage:	Opening Footage 000 sq ft	First Half 000 sq ft	Second Half 000 sq ft	Closing Footage 000 sq ft
UK*	10,576	77	336	10,989
Republic of Ireland	173	9	-	182
Continental Europe	992	39	43	1,074
European Franchises	448	74	28	550
Hong Kong	132	45	7	184
Far East Franchises	241	38	15	294
Brooks Brothers	746	5	34	785
Kings Super Markets	354	18	15	387
Canada	330	(3)	-	327
American Franchises	19	-	(3)	16
Total	14,011	302	475	14,788

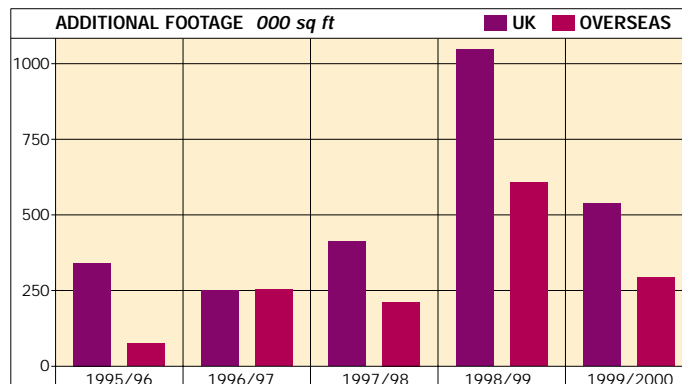
*Within UK footage, the allocation to Foods was 97,000 sq ft or 23.5% of the new UK footage.

In the UK, the 336,000 sq ft which was opened in the second half included 230,000 sq ft in March, with new stores at Cribbs Causeway near Bristol (102,000 sq ft), Kew (41,000 sq ft) and Newry (27,000 sq ft).

New European stores included Wijnegem in Belgium (39,000 sq ft) and Zaragoza in Spain (30,000 sq ft). In Hong Kong, two new stores opened totalling 45,000 sq ft.

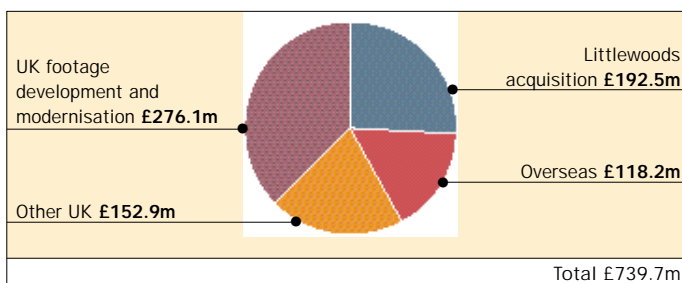
On average, we traded on 2.6% more footage in the UK in 1997/98 and on an additional 10.1% footage overseas.

In the next two years, we plan to open 2.4m sq ft of new selling space. The pattern of new openings, analysed between UK and overseas (excluding franchises) is shown in the next table against the last three years:

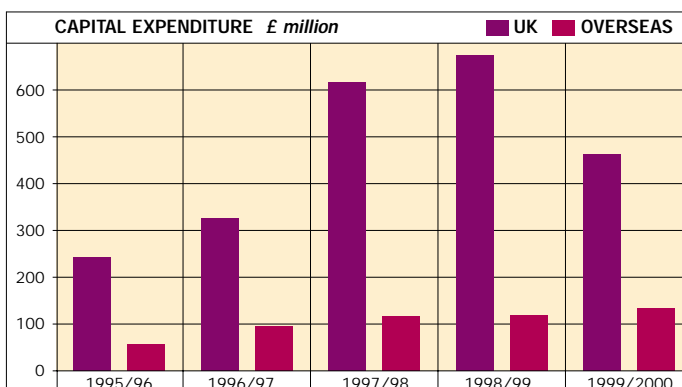


CAPITAL EXPENDITURE

Capital expenditure during the year totalled £740 million, the main components of this figure being:



Total capital expenditure in 1998/99 is expected to reach £800 million, including £157 million on the Littlewoods stores prior to their opening in Autumn 1998 and the modernisation of existing Marks & Spencer stores in the same locations. The expected pattern of expenditure in the years to 31 March 2000 is shown below compared to the last three years:



COSTS

A number of special factors affected UK costs in 1997/98, and will impact profits in the year ahead. These include the following:

UK pension fund

Provision has been made for an increase of £20 million in the Company's contribution following the ACT changes. The cost will be more accurately defined when the triennial actuarial valuation is completed in 1998/99.

FINANCIAL REVIEW

Littlewoods

There have been no sales from the Littlewoods stores acquired on 1 February 1998, and the Company has suffered a loss of interest income. The net effect of this, the other pre-trading expenses and the accompanying modernisation of the existing Marks & Spencer stores in these locations on the profits of the Group is estimated at £4 million in 1997/98 and £45 million in 1998/99.

New Point-of-Sale equipment

New Point-of-Sale equipment is being installed in all UK and European stores as part of a planned replacement programme. The new tills will, among other things, be Year 2000 compliant and capable of handling foreign currencies, including the euro. This programme of till replacement involves revenue costs of £7 million in 1997/98, and an estimated £20 million in 1998/99.

Direct Mail

The first clothing catalogues were mailed after the end of the financial year. Start up costs for the expanded Direct Mail activities amounted to £4 million in 1997/98, and are expected to be £20 million in 1998/99.

EFFECT OF CURRENCY CHANGES

Overall, the *translation* of overseas profits at current rates has reduced reported profits by £4.0 million. The more serious impact has come from the reduced margin on shipments of UK merchandise to our stores overseas, particularly in Continental Europe. We estimate the total costs of this transaction effect in 1997/98 at £12.6 million.

Foreign exchange cover is maintained for periods of approximately 10-15 months, and the 1997/98 figures therefore do not reflect the full consequences of the rise of sterling in recent years. The impact in 1998/99 is estimated to be £35 million.

The economic effects of the regional devaluations in the Far East have been severe, both for our Far East franchise partners and our Hong Kong stores, which have suffered from a decline in regional tourism. These influences became very apparent in the second half of the year, and have led to an estimated shortfall of £18.3 million in Far East profits.

Translation of net assets in overseas currencies reduces their value by £34.1 million and this is shown in the statement of total recognised gains and losses on page 48.

VAT

The Company received a payment of £53.2 million in respect of VAT previously paid to H. M. Customs & Excise, but refunded following an appeal brought by Littlewoods Home Shopping. This amount is in respect of VAT applied to credit sales in previous years through the Marks & Spencer account cards and is shown as an exceptional item in the Group's profit and loss account.

FINANCIAL SERVICES

The continued growth of Financial Services activities has increased the relative balance sheet significance of the Group's retail banking operations. The following table shows the net assets of the Financial Services companies:

	1998 £m	1997 £m
Loans and advances to customers (net of provisions)	1,572.9	1,308.4
Cash and current asset investments	52.8	45.8
Other assets	53.1	32.1
Total assets	1,678.8	1,386.3
Funding ⁽¹⁾	1,267.0	1,041.5
Customer deposits	71.8	68.1
Other liabilities	83.7	73.2
Total liabilities	1,422.5	1,182.8
Net assets of Marks and Spencer Retail Financial Services Holdings Ltd	256.3	203.5
Net assets of Captive insurance company	46.5	31.5
Net assets of Financial Services	302.8	235.0

⁽¹⁾ Group funding is provided by the Group's Treasury from a long-term financing facility.

The table analyses the balance sheet of Marks and Spencer Retail Financial Services Holdings Ltd which includes the Chester based retail Financial Services companies.

The Guernsey-based Captive insurance company, MS Insurance Ltd, underwrites certain insurance risks for the parent company either as co-insurer or re-insurer, and also re-insures a significant part of the credit insurance undertaken by the retail Financial Services operations.

Treatment of interest income

In previous years, the intra group interest charges paid by Marks & Spencer Financial Services on borrowings from the Group have been:

- Allocated against the operating profit of Financial Services in the segmental analysis.
- Allocated against cost of sales in the consolidated profit and loss account.

This accurately reflects the trading position but does not, this year, give an accurate picture of Group net interest. For the first time, an excess of intra group over third party interest paid has arisen. This excess (£22.7 million) has been added back to segmental operating profit in arriving at the total Group operating profit.

The operating profit for Financial Services shown in the segmental analysis on page 52 still reflects the full interest cost on borrowings totalling £81.5 million (last year £59.6 million).

YEAR 2000

The Group is well advanced with a detailed programme designed to:

- Identify where modifications are necessary within the software programs developed and maintained by Marks & Spencer.
- Identify where similar changes are needed within computer programs supplied to the Group or maintained by suppliers to the Group.
- Carry out the necessary coding changes.
- Accelerate, where appropriate, the introduction of new programs which may replace other software which is not yet Year 2000 compliant.
- Identify where the Group may be vulnerable to problems which could arise from computer chips embedded in non-IT equipment already in use.

FINANCIAL REVIEW

Specific costs related to Year 2000 will be £25 million across the Group (of which £3 million is included in the year under review). The bulk of the work on IT systems is due to be completed by December 1998, with some retesting to be performed in 1999.

Our normal business programmes that are due to be completed by the millennium, such as the roll out of the new Point of Sale systems, will also ensure Year 2000 compliance.

ECONOMIC & MONETARY UNION

Although the United Kingdom will not be a member of the initial phase effective on 1 January 1999, Marks & Spencer will by then be trading, either directly or through franchise partners, in 10 of the initial 11 participating countries. The Company has been fully involved in discussions in Brussels and London about the practical aspects of the introduction of the euro.

During the changeover period the new tills now being introduced throughout Europe are capable of handling the necessary two currencies. Important practical decisions for the dual display of prices will be trialled in our Dutch stores before being extended to the other member countries.

The additional costs associated with the introduction of the euro in the Republic of Ireland and our Continental European stores are not thought to be significant. It is too early to forecast accurately the potential costs of the euro's introduction in the UK.

TAX

The effective rate of tax for the Group has decreased from 31.4% last year to 29.0% this year reflecting the fall in the rate of corporation tax in the UK from 33% to 31%. The rate also benefits from prior year adjustments, the impact of tax jurisdictions overseas and capital allowances in excess of depreciation offset by losses and costs which are not deductible for tax purposes.

SURPLUSES ON REVALUATION OF INVESTMENTS

The revaluation surplus of £49.8 million shown in the statement of total recognised gains and losses relates mainly to our investment interest in the Gyle Shopping Centre. (See note 11C on page 60.)

TREASURY POLICY

Treasury policies are regularly reviewed by the Board, and day to day operations are directly controlled by senior management.

There has been no material change to policies for investment, borrowing and foreign exchange during 1997/98. The Group does not hedge balance sheet and profit and loss account translation exposures. Where appropriate, borrowings are arranged in local currencies and this provides a natural hedge against overseas assets. Intra group purchases of merchandise by overseas subsidiaries are covered by forward foreign exchange contracts for periods averaging 10-15 months.

The Group's Treasury uses derivatives to manage risk by altering the interest rate and currency exposures on investment, funding and foreign exchange contracts so that the resulting exposures give greater certainty of future costs. Contracts are only entered into when there is underlying commercial justification and with counterparties which fulfil predetermined credit criteria. The main types of instrument used are interest rate swaps, forward rate agreements and forward currency contracts.

The Accounting Standards Board has published an Exposure Draft (FRED13) on the Disclosure of Derivatives and Other Financial

Instruments. Notes 16, 19 and 22 to 24 provide an analysis of the Group's use of financial instruments, reflecting how treasury policies and objectives have been implemented.

FINANCING

The net debt of the Group was £319.3 million at the balance sheet date. This figure is represented by retailing cash balances of £947.7 million, after the deduction of the borrowings of the Financial Services companies of £1,267.0 million. Intra group transactions between the parent company and the Financial Services companies are carried out on an arm's length basis.

The promissory note for US\$450 million was repaid on 29 April 1998, primarily from balances held in short-term US dollar assets.

CAPITAL STRUCTURE

The Group has announced a number of measures designed to improve the efficiency of the Company's capital structure including:

- a) Market purchase of shares for the profit sharing schemes.
- b) Suspension of the scrip dividend scheme and replacement

with

a dividend reinvestment plan.

These measures will remove the element of earnings dilution which has arisen in the past as a result of the issue of new shares for these purposes.

The Company also intends to ask shareholders at the Annual General Meeting for authority to repurchase and cancel shares up to

a maximum of 10% of the present issued share capital. Marks & Spencer is unusual among large companies in not having this ability, however the Board has no present intention to use such an authority.

In the last three years, dividend cover has reduced from 2.2 times to 1.9 times on the basis of the dividend now proposed, before this year's exceptional item. The Board has decided to maintain a dividend policy which may reduce cover further until recent investments allow a faster rate of earnings growth to be resumed.

ACCOUNTING DEVELOPMENTS

We have participated in discussions with the Accounting Standards Board (ASB) throughout the year.

We are particularly concerned by the ASB's proposals in respect of the Measurement of Tangible Fixed Assets. While we support regular valuations, we do not believe that the basis of valuation proposed is appropriate to our circumstances. It is our experience that Existing Use Value, as defined by the Royal Institute of Chartered Surveyors, is invariably below the actual cost to acquire properties of the size and in the location we require and is well below the value of those properties to our business. In addition, we do not believe that a well constructed and maintained shell building depreciates to an extent which is worth recognising in the accounts.

GOING CONCERN

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 COMPLIES WITH ALL THE PROVISIONS OF THE CADBURY COMMITTEE'S CODE OF BEST PRACTICE

The Hampel Committee published its report on Corporate Governance in January 1998. The Stock Exchange has since published a Code of Practice embracing the principles of the Cadbury, Greenbury and Hampel Committees for implementation in the Listing Rules after a period of consultation. The Board will therefore report on compliance with the Combined Code in its report to shareholders next year.

BOARD OF DIRECTORS

At 31 March 1998 the Board of Directors comprised 16 executive and six non-executive directors. With effect from that date Mr D G Trangmar retired from the Board.

The Board meets monthly, and has adopted a schedule of matters specifically reserved to it for decision. In relation to non-reserved matters it is assisted by a number of committees with delegated authority. In addition to the formal monthly Board meetings, the executive directors meet weekly to monitor and guide the Company's performance.

All directors have access to the advice and services of the Company Secretary and the Board has established a 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.

As recommended by the Cadbury Code in cases where the roles of Chairman and Chief Executive are not separated, the Board includes non-executive directors who bring strong independent judgement and considerable knowledge and experience to the Board's deliberations. They are not invited to participate in the Company's Share Option Schemes or Senior Bonus Scheme; and their service is non-pensionable.

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

PRINCIPAL BOARD COMMITTEES:

Audit Committee

comprises the non-executive directors. It is chaired by Sir Martin Jacomb and meets three times a year. The external auditors and the Chief Internal Auditor attend all meetings. All executive directors have the right to attend. The minutes of these meetings are circulated to all directors.

Remuneration Committee

comprises five non-executive directors. It is chaired by Mr B F Baldock and meets four times a year. The Hon David Sieff retired as executive director on 31 March 1997 and was appointed a non-executive director from 1 April 1997. In view of this change of status, it was considered inappropriate for him to be a member of the Remuneration Committee. The Committee's report to shareholders appears on pages 38 to 44.

Non-Executive Directors' Remuneration Committee

comprises the Chairman, Deputy Chairman and Joint Managing Directors. It is chaired by Sir Richard Greenbury and meets as required to determine non-executive directors' remuneration.

Nomination Committee

comprises the Chairman, the Deputy Chairman, the Managing Director with Personnel responsibilities, Sir Martin Jacomb, Mr B F Baldock and Sir Ralph Robins. It is chaired by Sir Richard Greenbury and meets as required to select and propose to the Board suitable candidates for appointment as executive and non-executive directors.

Capital Expenditure Committee

comprises the Deputy Chairman, the Joint Managing Directors and four executive directors. It is chaired by Mr J K Oates and meets monthly. It exercises a delegated authority within financial parameters set by the Board.

Information Technology Review Committee

comprises the Deputy Chairman, the Joint Managing Directors and five executive directors. It is chaired by Mr J K Oates and meets five times a year.

Community Involvement Committee

comprises four executive directors, two non-executive directors and one senior employee of the Company. It is chaired by Mr P G McCracken and meets three times a year.

INTERNAL FINANCIAL CONTROL

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

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

The annual operating and budgetary plans for each operating area of the Group are reviewed by the relevant Managing Directors prior to submission to the Board for approval. This process includes the identification and assessment of the business and financial risks inherent in each operating area. The process is repeated quarterly and compared with actual results for the previous periods and latest forecasts for the balance of the year. The four-year Group Capital Plan is similarly reviewed and updated by the Capital Expenditure Committee and then the Board. Treasury and risk management policies are reviewed by the Finance Director quarterly and policy changes are approved by the Board.

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

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

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

The Group's control systems address key business and financial risks. The work of the Internal Audit Department is focused on areas of greatest risk as identified by risk analysis and in accordance with an annual audit plan approved each year by the Audit Committee and by the Board. The Board receives a full report from the Chief Internal Auditor each year on the Department's work and findings. The external auditors are engaged to express an opinion on the financial statements. They review and test the systems of internal financial control and the data contained in the financial statements to the extent necessary to express their audit opinion. They discuss with management the reporting of operational results and the financial condition of the Group.

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

The Auditors' Report on Corporate Governance is set out on page 45.

REPORT OF THE REMUNERATION COMMITTEE

STRATEGY

Marks & Spencer operates in an increasingly international trading environment and it is an essential part of our strategy that we continue to attract, train, develop and retain a large pool of 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, strategy and increasingly international dimensions.

This year's report to shareholders by the Remuneration Committee acknowledges the recommendations of the Greenbury Committee on Directors' Remuneration. The Remuneration Committee's composition, responsibilities and operation comply with the best practice provisions in Section A of the Annex to the Listing Rules of the London Stock Exchange. In implementing its policy, the Committee has given full consideration to the provisions of Section B of the Annex to the Listing Rules.

REMUNERATION COMMITTEE

The remuneration of executive directors and divisional directors is determined by the Remuneration Committee which is composed of five non-executive directors of the Company. The Remuneration Committee is responsible for determining the appropriate policy for rewarding the Company's executive directors, divisional directors and executives, and its approach is consistent with the Company's overall philosophy that all staff should be appropriately rewarded. The Committee keeps itself aware of the developments in best practice in the field of remuneration.

REMUNERATION POLICY

The consistent policy of the Company is to align the interests of all staff as closely as possible with the interests of shareholders. Schemes encouraging employees at all levels to acquire and hold shares in the Company are an important element of that policy. Share ownership remains very popular within the Company, illustrated by the fact that over 40,000 staff hold approximately 28 million shares in their own right and 32,000 staff hold options on 56 million shares under the SAYE Scheme.

The policy of the Remuneration Committee is to reward senior management competitively taking account of both Company and individual performance. Senior management comprises the executive directors, divisional directors and executives. Their total remuneration is made up of three major components: salary and benefits, annual bonus and long-term incentive in the form of Executive Share Option Schemes.

Internal targets required to meet the thresholds of payment under both schemes are considered to be consistently stretching and motivating. In developing appropriate remuneration schemes, we focus on the objective of establishing a correct balance between the fixed and variable elements of total remuneration.

Salary

Salary is the major element of our remuneration policy. We believe it should be highly competitive and that appropriate reviews should take place, normally annually, reflecting market conditions and personal performance. For guidance the Remuneration Committee uses information available in specific published job-matched surveys of

similar companies and annual reports. As appropriate, it also commissions specific surveys to supplement the published information. This is considered to be essential research even though comparator companies are not large in number.

The salaries of the Chairman, the executive directors and the divisional directors are set by the Remuneration Committee. They are determined in June of each year after a review of the performance of the individual. In the cases of the executive directors, other than the Chairman, and in the cases of divisional directors, the Committee is assisted by the Chairman in this review.

A special review of certain executive and divisional director salaries was carried out in January 1997 in order to correct identified anomalies. Directors and divisional directors not included in this special review received an average salary increase of 4.5% in July 1997. All executive directors' and divisional directors' salaries will be reviewed in July 1998.

Benefits

In common with certain other management categories, members of senior management working in the United Kingdom are entitled to a company car. They also receive fuel.

Annual Bonus Scheme

An annual bonus scheme is the second component of senior management remuneration. Bonus payments are based upon actual achievement against challenging Group performance targets set in the annual operating plan approved by the Board. In the year under review, a bonus of 14.5% was paid out of a possible maximum of 30% of a participant's salary. Since 1988 when the Scheme was introduced, the annual bonus payment has averaged 14.7% of salary. This bonus is not pensionable.

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

Long-Term Incentive Scheme

A long-term incentive in the form of Executive Share Option Schemes is the third component of senior management remuneration. Share options are readily understood by the participants, fit the culture of the business and have historically delivered an appropriate level of reward. Senior management hold options under the 1984 and 1987 schemes, details of which are given in note 5 of this report. Both schemes expired in 1997. A new share option scheme was approved by shareholders at the AGM in 1997, and grants will be made under the new scheme for the first time in June 1998.

SERVICE CONTRACT

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

NON-EXECUTIVE DIRECTORS

The remuneration of non-executive directors is determined by the Non-Executive Directors' Remuneration Committee which comprises the Chairman, the Deputy Chairman and the Joint Managing Directors. Non-executive directors are not invited to participate in the Company's Profit Sharing, Save As You Earn or Senior Option Schemes. They do not participate in the Annual Bonus Scheme or the Early Retirement Plan: their fees are non-pensionable.

REPORT OF THE REMUNERATION COMMITTEE

1 DIRECTORS' EMOLUMENTS

£000	Salary	Profit Share	Benefits	Bonus	Total 1998	Total 1997
		(2)	(3)	(4)		
Executive directors						
Sir Richard Greenbury (Chairman)	803	37	12	117	969	924
J K Oates (Deputy Chairman) ⁽¹⁾	526	24	20	76	646	608
P G McCracken	350	17	17	51	435	395
P L Salsbury	350	17	17	51	435	395
Lord Stone of Blackheath	344	16	17	50	427	390
R Aldridge	241	12	12	35	300	250
J R Benfield	222	11	21	32	286	236
N L Colne ⁽⁶⁾	-	-	-	-	-	373
R W C Colvill	276	13	15	40	344	316
Mrs C E M Freeman	180	9	14	26	229	205
D K Hayes	202	10	34	29	275	241
C Littmoden (expatriate) ⁽⁵⁾	216	-	346	33	595	431
B S Morris	178	8	14	26	226	212
J T Rowe	230	11	18	33	292	238
S J Sacher	248	12	14	36	310	311
P P D Smith (expatriate) ⁽⁵⁾	265	-	326	33	624	389
D G Trangmar ⁽⁶⁾	279	13	13	36	341	303
Non-executive directors						
B F Baldock	50	-	-	-	50	25
Sir Martin Jacomb	34	-	-	-	34	34
D G Lanigan ⁽⁷⁾	37	-	-	-	37	60
Sir Michael Perry	34	-	-	-	34	17
Dame Stella Rimington	34	-	-	-	34	9
Sir Ralph Robins	34	-	-	-	34	34
The Hon David Sieff ⁽⁸⁾	34	-	9	-	43	323
The Rt Hon The Baroness Young ⁽⁷⁾	13	-	-	-	13	34
Total	5,180	210	919	704	7,013	6,753

⁽¹⁾ The highest paid director was J K Oates, whose emoluments including gains on share options exercised were £1.4m (last year £1.4m). His accrued pension entitlement at the end of the year was £268,000 (last year £221,000).

⁽²⁾ In line with all other members of staff, directors performing their duties mainly in the UK are allocated a profit share based on a percentage of their salary. Further information on profit sharing is given in note 9C to the financial statements.

⁽³⁾ Benefits for UK directors relate mainly to the provision of cars and fuel. For expatriate directors see footnote (5).

⁽⁴⁾ The Group introduced an annual bonus scheme for executive directors and divisional directors in 1988 which was extended in 1995 to include executives. Further details of this scheme are given on page 38. The Remuneration Committee approved a bonus of 14.5%, amounting to £2.3m (last year 20%, amounting to £2.9m) of which £0.7m (last year £0.9m) was attributable to the executive directors and is paid pro-rata to each executive director according to individual basic salary. The bonus attributable to the divisional directors and executives was £1.6m (last year £2.0m). The bonus does not form part of pensionable salary, nor is it eligible for profit sharing.

⁽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 these payments are significantly higher this year due to relocation costs.

⁽⁶⁾ D G Trangmar retired as executive director on 31 March 1998. Included within his salary is a non-pensionable payment in lieu of holidays.

⁽⁷⁾ D G Lanigan and the Rt Hon The Baroness Young retired as non-executive directors on 31 July 1997.

⁽⁸⁾ N L Colne retired as executive director on 31 March 1997.

⁽⁹⁾ The Hon David Sieff retired as executive director on 31 March 1997 and was appointed non-executive director from 1 April 1997.

REPORT OF THE REMUNERATION COMMITTEE

2 GAINS MADE ON DIRECTORS' SHARE OPTIONS

	1998 £000	1997 £000		1998 £000	1997 £000
Sir Richard Greenbury	242	322	Mrs C E M Freeman	240	192
J K Oates	747	836	D K Hayes	-	124
P G McCracken	49	150	C Littmoden	9	290
P L Salisbury	30	104	B S Morris	68	32
Lord Stone of Blackheath	152	189	J T Rowe	66	133
R Aldridge	309	19	S J Sacher	201	-
J R Benfield	470	34	P P D Smith	188	122
N L Colne	-	252	D G Trangmar	172	672
R W C Colvill	375	181	The Hon David Sieff ⁽³⁾	84	213

- ⁽¹⁾ The total gain made by the directors on the exercise of their share options was £3.4m (last year £3.9m).
- ⁽²⁾ Details of options giving rise to these gains can be found on pages 42 to 44. The gains are calculated as at the date of exercise although the shares may have been retained. (Directors' interests in shares are shown on page 44.)
- ⁽³⁾ The Hon David Sieff, non-executive director, exercised share options in relation to grants made to him when he was an executive director. All remaining options have now lapsed.

3 DIRECTORS' PENSION INFORMATION

(i) Pension Scheme

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

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

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

The pension of Mr J K Oates only is based on a uniform accrual of pension of two-thirds of final salary at the age of 60. This was a specific undertaking made by the Company at the time that Mr Oates was recruited.

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

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

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

REPORT OF THE REMUNERATION COMMITTEE

3 DIRECTORS' PENSION INFORMATION continued

	Age at 31 March 1998	Years of service at 31 March 1998	Increase/(decrease)	Increase/(decrease)	Accrued entitlement at year end	
			in transfer value in excess of inflation ⁽¹⁾ during the year ended 31 March 1998 ⁽²⁾ £000	in pension earned in excess of inflation ⁽¹⁾ during the year ended 31 March 1998 £000	31 March 1998 ⁽²⁾ £000	31 March 1997 £000
Sir Richard Greenbury ⁽⁴⁾	61	44	(289)	(86)	415	453
J K Oates ⁽⁵⁾	55	14	621	38	268	221
P G McCracken	49	22	311	22	157	131
P L Salsbury	48	27	354	25	189	159
Lord Stone of Blackheath	55	30	303	19	204	178
R Aldridge	51	24	243	16	111	92
J R Benfield	48	27	204	14	115	98
R W C Colvill	57	13	164	10	73	61
Mrs C E M Freeman	45	23	168	13	78	63
D K Hayes	49	28	199	14	111	94
B S Morris	50	27	103	7	59	46
J T Rowe	50	23	228	15	98	80
S J Sacher	57	30	88	5	159	148
P P D Smith	57	32	155	10	135	121
D G Trangmar	58	32	347 ⁽⁶⁾	2	157	150

⁽¹⁾ Inflation has been assumed to be equivalent to the actual rate of price inflation which was 3.6% for the year to 30 September 1997. This measurement date has been amended in accordance with the Stock Exchange Listing Rules.

⁽²⁾ The pension entitlement shown above for the 15 participating directors is that which would be paid on retirement based on service to 31 March 1998. At State Pension Age this will be reduced by a proportion of the Basic State Pension.

⁽³⁾ In compliance with the Pensions Act 1995, the calculation of transfer values is now linked to UK equity dividend yields. This has resulted in additional increases within the amounts shown.

⁽⁴⁾ The figures for Sir Richard Greenbury reflect the fact that, having attained normal scheme retirement age of 60 (before it was changed to age 65), he chose to receive commutation on 1 July 1997. Had he not taken commutation, the relevant figures would have been £181,000, £11,000, £512,000 and £453,000 respectively.

⁽⁵⁾ The pension for Mr J K Oates is based on a uniform accrual of pension of two-thirds of final salary at the age of 60.

⁽⁶⁾ The greater part of the actuarial increase in the transfer value in respect of Mr D G Trangmar relates to the effect, on the year, of his full pension being paid immediately following his retirement at 31 March 1998.

⁽⁷⁾ Mr C Littmoden is not shown in the above table because he has ceased to accrue benefits in the UK Scheme during his time in North America. His accrued entitlement at the time of his transfer to North America was £64,000.

⁽⁸⁾ The pension entitlement shown excludes any additional pension purchased by the member's Additional Voluntary Contributions.

(ii) Early Retirement Plan

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

Mr D G Trangmar retired as an executive director on 31 March 1998 and has been awarded an annual Early Retirement Pension of £56,000.

The Hon David Sieff, who retired as an executive director on 31 March 1997, received an annual Early Retirement Pension of £49,000 during the period under review.

4 PAYMENTS TO FORMER DIRECTORS

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

	1998 £000	1997 £000
Lord Sieff of Brimpton	61	60
The Lord Rayner	83	81
C V Silver	79	77
	223	218

Due to the continuing ill health of Lord Sieff the Company no longer incurs the cost of providing administrative support for the position of Honorary President but has instead met costs relating to his necessary daily care assistant. Payments of this nature in the period under review amount to £69,197.

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

REPORT OF THE REMUNERATION COMMITTEE

5 LONG-TERM BENEFITS

The Company operates two types of share option scheme:

- (i) a Save As You Earn (SAYE) Option Scheme approved by shareholders in 1981 and renewed by shareholders in 1987 and 1997.
- The Scheme is open to all employees, including executive directors, who have completed two years' service and who open an approved savings contract. Inland Revenue rules limit the maximum amount which can be saved to £250 per month. When the savings contract is started options are granted to acquire the number of shares that the total savings will buy when the savings contract matures; options cannot normally be exercised until a minimum of three years has elapsed.
- (ii) a Senior Staff Share Option Scheme, which is open to executive directors, divisional directors and executives. While the Company has operated this type of Scheme for the past 20 years, the new Scheme, approved by shareholders in 1997, differs from the Schemes approved by shareholders in 1977, 1984 and 1987, in order to take account of changes in legislation and changes in corporate practice.

A two-tier option Scheme has been introduced, comprising first tier options of up to four times annual earnings, and second tier options of up to four times annual earnings. The overall Scheme limit is eight times annual earnings. In response to the Greenbury Report on Directors' Remuneration, since 1996 the Committee has imposed performance criteria on the exercise of options. The criteria for the new Scheme are:

- First tier options will be exercisable between 3 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 5 and 10 years from grant, if the Company's normalised earnings per share growth, over any five year period, would place it in the upper quartile of the FTSE 100 companies.

First tier options may not be granted to an individual if it would cause the aggregate subscription price of shares over which options have been granted in the past ten years to exceed four times his/her annual earnings. All grants in the past ten 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. First grants under the 1997 Scheme will be awarded in June 1998.

Directors' long-term benefits

The options detailed in the table below may not be exercisable for two reasons:

- (i) they have not been held for the minimum period (described below as 'Not yet exercisable') or
- (ii) their value is in excess of the Maximum Option Value (described below as 'Not exercisable (exceed MOV)').

Options under the Senior Schemes are granted in consideration of a £1 payment. The market price of the shares at the end of the financial year was 591.5p; the highest and lowest share prices during the financial year were 664.5p and 484p respectively.

	At 1 April 1997	Granted during the year	Exercised during the year	At 31 March 1998	Option price (pence)	Exercise price (pence)	Option period
Sir Richard Greenbury							
Exercisable	17,710			30,638	329.0		May 95 – May 02
Not yet exercisable	4,434 ⁽²⁾			4,434⁽²⁾	389.0		Jan 02 – Jun 02
Not exercisable (exceed MOV)	955,719			938,110	386.0 ⁽¹⁾		May 95 – May 05
		83,108			527.0		Jun 00 – Jun 04
			87,789		254.0	530.0	
J K Oates							
Exercisable	269,296			87,771	330.0 ⁽¹⁾		May 95 – May 03
Not yet exercisable	9,336 ⁽²⁾			9,336⁽²⁾	296.0		Jan 99 – Jun 02
Not exercisable (exceed MOV)	323,311			354,212	436.0 ⁽¹⁾		May 96 – May 05
		74,235			527.0		Jun 00 – Jun 04
			224,859		271.0 ⁽¹⁾	603.0 ⁽¹⁾	
P G McCracken							
Exercisable	269			251	329.0		May 95 – May 02
Not yet exercisable	12,853 ⁽²⁾			10,554⁽²⁾	302.0 ⁽¹⁾		Jan 99 – Jun 05
Not exercisable (exceed MOV)	274,314			325,986	423.0 ⁽¹⁾		May 95 – May 05
		65,654			527.0		Jun 00 – Jun 04
		668 ⁽²⁾			467.0		Jan 05 – Jun 05
			14,000		329.0	592.5	
			2,967 ⁽²⁾		182.0	587.0	
P L Salisbury							
Exercisable	137,645			151,135	309.0 ⁽¹⁾		May 94 – May 03
Not yet exercisable	16,897 ⁽²⁾			9,480⁽²⁾	301.0 ⁽¹⁾		Jan 99 – Jun 04
Not exercisable (exceed MOV)	281,477			333,641	425.0 ⁽¹⁾		May 96 – May 05
		65,654			527.0		Jun 00 – Jun 04
			7,417 ⁽²⁾		182.0	580.0	
Lord Stone of Blackheath							
Exercisable	72,383			34,134	341.0		May 96 – May 03
Not yet exercisable	11,324 ⁽²⁾			11,324⁽²⁾	291.0 ⁽¹⁾		Jan 99 – Jun 04
Not exercisable (exceed MOV)	302,110			349,472	419.0 ⁽¹⁾		May 96 – May 05
		61,555			527.0		Jun 00 – Jun 04
			52,442		329.0	619.0	

⁽¹⁾ Weighted average price. ⁽²⁾ SAYE grant or exercise.

REPORT OF THE REMUNERATION COMMITTEE

5 LONG TERM BENEFITS continued

	At 1 April 1997	Granted during the year	Exercised during the year	At 31 March 1998	Option price (pence)	Exercise price (pence)	Option period
R Aldridge							
Exercisable	225,356			115,120	267.0 ⁽¹⁾		May 94 – May 02
Not yet exercisable	10,010 ⁽²⁾			10,845⁽²⁾	302.0 ⁽¹⁾		Jan 99 – Jun 05
Not exercisable (exceed MOV)	158,796			199,992	421.0 ⁽¹⁾		May 95 – May 05
		41,196			527.0		Jun 00 – Jun 04
		835 ⁽²⁾			467.0		Jan 05 – Jun 05
			110,236		254.0	534.5	
J R Benfield							
Exercisable	174,615			2,431	329.0		May 95 – May 02
Not yet exercisable	10,010 ⁽²⁾			10,845⁽²⁾	302.0 ⁽¹⁾		Jan 99 – Jun 05
Not exercisable (exceed MOV)	181,660			210,480	389.0 ⁽¹⁾		May 95 – May 05
		28,820			527.0		Jun 00 – Jun 04
		835 ⁽²⁾			467.0		Jan 05 – Jun 05
			172,184		241.0 ⁽¹⁾	514.0 ⁽¹⁾	
R W C Colvill							
Exercisable	194,412			109,353	285.0 ⁽¹⁾		May 94 – May 02
Not yet exercisable	8,268 ⁽²⁾			10,355⁽²⁾	299.0 ⁽¹⁾		Jan 00 – Jun 01
Not exercisable (exceed MOV)	238,024			257,047	402.0 ⁽¹⁾		May 95 – May 05
		37,625			527.0		Jun 00 – Jun 04
		2,087 ⁽²⁾			467.0		Jan 00 – Jun 00
			103,661		242.0 ⁽¹⁾	604.0 ⁽¹⁾	
Mrs C E M Freeman							
Exercisable	89,556			27,963	329.0		May 95 – May 02
	2,781 ⁽²⁾						
Not yet exercisable	12,588 ⁽²⁾			12,588⁽²⁾	284.0 ⁽¹⁾		Jan 94 – Jun 02
Not exercisable (exceed MOV)	120,615			158,405	429.0 ⁽¹⁾		May 95 – May 05
		41,437			527.0		Jun 00 – Jun 04
			65,240		254.0	605.5	
			2,781 ⁽²⁾		151.0	526.5	
D K Hayes							
Exercisable	13,829			16,261	329.0		May 95 – May 02
Not yet exercisable	11,294 ⁽²⁾			11,294⁽²⁾	292.0 ⁽¹⁾		Jan 99 – Jun 04
Not exercisable (exceed MOV)	200,278			230,095	410.0 ⁽¹⁾		May 95 – May 05
		32,249			527.0		Jun 00 – Jun 04
C Littmoden							
Exercisable	1,106			10,870	254.0		May 94 – May 01
	3,275 ⁽²⁾						
Not yet exercisable	5,649 ⁽²⁾			5,649⁽²⁾	345.0 ⁽¹⁾		Jan 01 – Jun 04
Not exercisable (exceed MOV)	260,218			275,883	373.0 ⁽¹⁾		May 94 – May 05
		25,429			527.0		Jun 00 – Jun 04
			3,275 ⁽²⁾		229.0	508.0	
B S Morris							
Exercisable	29,528			13,996	329.0		May 95 – May 02
Not yet exercisable	5,273 ⁽²⁾			4,601⁽²⁾	375.0 ⁽¹⁾		Jan 01 – Jun 05
Not exercisable (exceed MOV)	185,973			197,596	412.0 ⁽¹⁾		May 95 – May 05
		26,091			527.0		Jun 00 – Jun 04
		738 ⁽²⁾			467.0		Jan 03 – Jun 03
			30,000		329.0	538.0 ⁽¹⁾	
			1,410 ⁽²⁾		229.0	596.5	
J T Rowe							
Exercisable	70,121			41,142	331.0 ⁽¹⁾		May 95 – May 03
Not yet exercisable	4,776 ⁽²⁾			4,776⁽²⁾	361.0 ⁽¹⁾		Jan 00 – Jun 02
Not exercisable (exceed MOV)	173,018			214,498	411.0 ⁽¹⁾		May 96 – May 05
		41,480			527.0		Jun 00 – Jun 04
			28,979		304.0 ⁽¹⁾	531.0	
S J Sacher							
Exercisable	47,692			190	254.0		May 94 – May 01
	2,781 ⁽²⁾						
Not yet exercisable	10,313 ⁽²⁾			11,983⁽²⁾	305.0 ⁽¹⁾		Jan 99 – Jun 05
Not exercisable (exceed MOV)	370,630			356,385	358.0 ⁽¹⁾		May 94 – May 05
		13,253			527.0		Jun 00 – Jun 04
		1,670 ⁽²⁾			467.0		Jan 05 – Jun 05
			75,000		254.0	508.5	
			2,781 ⁽²⁾		151.0	514.0	

⁽¹⁾ Weighted average price. ⁽²⁾ SAYE grant or exercise.

REPORT OF THE REMUNERATION COMMITTEE

5 LONG TERM BENEFITS continued

	At 1 April 1997	Granted during the year	Exercised during the year	At 31 March 1998	Option price (pence)	Exercise price (pence)	Option period
P P D Smith							
Exercisable	46,432			2,047	254.0		May 94 – May 01
Not yet exercisable	9,825 ⁽²⁾			9,825⁽²⁾	229.0		Jan 99 – Jun 99
Not exercisable (exceed MOV)	266,772			283,004	375.0 ⁽¹⁾		May 94 – May 05
		27,256			527.0		Jun 00 – Jun 04
			55,409		254.0	593.0	
D G Trangmar							
Exercisable	990			4,162	254.0		May 94 – May 01
Not exercisable (exceed MOV)	305,740			277,568	356.0 ⁽¹⁾		May 94 – May 05
		18,702			527.0		Jun 00 – Jun 04
			43,702		206.0	600.5	
The Hon David Sieff							
Exercisable	25,077			– ⁽³⁾			
Not yet exercisable	7,825 ⁽²⁾			– ⁽³⁾			
Not exercisable (exceed MOV)	313,812			– ⁽³⁾			
			25,077		329.0	592.0	
			5,072 ⁽²⁾		257.0	612.0	

⁽¹⁾ Weighted average price. ⁽²⁾ SAYE grant or exercise.

⁽³⁾ The Hon David Sieff, non-executive director, exercised share options in relation to grants made to him when he was an executive director. All remaining options have now lapsed.

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 Profit Sharing Scheme. Options granted under the Save As You Earn (SAYE) Share Option and Senior Staff Share Option Schemes are shown on pages 42 to 44. Further information regarding employee share option schemes is given in note 9D. There has been no change in the directors' interests in shares or options granted by the Company and its subsidiaries between the end of the financial year and one month prior to the notice of the Annual General Meeting. The Register of Directors' Interests (which is open to shareholders' inspection) contains full details of directors' shareholdings and options to subscribe for shares. No director had any interest in any subsidiary at the beginning or end of the year.

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

	At 31 March 1998	At 1 April 1997		At 31 March 1998	At 1 April 1997
Sir Richard Greenbury	43,210	37,338	B S Morris	2,811	2,630
J K Oates	307,574	296,434	J T Rowe	28,124	28,327
P G McCracken	51,913	48,133	S J Sacher	295,359	290,351
P L Salsbury	56,627	47,096	P P D Smith	8,479	8,269
Lord Stone of Blackheath	22,646	35,688	D G Trangmar	223,477	215,779
R Aldridge	35,634	33,055	B F Baldock	20,000	20,000
J R Benfield	14,103	14,281	Sir Martin Jacomb	15,231	14,234
R W C Colvill	19,134	21,310	Sir Michael Perry	2,457	2,457
Mrs C E M Freeman	29,819	24,721	Dame Stella Rimington	2,012	2,000
D K Hayes	10,484	8,388	Sir Ralph Robins	2,514	2,452
C Littmoden	49,732	45,209	The Hon David Sieff	330,273	323,480

(ii) Ordinary shares in the Company – trustee interests

	At 31 March 1998		At 1 April 1997	
	Charitable Trusts' Shares	Other Trusts' Shares	Charitable Trusts' Shares	Other Trusts' Shares
S J Sacher	52,000	147,045	62,000	147,045
The Hon David Sieff	12,000	41,725	12,000	53,700

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 page 37.

REPORTS OF THE AUDITORS

TO THE MEMBERS OF MARKS AND SPENCER p.l.c. ON THE FINANCIAL STATEMENTS

We have audited the financial statements on pages 39 to 44 and pages 48 to 68.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described above the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF 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 1998 and of the profit, total recognised gains and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand

Chartered Accountants and Registered Auditors
London
18 May 1998

TO MARKS AND SPENCER p.l.c. ON CORPORATE GOVERNANCE MATTERS

In addition to our audit of the financial statements, we have reviewed the directors' statements on pages 36 and 37 concerning the Company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v).

BASIS OF OPINION

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion

on the effectiveness of either the Group's system of internal financial control or its corporate governance procedures, nor on the ability of the Group and Company to continue in operational existence.

OPINION

With respect to the directors' statements on internal financial control and going concern on pages 37 and 36 respectively, in our opinion the directors have provided the disclosures required by the Listing Rules referred to above and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the Company, and examination of relevant documents, in our opinion the directors' statement on page 37 appropriately reflects the Company's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43(j).

Coopers & Lybrand

Chartered Accountants
London
18 May 1998

REPORT OF THE DIRECTORS

The directors have pleasure in submitting their report and the financial statements of the Company and its subsidiaries for the year ended 31 March 1998.

PRINCIPAL ACTIVITIES

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

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 on pages 2 to 5.

PROFIT AND DIVIDENDS

The profit for the financial year, after taxation and minority interests, amounts to £828.9m. The directors have declared dividends as follows:

	£m
Ordinary shares	
Interim paid, 3.6p per share (last year 3.3p)	102.7
Proposed final, 10.7p per share (last year 9.7p)	306.4
Total ordinary dividends, 14.3p per share (last year 13.0p)	409.1

The final dividend will be paid on 31 July 1998 to shareholders whose names are on the Register of Members at the close of business on 1 June 1998.

CHANGES IN SHARE CAPITAL

During the year ended 31 March 1998, 25,641,432 ordinary shares in the Company were issued as follows:

- A** 4,316,027 to the Trustees of the United Kingdom Employees' Profit Sharing Schemes at 495p each, in respect of the allocation from the profits of the year ended 31 March 1997.
- B** 1,962,613 under the terms of the 1984 Senior Staff Share Option Scheme at prices between 175p and 404p each.
- C** 1,762,189 under the terms of the 1987 Senior Staff Share Option Scheme at prices between 206p and 404p.
- D** 7,894,621 under the terms of the United Kingdom Employees' Save As You Earn Share Option Scheme at prices between 151p and 467p.
- E** 9,705,982 issued under the scrip dividend scheme (6,041,605 in respect of the final dividend for 1996/97 and 3,664,377 in respect of the interim dividend for 1997/98).

SUBSTANTIAL SHAREHOLDINGS

The Company has been notified that as at 11 May 1998, the Prudential Corporation and its subsidiaries ("the Prudential") held 145,095,785 ordinary shares which represented 5.1% of the issued ordinary share capital of the Company. In accordance with current legislation the notification excludes 23,158,605 ordinary shares in which the Prudential has no beneficial interest but over which it has voting control. If these shares were included with the shares notified, the Prudential's ordinary shareholding in the Company would be 168,254,390 shares (5.9% – last year 5.4%). The Company has not received notification that any other person holds 3% or more of the issued ordinary share capital.

CREDITOR PAYMENT POLICY

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

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

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

Trade creditor days of the Company for the year ended 31 March 1998 were 14.9 days (10.6 working days), based on the ratio of Company trade creditors at the end of the year to the amounts invoiced during the year by trade creditors.

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

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

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

UNITED KINGDOM EMPLOYEES' PROFIT SHARING SCHEMES

The amount of profit which will be allocated this year, in the form of ordinary shares in the Company, has been fixed at £22.5m (last year £23.5m), representing 5% of the earnings of 42,505 (last year 40,830) eligible employees.

DIRECTORS AND THEIR INTERESTS

The present directors are listed on pages 32 and 33.

The responsibilities of the Managing Directors were changed in March 1998 and are now as shown on page 32.

Mr D G Trangmar retired as an executive director on 31 March 1998.

In accordance with Article 85 of the Company's Articles of Association, Mrs C E M Freeman, Sir Martin Jacomb, Mr P G McCracken,

Mr S J Sacher CBE, Mr P L Salsbury, Mr P P D Smith and Lord Stone of Blackheath retire by rotation and, being eligible, offer themselves for re-election. Brief biographical details are given on pages 32 and 33.

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

The beneficial interests of the directors and their families in the shares of the Company and its subsidiaries, together with their interests as trustees of both charitable and other trusts, are given on page 44.

EMPLOYEE INVOLVEMENT

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

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

REPORT OF THE DIRECTORS

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

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

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

EQUAL OPPORTUNITIES

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

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

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

EMPLOYEES WITH DISABILITIES

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

CHARITABLE AND POLITICAL CONTRIBUTIONS

During the year, we spent £10.1m in the UK in support of the community. Within this, direct donations to charitable organisations amounted to £6m. No political contributions were made to any political party.

ANNUAL GENERAL MEETING

Special Business Resolutions

Explanations of these resolutions are as follows:

Resolution Number 11

The Companies Act 1985 prevents directors from allotting unissued shares without the authority of shareholders in general meeting. In certain circumstances this could be unduly restrictive.

The Company's Articles empower your directors to allot unissued shares but the power is subject to annual renewal. Renewal of the power is sought for the period specified in the resolution, subject to the limitations that your directors may only allot:

(a) Shares in total, up to a nominal value of £83,750,000 ("the Section 80 Amount") which represents 11.7% of the nominal value of the issued share capital of the Company as at 19 April 1998, being a date not more than one month prior to the date of this report.

(b) Shares for cash, other than to existing shareholders in proportion to their holdings, up to a nominal value of £35,781,631 ("the Section 89 Amount"), being 5% of the nominal value of the issued share capital of the Company as at 19 April 1998, being a date not more than one month prior to the date of this report.

If shareholders approve this resolution:

(i) The authority given to the directors will expire on the date of the Annual General Meeting in 1999 or, if earlier, on 15 October 1999.

(ii) Within that period shareholders' consent will not be required for each allotment of shares made for cash otherwise than to existing shareholders in proportion to their existing holdings provided that such allotments do not exceed a nominal value of £35,781,631 in total.

Your directors have no current intention to exercise the authority sought by this resolution.

Resolution Number 12

With the authority of shareholders in general meeting, the Company is empowered by its Articles to purchase its own shares subject to the provisions of the Statutes. Although your directors have no immediate plans to do so they believe it is prudent to seek general authority from shareholders to be able to act if circumstances arose in which they considered such purchases to be desirable. This power will only be exercised if and when, in the light of market conditions prevailing at that time, the directors believe that such purchases would increase earnings per share and would be for the benefit of shareholders generally.

This resolution specifies the maximum number of shares which may be acquired (approximately 10% of the Company's issued share capital) and the maximum and minimum prices at which they may be bought.

By order of the Board

Sir Richard Greenbury, Chairman

London

18 May 1998

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MARCH 1998

	Notes	1998 £m	1997 £m
TURNOVER – continuing operations	2	8,243.3	7,841.9
Cost of sales		(5,322.9)	(5,103.8)
GROSS PROFIT		2,920.4	2,738.1
Net operating expenses	3	(1,803.7)	(1,700.2)
OPERATING PROFIT – continuing operations			
Before exceptional operating income		1,063.5	1,037.9
Exceptional operating income		53.2	–
TOTAL OPERATING PROFIT	2, 3	1,116.7	1,037.9
Loss on sale of property and other fixed assets		(2.8)	(1.8)
Net interest income	4	54.1	65.9
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2	1,168.0	1,102.0
Taxation on ordinary activities	5	(338.7)	(346.1)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		829.3	755.9
Minority interests (all equity)		(0.4)	(1.3)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	6	828.9	754.6
Dividends	7	(409.1)	(368.6)
UNDISTRIBUTED SURPLUS FOR THE YEAR	26	419.8	386.0
EARNINGS PER SHARE	8	29.1p	26.7p

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31 MARCH 1998

	Notes	1998 £m	1997 £m
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		828.9	754.6
Exchange differences on foreign currency translation	26	(34.1)	(54.3)
Unrealised surpluses on revaluation	26	49.8	10.0
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR		844.6	710.3

BALANCE SHEETS

AT 31 MARCH 1998

	Notes	THE GROUP		THE COMPANY	
		1998 £m	1997 £m	1998 £m	1997 £m
FIXED ASSETS					
Tangible assets:					
Land and buildings		3,523.4	3,056.7	3,202.3	2,736.6
Fixtures, fittings and equipment		528.9	500.1	389.5	364.5
Assets in the course of construction		123.4	53.1	54.3	26.5
	11	4,175.7	3,609.9	3,646.1	3,127.6
Investments	12	69.7	36.6	361.6	371.6
		4,245.4	3,646.5	4,007.7	3,499.2
CURRENT ASSETS					
Stocks		500.2	445.1	361.9	310.6
Debtors:					
Receivable within one year	13	948.9	819.2	1,366.1	1,456.4
Receivable after more than one year	13	1,096.4	906.6	175.8	167.4
Investments	14	242.3	361.8	-	-
Cash at bank and in hand	15,16	614.9	671.5	86.9	87.8
		3,402.7	3,204.2	1,990.7	2,022.2
CURRENT LIABILITIES					
Creditors: amounts falling due within one year	17	2,345.0	1,775.1	1,287.1	1,124.0
NET CURRENT ASSETS		1,057.7	1,429.1	703.6	898.2
TOTAL ASSETS LESS CURRENT LIABILITIES					
		5,303.1	5,075.6	4,711.3	4,397.4
Creditors: amounts falling due after more than one year	18	187.2	495.8	-	150.0
Provisions for liabilities and charges	20	31.0	31.8	27.9	27.9
NET ASSETS		5,084.9	4,548.0	4,683.4	4,219.5
CAPITAL AND RESERVES					
Called up share capital	25	715.6	709.2	715.6	709.2
Share premium account		325.7	259.8	325.7	259.8
Revaluation reserve		506.1	456.3	509.7	461.9
Profit and loss account		3,518.4	3,104.0	3,132.4	2,788.6
SHAREHOLDERS' FUNDS (all equity)	26	5,065.8	4,529.3	4,683.4	4,219.5
Minority interests (all equity)		19.1	18.7	-	-
TOTAL CAPITAL EMPLOYED		5,084.9	4,548.0	4,683.4	4,219.5

Approved by the Board
18 May 1998

Sir Richard Greenbury, Chairman
J K Oates, Deputy Chairman and Joint Managing Director

CONSOLIDATED CASH FLOW INFORMATION

FOR THE YEAR ENDED 31 MARCH 1998

CASH FLOW STATEMENT

	Notes	1998		1997	
		£m	£m	£m	£m
OPERATING ACTIVITIES					
Received from customers		7,974.3		7,509.5	
Payments to suppliers		(5,376.8)		(5,109.8)	
Payments to and on behalf of employees		(989.3)		(909.4)	
Other payments		(651.0)		(593.2)	
CASH INFLOW FROM OPERATING ACTIVITIES	28		957.2		897.1
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	29A		56.1		65.4
TAXATION	29B		(342.3)		(318.6)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	29C		(777.8)		(413.1)
ACQUISITIONS AND DISPOSALS	29D		2.6		(0.2)
EQUITY DIVIDENDS PAID			(325.8)		(305.6)
Cash outflow before management of liquid resources and financing			(430.0)		(75.0)
MANAGEMENT OF LIQUID RESOURCES AND FINANCING					
Management of liquid resources	29E	226.6		91.3	
Financing	29F	307.4		64.7	
			534.0		156.0
INCREASE IN CASH			104.0		81.0

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

	1998 £m	1997 £m
INCREASE IN CASH	104.0	81.0
Cash inflow from decrease in liquid resources	(226.6)	(91.3)
Cash inflow from increase in debt financing	(258.5)	(21.0)
Exchange movements	0.3	(4.2)
MOVEMENT IN NET DEBT	(380.8)	(35.5)
Net funds at 1 April	61.5	97.0
NET (DEBT)/FUNDS AT 31 MARCH	(319.3)	61.5

ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable accounting standards in the United Kingdom. A summary of the more important Group accounting policies, which are 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 1998.

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 in the cost of land and buildings.

b Depreciation

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

Freehold and leasehold land and buildings over 50 years: 1% or nil (see (ii) and c below);

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

Fixtures, fittings and equipment: 4% to 33 $\frac{1}{3}$ % according to the estimated life of the asset.

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

(ii) Given that the lives of the Group's freehold and long leasehold properties are so long and that they are maintained to such a high standard, it is the opinion of the directors that in most instances the residual values would be sufficiently high to make any depreciation charge immaterial. The directors have based their estimates of residual values on prices prevailing at the time of acquisition or revaluation. Where residual values are lower than cost or valuation, depreciation is charged to the profit and loss account. Any permanent diminution in value is also charged to the revaluation reserve or the profit and loss account as appropriate.

c Investment properties

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

d Repairs and renewals

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

Certain major items of fixed plant and structure are incorporated within the cost of the buildings when purchased. When replaced, these are fully expensed as repairs and renewals in the profit and loss account.

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.

FOREIGN CURRENCIES

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

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

GOODWILL

Goodwill arising on consolidation is written off to reserves on acquisition. Goodwill attributable to businesses disposed of is written back to reserves brought forward, and charged through the profit and loss account.

PENSION CONTRIBUTIONS

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

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

SCRIP DIVIDENDS

The amount of dividends taken as shares instead of in cash under the scrip dividend scheme is added back to reserves. The nominal value of shares issued under the scheme is funded out of the share premium account.

STOCKS

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

NOTES TO THE FINANCIAL STATEMENTS

1 TRADING PERIOD

The results for the year comprise store sales and related costs for the 52 weeks to 28 March 1998 (last year 52 weeks to 29 March 1997). All other activities are for the year to 31 March 1998.

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	
	1998 £m	1997 £m	1998 £m	1997 £m	1998 £m	1997 £m
Retailing	7,968.5	7,625.8	1,004.6	962.2	3,979.1	3,243.6
Before exceptional operating income			951.4	962.2		
Exceptional operating income (see note 3)			53.2	-		
Financial Services ⁽¹⁾	274.8	216.1	89.4	75.7	302.8	235.0
Total operating activities	8,243.3	7,841.9	1,094.0	1,037.9	4,281.9	3,478.6
Add: excess interest charged to cost of sales of Financial Services ⁽¹⁾			22.7	-		
Total operating profit			1,116.7	1,037.9		
Loss on sale of property and other fixed assets			(2.8)	(1.8)		
Net interest income			54.1	65.9		
Profit on ordinary activities before taxation			1,168.0	1,102.0		
Unallocated assets					803.0	1,069.4
Net assets					5,084.9	4,548.0

B GEOGRAPHICAL SEGMENTS⁽²⁾

	TURNOVER		OPERATING PROFIT		OPERATING ASSETS	
	1998 £m	1997 £m	1998 £m	1997 £m	1998 £m	1997 £m
United Kingdom						
Retailing ⁽³⁾	6,695.8	6,349.5	936.7	870.8	3,420.2	2,755.9
Before exceptional operating income			883.5	870.8		
Exceptional operating income (see note 3)			53.2	-		
Financial Services ⁽¹⁾	274.8	216.1	89.4	75.7	302.8	235.0
Total operating activities	6,970.6	6,565.6	1,026.1	946.5	3,723.0	2,990.9
Add: excess interest charged to cost of sales of Financial Services ⁽¹⁾			22.7	-		
Total operating profit			1,116.7	1,037.9		
Europe (excluding UK) ⁽⁴⁾	538.2	551.5	32.8	37.7	371.2	324.9
The Americas	606.2	580.0	16.8	21.0	160.0	152.9
Far East ⁽⁴⁾	128.3	144.8	18.3	32.7	27.7	9.9

⁽¹⁾ Financial Services operating profit is stated after charging £81.5m (last year £59.6m) 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 £58.8m (last year £60.1m) (see note 4). Intra group interest of £22.7m (last year £nil), 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 directorial responsibility.
- ⁽³⁾ UK retail turnover including VAT comprises clothing, footwear and gifts £4,309.5m (last year £3,988.2m); home furnishings £320.4m (last year £297.3m) and foods £2,776.1m (last year £2,714.3m). VAT on UK retail turnover was £710.2m (last year £650.3m). Since the last financial year, sales of certain lines have been transferred from gifts to home furnishings. Comparatives have been restated.
- ⁽⁴⁾ Operating profit includes pre-opening costs of £7.6m (last year £11.6m) for Europe and £2.0m (last year £0.7m) for Far East.
- ⁽⁵⁾ Turnover originates in the following geographical segments: United Kingdom £7,123.5m (last year £6,713.7m); Europe £421.5m (last year £446.2m); The Americas £603.8m (last year £577.5m) and Far East £94.5m (last year £104.5m).
- The value of goods exported from the UK, including shipments to overseas subsidiaries, amounted to £469.6m (last year £458.5m).

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

	TURNOVER		OPERATING PROFIT	
	1998 £m	1997 £m	1998 £m	1997 £m
The Americas				
Brooks Brothers (including Japan)	329.6	304.4	15.8	15.4
Kings Super Markets	232.3	229.2	10.4	11.6
Marks & Spencer (including Canada) ⁽¹⁾	44.3	46.4	(8.3)	(5.0)
Corporate expenses	-	-	(1.1)	(1.0)
	606.2	580.0	16.8	21.0
Far East				
Stores	128.3	144.8	6.4	22.9
Other ⁽²⁾	-	-	11.9	9.8
	128.3	144.8	18.3	32.7

⁽¹⁾ The operating loss for Marks & Spencer Canada is stated after a charge of £3.4m for restructuring costs (last year £nil).

⁽²⁾ The profits generated from sourcing merchandise and technological services in Hong Kong together with the costs of an overseas office in mainland China and related research costs in Taiwan and Japan, are grouped within Far East under "other".

The results of overseas subsidiaries have been translated using average rates of exchange prevailing during the financial year. The changes in rates compared with last year have had a significant effect on overseas turnover and operating profits reported above. The table below sets out the percentage increases in reported turnover and operating profit for each overseas segment together with the increase that would have been reported had exchange rates remained constant.

	TURNOVER Inc./(Dec.) %		OPERATING PROFIT Inc./(Dec.) %		
	As reported	At constant rates	As reported	At constant rates Translation	Transactions ⁽¹⁾ and Translation
Europe (excluding UK)	(2.4)	10.1	(13.0)	(5.7)	25.7
The Americas	4.5	8.9	(20.0)	(16.3)	(15.4)
Far East	(11.4)	(9.4)	(44.0)	(42.6)	(40.9)
Total Overseas	(0.3)	7.3	(25.7)	(21.3)	(7.6)

⁽¹⁾ Adjusts for the effect of exchange rate movements on the local currency operating profits of overseas subsidiaries which import UK sourced M&S merchandise for sale in the local market, as well as the effects of translation.

The movements in exchange rates compared to the same period last year have resulted in translation losses which reduced reported overseas sales by £97.2m and operating profits by £4.0m.

In addition, despite the Group's hedging arrangements, the strength of sterling has led to an increase in the cost of sales for our overseas subsidiaries, which import UK sourced M&S merchandise. The increase in cost of sales has reduced overseas margins by approximately £12.6m, of which £11.8m relates to Europe.

NOTES TO THE FINANCIAL STATEMENTS

3 OPERATING PROFIT

	1998		1997	
	£m	£m	£m	£m
Turnover		8,243.3		7,841.9
Cost of sales		(5,322.9)		(5,103.8)
Gross profit		2,920.4		2,738.1
Staff costs (see note 9)		985.7		907.8
Occupancy costs		257.0		242.8
Repairs, renewals and maintenance of fixed assets		92.9		79.5
Depreciation		166.5		162.8
Other costs before exceptional operating income ⁽¹⁾	354.8		307.3	
Exceptional operating income ⁽²⁾	(53.2)		-	
Total other costs		301.6		307.3
Total net other expenses ⁽³⁾		(1,803.7)		(1,700.2)
Operating profit		1,116.7		1,037.9

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

⁽¹⁾ Included in other costs is the remuneration of the auditors for the Group audit of £1.0m (last year £0.9m) and £0.4m (last year £0.3m) for the Company audit. Also included in other costs is the remuneration of the auditors for the provision of non-audit services to the Group of £0.7m (last year £0.7m) of which £0.2m (last year £0.3m) relates to the Company.

⁽²⁾ Other costs are stated after crediting £53.2m received in respect of VAT overpaid on sales of earlier accounting periods following the Court of Appeal decision in a case brought by Littlewoods Home Shopping. The decision clarified how VAT should be calculated on retail sales, amending previous interpretation. The overpayment of £53.2m was repaid in full following the acceptance of the Court of Appeal decision by the tax authorities.

⁽³⁾ Included in total other expenses are rentals under operating leases, comprising £7.5m for hire of plant and machinery (last year £11.4m) and £104.2m of other rental costs (last year £92.2m).

4 NET INTEREST INCOME

	1998		1997 ⁽¹⁾	
	£m	£m	£m	£m
Bank and other interest income	275.2		246.1	
Less: amounts included in turnover of Financial Services	(221.1)		(179.7)	
		54.1		66.4
Interest expenditure	(58.8)		(60.1)	
Less: intra group interest charged to cost of sales	58.8		59.6	
		-		(0.5)
Net interest income		54.1		65.9
Interest expenditure comprises:				
Amounts repayable within five years:				
Bank loans, overdrafts and commercial paper		(26.5)		(32.2)
Medium term notes		(4.4)		-
8 ¹ / ₄ % Guaranteed bonds 1996		-		(1.4)
7 ³ / ₈ % Guaranteed bonds 1998		(10.2)		(8.7)
US\$ Promissory note 1998		(17.7)		(17.8)
		(58.8)		(60.1)

⁽¹⁾ Last year, "bank and other interest income" and "interest expenditure" were both shown gross of intra group receipts/ payments of interest amounting to £33.1m. Comparative amounts have been restated to exclude intra group interest. There is no effect on net interest income or net cash inflow from returns on investments and servicing of finance.

NOTES TO THE FINANCIAL STATEMENTS

5 TAXATION ON ORDINARY ACTIVITIES

	1998		1997	
	£m	£m	£m	£m
The taxation charge comprises:				
Current taxation				
UK corporation tax at 31% (last year 33%):				
Current year	346.5		328.4	
Prior years	(6.4)		(7.4)	
Double taxation relief		340.1 (18.3)		321.0 –
Overseas taxation		321.8 9.5		321.0 14.1
		331.3		335.1
Deferred taxation (see note 21)				
Current year	6.6		10.7	
Prior years	0.8		0.3	
		7.4		11.0
		338.7		346.1

6 PROFIT FOR THE FINANCIAL YEAR

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

The consolidated profit for the financial year of £828.9m (last year £754.6m) includes £724.2m (last year £645.9m) which is dealt with in the financial statements of the Company.

7 DIVIDENDS

	1998 £m	1997 £m
Ordinary shares		
Interim paid of 3.6p per share (last year 3.3p)	102.7	93.3
Proposed final of 10.7p per share (last year 9.7p)	306.4	275.3
	409.1	368.6

Under the scrip dividend scheme, £30.8m of the 1996/97 final dividend and £21.3m of the 1997/98 interim dividend were paid by way of shares, and these amounts have been added back to the profit and loss account reserve (see note 26).

NOTES TO THE FINANCIAL STATEMENTS

8 EARNINGS PER SHARE

The calculation of earnings per ordinary share is based on earnings after tax and minority interests of £828.9m (last year £754.6m), and on 2,850,062,000 ordinary shares (last year 2,825,773,000), being the weighted average number of ordinary shares in issue during the year ended 31 March 1998.

At 31 March 1998, directors, senior employees and retired staff held exercisable options in respect of 5,018,728 ordinary shares (last year 6,713,270). There were options outstanding under the Save As You Earn Share Option Scheme in respect of 56,133,920 ordinary shares (last year 54,101,856). If all outstanding options had been exercised, the dilution of earnings per share would not have been material.

An adjusted earnings per share figure has been calculated in addition to the earnings per share required by FRS3 and is based on earnings excluding the effect of the exceptional operating income. It has been calculated to allow the shareholders to gain a clearer understanding of the trading performance of the Group. Details of the adjusted earnings per share are set out below:

	1998	1997
Earnings per share (Defined by FRS3)	29.1p	26.7p
Exceptional operating income (net of taxation)	(1.3p)	-
Adjusted earnings per share	27.8p	26.7p

The IIMR earnings per share at 29.2p (last year 26.8p) is not significantly different from the basic earnings per share as defined in FRS3. Under this measure, standard earnings are adjusted to eliminate certain capital items.

9 EMPLOYEES

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

	1998	1997
UK stores		
Management and supervisory categories	3,838	3,756
Other	50,533	49,220
UK head office		
Management and supervisory categories	2,249	2,082
Other	1,546	1,469
Financial Services		
Management and supervisory categories	115	95
Other	1,071	890
Overseas	11,945	10,696
	71,297	68,208

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 48,200 (last year 45,805).

The aggregate remuneration and associated costs of Group employees were:

	1998 £m	1997 £m
Wages and salaries	737.4	691.9
UK profit sharing (see note 9C)	22.5	23.5
Social security costs	54.8	53.0
Pension costs (see note 9A)	111.1	86.5
Staff welfare and other personnel costs	76.7	67.5
	1,002.5	922.4
Classified as:		
Staff costs (see note 3)	985.7	907.8
Manufacturing cost of sales	16.8	14.6
	1,002.5	922.4

NOTES TO THE FINANCIAL STATEMENTS

9 EMPLOYEES continued

A PENSION COSTS

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

The total pension cost for the Group was £111.1m (last year £86.5m) of which £8.1m (last year £7.4m) related to overseas schemes.

The latest actuarial valuation of the UK Scheme was carried out at 1 April 1995 by an independent actuary using the projected unit method. The key assumptions adopted were:

Rate of increase in salaries	6.0%
Rate of increase in pensions in payment	4.0%
Rate of return on investments	9.0%
Rate of increase in dividend income	5.0%
Rate of interest applied to discount liabilities	9.0%

After allowing for certain changes to benefits, the latest actuarial valuation revealed a shortfall of £90.0m in the actuarial value of the assets of the UK Scheme of £1,507m compared to the actuarial liability for pension benefits. (The market value of assets at 1 April 1995 was £1,451.9m.) The Company funded the deficit in full in November 1995, bringing the funding level (at 1 April 1995) up to 100%, although for profit and loss account purposes under SSAP24 it is being amortised over a period of 11 years from 1 April 1995, being the remaining estimated service lives of the current scheme members.

The 1997 Finance Act amended the tax treatment of dividend income received by UK pension funds. As this is expected to affect adversely the income of the Group's UK pension scheme, the directors have decided, having taken actuarial advice, that it would be prudent to recognise an estimate of the cost to the Group of this change. Consequently, an additional pension provision of £20m, representing the estimated annual cost, has been made against UK operating profit.

An actuarial valuation of the UK pension scheme will be carried out as at 1 April 1998 and will incorporate fully the impact of the changes in legislation. The results of the valuation will be reflected in the financial statements for the year ending 31 March 1999.

The total UK pension cost of £103.0m (last year £79.1m) is analysed as follows:

	1998 £m	1997 £m
Normal pension cost ⁽¹⁾	81.5	75.8
Amortisation of deficit	8.2	8.2
Net interest elements	(6.7)	(4.9)
Additional pension provision	20.0	-
Total	103.0	79.1

⁽¹⁾ At standard contribution rate of 15.7% (1997: 15.7%).

As shown in note 13, the Company has pre-paid pension costs of £187.3m. This includes the funding of the £90.0m 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 1996, the Company re-assessed this liability in accordance with the advice of an independent qualified actuary. The discounted present value of £27.8m has been fully provided. The valuation assumed a premium inflation of 8% and an after-tax rate of discount of 7.5%. There is a matching deferred taxation asset of £8.6m.

The next actuarial valuation will be carried out as at 31 March 1999.

C UNITED KINGDOM EMPLOYEES' PROFIT SHARING SCHEMES

The Trustees of the United Kingdom Employees' Profit Sharing Schemes have been allocated £22.5m (last year £23.5m) with which to subscribe for ordinary shares in the Company.

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

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

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

Options granted	Number of shares		Option price
	1998	1997	
January 1991	490,968	3,325,410	182p
January 1992	4,331,286	4,894,336	229p
January 1993	3,635,936	7,392,050	257p
January 1994	6,527,538	6,828,186	319p
January 1995	8,733,912	9,095,012	322p
January 1996	9,441,106	9,865,012	330p
January 1997	11,175,741	11,605,097	389p
January 1998	11,797,433	-	467p

NOTES TO THE FINANCIAL STATEMENTS

9 EMPLOYEES continued

E SENIOR STAFF SHARE OPTION SCHEMES

Under the terms of the 1984 and 1987 Schemes, following the announcement of the Company's results, the Board may offer options to purchase ordinary shares in the Company to executive directors and senior employees at the higher of the nominal value of the shares and the market price on a date to be determined prior to the date of the offer. Although options may be granted under each of the 1984 and 1987 Schemes, the Maximum Option Value that can be exercised under both Schemes is limited to four times remuneration (see Report of the Remuneration Committee on page 42). Outstanding options granted under all senior Schemes are as follows:

Options granted	Number of shares		Option price	Option dates
	1998	1997		
(1984 Scheme)				
May 1988	69,310	193,816	176p	May 1991 – May 1998
May 1989	222,214	267,142	175p	May 1992 – May 1999
May 1990	254,549	464,826	206p	May 1993 – May 2000
May 1991	971,263	1,841,988	254p	May 1994 – May 2001
May 1992	1,919,830	2,522,784	329p	May 1995 – May 2002
May 1993	1,335,719	1,552,147	341p	May 1996 – May 2003
October 1993	26,989	61,026	399p	Oct 1996 – Oct 2003
May 1994	1,987,916	2,209,166	404p	May 1997 – May 2004
October 1994	21,541	21,541	402p	Oct 1997 – Oct 2004
May 1995	1,690,884	1,742,198	414p	May 1998 – May 2005
May 1996	58,950	65,500	458p	May 1999 – May 2006
November 1996	6,172	6,172	486p	Nov 1999 – Nov 2006
June 1997	51,228	-	527p	June 2000 – June 2007
(1987 Scheme)				
May 1990	20,638	337,835	206p	May 1993 – May 1997
May 1991	250,283	1,029,445	254p	May 1994 – May 1998
May 1992	695,498	1,186,389	329p	May 1995 – May 1999
May 1993	1,006,686	1,258,589	341p	May 1996 – May 2000
October 1993	46,114	61,026	399p	Oct 1996 – Oct 2000
May 1994	1,197,469	1,329,032	404p	May 1997 – May 2001
October 1994	9,288	17,288	402p	Oct 1997 – Oct 2001
May 1995	1,565,124	1,602,428	414p	May 1998 – May 2002
May 1996	1,792,964	1,883,325	458p	May 1999 – May 2003
November 1996	39,507	39,507	486p	Nov 1999 – Nov 2003
June 1997	2,179,474	-	527p	June 2000 – June 2004

10 DIRECTORS

A EMOLUMENTS

Details of directors' emoluments are given in the Report of the Remuneration Committee on pages 38 to 44.

B TRANSACTIONS WITH DIRECTORS

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

NOTES TO THE FINANCIAL STATEMENTS

11 TANGIBLE FIXED ASSETS

A TANGIBLE FIXED ASSETS

	THE GROUP				THE COMPANY			
	Land & buildings £m	Fixtures, fittings & equipment £m	Assets in the course of construction £m	Total £m	Land & buildings £m	Fixtures, fittings & equipment £m	Assets in the course of construction £m	Total £m
Cost or valuation								
At 1 April 1997	3,148.6	1,103.9	53.1	4,305.6	2,783.0	837.4	26.5	3,646.9
Additions	297.7	177.9	264.1	739.7	284.9	148.8	172.2	605.9
Transfers	175.4	14.2	(189.6)	-	144.4	-	(144.4)	-
Disposals	(9.9)	(83.5)	-	(93.4)	(5.5)	(77.8)	-	(83.3)
Revaluation surplus	47.8	-	-	47.8	47.8	-	-	47.8
Differences on exchange	(32.6)	(22.8)	(4.2)	(59.6)	-	-	-	-
At 31 March 1998	3,627.0	1,189.7	123.4	4,940.1	3,254.6	908.4	54.3	4,217.3
Accumulated depreciation								
At 1 April 1997	91.9	603.8	-	695.7	46.4	472.9	-	519.3
Depreciation for the year	17.5	149.0	-	166.5	6.0	122.1	-	128.1
Disposals	(3.5)	(81.0)	-	(84.5)	(0.1)	(76.1)	-	(76.2)
Differences on exchange	(2.3)	(11.0)	-	(13.3)	-	-	-	-
At 31 March 1998	103.6	660.8	-	764.4	52.3	518.9	-	571.2
Net book value								
At 31 March 1998	3,523.4	528.9	123.4	4,175.7	3,202.3	389.5	54.3	3,646.1
At 31 March 1997	3,056.7	500.1	53.1	3,609.9	2,736.6	364.5	26.5	3,127.6

Analysis of land & buildings

	THE GROUP				THE COMPANY			
	Freehold £m	Long leasehold £m	Short leasehold £m	Total £m	Freehold £m	Long leasehold £m	Short leasehold £m	Total £m
At valuation	1,074.3	438.2	13.5	1,526.0	1,074.3	438.2	13.5	1,526.0
At cost	1,278.7	548.2	274.1	2,101.0	1,062.4	543.8	122.4	1,728.6
Accumulated depreciation	2,353.0	986.4	287.6	3,627.0	2,136.7	982.0	135.9	3,254.6
	8.5	1.4	93.7	103.6	2.7	1.4	48.2	52.3
Net book value								
At 31 March 1998	2,344.5	985.0	193.9	3,523.4	2,134.0	980.6	87.7	3,202.3
At 31 March 1997	1,977.2	892.2	187.3	3,056.7	1,765.2	888.5	82.9	2,736.6

B INVESTMENT PROPERTIES

Freehold land and buildings include investment properties as follows:

	THE GROUP £m	THE COMPANY £m
Cost or valuation		
At 1 April 1997	146.5	146.5
Additions at cost	54.5	54.5
Revaluation surplus	47.8	47.8
At 31 March 1998	248.8	248.8

NOTES TO THE FINANCIAL STATEMENTS

11 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 investment properties have been valued at open market value as at 31 March 1998 by external valuers, Gerald Eve, Chartered Surveyors. The valuation attributed to the Company's investment interest in the Gyle Shopping Centre is subject to

the lease to the Company of the Marks & Spencer store at a nominal fixed rent until 2117 and the occupational leases of the other parts of the centre. The valuations of the remaining investment properties are based on the apportionment of larger valuations to exclude the owner occupied Marks & Spencer store, except for one property which was valued at the stage of its development reached by 31 March 1998.

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

	1998 £m	1997 £m
At valuation at 31 March 1975 ⁽¹⁾	334.6	335.4
At cost	2,151.5	1,725.2
At 31 March	2,486.1	2,060.6
Accumulated depreciation	93.1	87.5
Net book value at 31 March	2,393.0	1,973.1

⁽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.

D FIXTURES, FITTINGS AND EQUIPMENT

The Company does not maintain detailed records of cost and depreciation for fixtures, fittings and equipment. The accumulated cost and depreciation figures represent reasonable estimates of the sums involved.

12 FIXED ASSET INVESTMENTS

A INVESTMENTS	THE GROUP			THE COMPANY			
	Joint venture ⁽¹⁾⁽²⁾ £m	Other investments ⁽³⁾ £m	Total £m	Shares in Group undertakings ⁽⁴⁾ £m	Loans to Group undertakings £m	Joint venture ⁽¹⁾ £m	Total £m
At 1 April 1997	21.0	15.6	36.6	314.7	39.5	17.4	371.6
Additions	0.4	30.7	31.1	-	-	-	-
Share of joint venture's property revaluation	2.0	-	2.0	-	-	-	-
Repayment of loan	-	-	-	-	(10.0)	-	(10.0)
At 31 March 1998	23.4	46.3	69.7	314.7	29.5	17.4	361.6

⁽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 £11.3m (last year £11.3m) of loans and accumulated reserves of £6.0m (last year £3.6m).

⁽³⁾ Other investments comprise listed securities held by a subsidiary. The difference between their book value and market value is negligible.

⁽⁴⁾ Shares in Group undertakings of £314.7m (last year £314.7m) are stated after cumulative amounts written off of £543.6m (last year £543.6m).

NOTES TO THE FINANCIAL STATEMENTS

12 FIXED ASSET INVESTMENTS continued

B PRINCIPAL UNDERTAKINGS

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

	Principal activity	Country of incorporation and operation	Proportion of voting rights and shares held by:	
			The Company	A subsidiary
Marks and Spencer International Holdings Limited	Holding Company	Great Britain	100%	–
Marks and Spencer (Nederland) BV	Holding Company	The Netherlands	–	100%
Marks and Spencer US Holdings Inc	Holding Company	United States	100%	–
Marks and Spencer (France) SA	Retailing	France	–	100%
SA Marks and Spencer (Belgium) NV	Retailing	Belgium	–	100%
Marks & Spencer (España) SA	Retailing	Spain	–	80%
Marks and Spencer Stores BV	Retailing	The Netherlands	–	100%
Marks and Spencer (Deutschland) GmbH	Retailing	Germany	–	100%
Marks and Spencer (Ireland) Limited	Retailing	Republic of Ireland	–	100%
Marks & Spencer Canada Inc	Retailing	Canada	–	100%
Brooks Brothers, Inc	Retailing	United States	–	100%
Brooks Brothers, (Japan) Limited	Retailing	Japan	–	51%
Kings Super Markets Inc	Retailing	United States	–	100%
Marks and Spencer (Hong Kong) Limited	Retailing	Hong Kong	–	100%
Marks and Spencer Retail Financial Services Holdings Limited	Holding Company	Great Britain	100%	–
Marks and Spencer Financial Services Limited	Financial Services	Great Britain	–	100%
Marks and Spencer Unit Trust Management Limited	Financial Services	Great Britain	–	100%
Marks and Spencer Savings and Investments Limited	Financial Services	Great Britain	–	100%
Marks & Spencer Life Assurance Limited	Financial Services	Great Britain	–	100%
MS Insurance Limited	Financial Services	Guernsey	–	100%
St Michael Finance p.l.c.	Finance	Great Britain	100%	–
Marks and Spencer Finance (Nederland) BV	Finance	The Netherlands	–	100%
Marks & Spencer Finance Inc	Finance	United States	–	100%
Marks and Spencer Finance p.l.c.	Finance	Great Britain	100%	–

13 DEBTORS

	THE GROUP		THE COMPANY	
	1998 £m	1997 £m	1998 £m	1997 £m
A AMOUNTS RECEIVABLE WITHIN ONE YEAR				
Trade debtors	54.7	55.2	35.3	30.5
Customer advances	654.3	570.8	–	–
Amounts owed by Group undertakings	–	–	1,151.0	1,282.6
Other debtors ⁽¹⁾	47.1	37.8	14.4	14.9
Prepayments and accrued income ⁽²⁾	192.8	155.4	165.4	128.4
	948.9	819.2	1,366.1	1,456.4
B AMOUNTS RECEIVABLE AFTER MORE THAN ONE YEAR				
Advance Corporation Tax recoverable on the proposed final dividend	76.6	68.8	76.6	68.8
Less: amount offset against deferred taxation provision (see note 21)	(41.8)	(34.7)	(39.0)	(31.8)
	34.8	34.1	37.6	37.0
Customer advances	917.9	737.3	–	–
Other debtors ⁽¹⁾	50.3	37.3	44.8	33.0
Prepayments and accrued income ⁽²⁾	93.4	97.9	93.4	97.4
	1,096.4	906.6	175.8	167.4

⁽¹⁾ Other debtors includes an interest free loan to an officer of the Company of £20,631.

⁽²⁾ Prepayments and accrued income includes £187.3m (last year £184.6m) in respect of the UK Pension Scheme. Of this, £93.4m (last year £97.4m) is included in amounts receivable after more than one year.

NOTES TO THE FINANCIAL STATEMENTS

14 CURRENT ASSET INVESTMENTS

	THE GROUP		THE COMPANY	
	1998 £m	1997 £m	1998 £m	1997 £m
Listed investments:				
Government securities	54.8	96.1	-	-
Listed in the United Kingdom	36.9	72.3	-	-
Listed overseas	56.1	68.3	-	-
Unlisted investments	94.5	125.1	-	-
	242.3	361.8	-	-

15 CASH AT BANK AND IN HAND

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

16 INVESTMENTS IN INTEREST BEARING ASSETS

	THE GROUP	
	1998 £m	1997 £m
Sterling		
Cash deposits ⁽¹⁾	267.1	342.0
Investments ⁽²⁾	182.9	208.5
Customer advances	1,572.2	1,308.1
US dollar		
Cash deposits ⁽¹⁾	243.3	107.9
Investments	88.7	161.6
Other	66.3	118.4
	2,420.5	2,246.5
Analysed as:		
Cash at bank and in hand	614.9	671.5
Less: non-interest bearing cash balances	(55.2)	(110.5)
	559.7	561.0
Current asset investments	242.3	361.8
Customer advances	1,572.2	1,308.1
Fixed asset investments	46.3	15.6
	2,420.5	2,246.5

⁽¹⁾ Cash deposits comprise deposits placed with banks, financial institutions and on markets at call, 7 day and monthly rates.

⁽²⁾ The investments comprise of both fixed and floating rate securities. The weighted average interest rate on the debt securities held is 7.79% (last year 7.23%) and the weighted average time for which the rate is fixed is 3.34 years (last year 3.25 years).

17 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	THE GROUP		THE COMPANY	
	1998 £m	1997 £m	1998 £m	1997 £m
Bank loans, overdrafts and commercial paper	408.5	488.6	7.8	46.0
Other borrowings (see note 19B)	583.3	-	-	-
Trade creditors	230.2	223.4	185.5	193.1
Amounts owed to Group undertakings	-	-	162.4	5.5
Taxation	353.3	356.8	324.5	325.8
Social security and other taxes	56.0	81.1	46.2	73.0
Other creditors ⁽¹⁾	198.8	194.5	118.5	117.3
Accruals and deferred income	208.5	155.4	135.8	88.0
Proposed final dividend	306.4	275.3	306.4	275.3
	2,345.0	1,775.1	1,287.1	1,124.0

⁽¹⁾ Other creditors include £18.9m (last year £8.9m) which is shown in the calculation of the Group's net debt and is treated as financing within the cash flow statement. These amounts are also included in the analysis of borrowings in note 19B.

NOTES TO THE FINANCIAL STATEMENTS

18 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	THE GROUP		THE COMPANY	
	1998 £m	1997 £m	1998 £m	1997 £m
7 ³ / ₈ % Guaranteed bonds 1998	-	150.0	-	-
US\$ Promissory note 1998	-	274.1	-	-
Medium term notes	108.3	-	-	-
Amounts owed to Group undertakings	-	-	-	150.0
Other creditors ⁽¹⁾	78.9	71.7	-	-
	187.2	495.8	-	150.0

⁽¹⁾ Other creditors include £57.5m (last year £50.2m) which is shown in the calculation of the Group's net debt and is treated as financing within the cash flow statement. These amounts are also included in the analysis of borrowings in note 19B.

19 ANALYSIS OF BORROWINGS

A INTEREST RATE AND CURRENCY ANALYSIS

After taking into account the various interest rate swaps entered into by the Group, the currency and interest rate exposure of the Group's gross borrowings, all of which were at floating rates, was as follows:

Currency	THE GROUP	
	1998 £m	1997 £m
Sterling	584.2	457.5
US dollar	492.9	427.9
Other	99.4	86.4
	1,176.5	971.8

The sterling borrowings are at interest rates below LIBOR. The US dollar borrowings are at interest rates related to LIBOR. These rates are for periods ranging from one month to six months.

B MATURITY OF BORROWINGS

	THE GROUP	
	1998 £m	1997 £m
Repayable within one year:		
Bank loans, overdrafts and commercial paper	408.5	488.6
Medium term notes	164.6	-
7 ³ / ₈ % Guaranteed bonds 1998 ⁽¹⁾	150.0	-
US\$ Promissory note 1998 ⁽²⁾	268.7	-
Other creditors	18.9	8.9
	1,010.7	497.5
Repayable between one and two years:		
7 ³ / ₈ % Guaranteed bonds 1998	-	150.0
US\$ Promissory note 1998	-	274.1
Other creditors	17.7	8.8
	17.7	432.9
Repayable between two and five years:		
Medium term notes	108.3	-
Other creditors	35.3	37.7
	143.6	37.7
Repayable in five years or more:		
Other creditors	4.5	3.7
	1,176.5	971.8

⁽¹⁾ £150m was raised in July 1993 by the issue of a Eurobond at an annual interest rate of 7³/₈% maturing in 1998. Interest rate swaps were arranged to provide £150m at floating interest rates below LIBOR. The interest charges on the Eurobond shown in note 4 represent floating rates.

⁽²⁾ A US\$450m ten-year promissory note, bearing interest at US\$ LIBOR maturing in 1998.

C BORROWING FACILITIES

At 31 March 1998, the Group had an undrawn committed facility of \$50m (last year \$50m) linked to its commercial paper programme. The Group also has a number of undrawn uncommitted facilities available to it. At 31 March 1998 these amounted to £617.4m (last year £548.2m).

NOTES TO THE FINANCIAL STATEMENTS

20 PROVISIONS FOR LIABILITIES AND CHARGES

	THE GROUP £m	THE COMPANY £m
At 1 April 1997	31.8	27.9
Utilised during the year	(0.6)	-
Exchange differences	(0.2)	-
At 31 March 1998	31.0	27.9

The provision utilised during the year mainly represents expenditure related to discontinued Canadian operations.

The provisions at 31 March 1998 include £27.8m for post-retirement health benefits (see note 9B) and £3.2m for discontinued Canadian operations.

21 DEFERRED TAXATION

	THE GROUP		THE COMPANY	
	1998 £m	1997 £m	1998 £m	1997 £m
Deferred tax provision arising on short-term timing differences	50.4	43.9	47.6	41.0
Deferred tax asset arising on post-retirement health benefits	(8.6)	(9.2)	(8.6)	(9.2)
	41.8	34.7	39.0	31.8
Recoverable ACT offset against deferred tax provision (see note 13)	(41.8)	(34.7)	(39.0)	(31.8)
	-	-	-	-
The movement in deferred tax comprises:				
At 1 April	34.7	24.0	31.8	21.7
Charged to the profit and loss account (see note 5)	7.4	11.0	7.2	10.1
Exchange differences	(0.3)	(0.3)	-	-
At 31 March	41.8	34.7	39.0	31.8

Deferred tax is not provided in respect of liabilities which might arise on the distribution of unappropriated profits of overseas subsidiaries. Deferred tax not provided on the excess of capital allowances over depreciation on tangible fixed assets is shown in note 31B.

22 CURRENCY ANALYSIS OF NET ASSETS

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

Currency	THE GROUP					
	Net assets by currency of operations ⁽¹⁾ £m	1998 Gross debt ⁽²⁾ £m	Net investments £m	Net assets by currency of operations ⁽¹⁾ £m	1997 Gross debt ⁽²⁾ £m	Net investments £m
Sterling assets/liabilities	5,360.4	(584.2)	4,776.2	4,673.4	(457.5)	4,215.9
Matched assets/liabilities ⁽³⁾						
US dollar	468.9	(492.9)	(24.0)	397.3	(427.9)	(30.6)
Other	413.0	(99.4)	313.6	430.4	(86.4)	344.0
Sterling plus total matched assets/liabilities	6,242.3	(1,176.5)	5,065.8	5,501.1	(971.8)	4,529.3

⁽¹⁾ Net assets by currency of operations exclude gross debt and are shown after taking into account the effect of swaps and foreign exchange contracts.

⁽²⁾ The amounts shown above for gross borrowings are after taking into account the effect of any currency swaps and forward foreign exchange contracts.

⁽³⁾ Matched assets and liabilities are those that generate no gain or loss in the profit and loss account, either because they are denominated in the same currency as the Group operation to which they belong, or because they qualify under SSAP20 as a foreign currency borrowing providing a hedge against a foreign equity investment.

⁽⁴⁾ There were no significant unmatched foreign currency assets or liabilities.

NOTES TO THE FINANCIAL STATEMENTS

23 FAIR VALUES OF FINANCIAL INSTRUMENTS

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

Assets/(liabilities)	THE GROUP			
	1998		1997	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Trade debtors	54.7	54.7	55.2	55.2
Customer advances ⁽¹⁾	1,572.2	1,571.1	1,308.1	1,307.7
Trade creditors	(230.2)	(230.2)	(223.4)	(223.4)
Current asset investments ⁽¹⁾	242.3	242.3	361.8	361.8
Fixed asset investments ⁽¹⁾	46.3	46.2	15.6	15.6
Cash at bank and in hand ⁽¹⁾	614.9	614.9	671.5	671.5
Borrowings due within one year ⁽¹⁾	(1,010.7)	(1,008.2)	(497.5)	(497.4)
Borrowings due after more than one year ⁽¹⁾	(165.8)	(160.3)	(474.3)	(472.5)
Interest rate swaps ⁽²⁾	-	(6.9)	-	(1.5)
Forward foreign currency contracts ⁽²⁾	-	22.4	-	22.1
FTSE 100 put options ⁽³⁾	5.6	4.2	3.0	2.3

⁽¹⁾ Interest bearing assets 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⁾ Interest rate swaps and forward exchange contracts have been marked to market to produce a fair value figure.

⁽³⁾ 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.

24 HEDGES OF FUTURE TRANSACTIONS

As described in the Financial Review on page 36, 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 1998 the Group had hedged approximately 90% of the foreign currency exports expected in the following 12 months.

At 31 March 1998 there were £22.4m of net gains on forward foreign currency contracts (last year £22.1m 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 1999.

During the period ended 31 March 1998, all of the net gains not recognised at 31 March 1997 were dealt with in the profit and loss account.

25 CALLED UP SHARE CAPITAL

	THE COMPANY	
	1998 £m	1997 £m
Authorised: 3,200,000,000 ordinary shares of 25p each	800.0	800.0
Allotted, called up and fully paid: 2,862,299,548 ordinary shares of 25p each (last year 2,836,658,116)	715.6	709.2

15,935,450 ordinary shares having a nominal value of £4.0m were allotted during the year under the terms of the Company's share schemes which are described in note 9. The aggregate consideration received was £48.9m. Contingent rights to the allotment of shares are also described in note 9.

During the year, the Marks and Spencer p.l.c. Qualifying Employee Share Ownership Trust (the "QUEST") was established under a deed of trust dated 17 December 1997. The purpose of the QUEST is to acquire shares in the Company for employees, including executive directors, in satisfaction of their options under the Marks and Spencer United Kingdom Employees' Save As You Earn Share Option Scheme (the "Scheme").

Of the 15,935,450 ordinary shares referred to above, 6,324,939 ordinary shares were subscribed for by the QUEST at market value of £37.6m. These shares were allocated to employees, including executive directors, in satisfaction of options exercised under the Scheme. The Company provided £23.4m to the QUEST for this purpose. The cost of this contribution has been transferred by the Company directly to the profit and loss account reserve (see note 26).

In addition, 9,705,982 shares with a nominal value of £2.4m were allotted to shareholders making an election for scrip dividends. The nominal value of £2.4m in respect of scrip dividends was funded out of the share premium account.

NOTES TO THE FINANCIAL STATEMENTS

26 SHAREHOLDERS' FUNDS	THE GROUP		THE COMPANY	
	1998 £m	1997 £m	1998 £m	1997 £m
Called up share capital (see note 25)	715.6	709.2	715.6	709.2
Share premium account:				
At 1 April	259.8	221.4	259.8	221.4
Shares issued relating to scrip dividends	(2.4)	(1.3)	(2.4)	(1.3)
Shares issued under the Company's share schemes	68.3	39.7	68.3	39.7
At 31 March	325.7	259.8	325.7	259.8
Revaluation reserve:				
At 1 April	456.3	449.8	461.9	458.4
Surplus on revaluation of investment properties	47.8	7.0	47.8	7.0
Share of joint venture's movement in revaluation reserve	2.0	3.0	-	-
Realised during the year	-	(3.5)	-	(3.5)
At 31 March	506.1	456.3	509.7	461.9
Profit and loss account reserve:				
At 1 April	3,104.0	2,744.5	2,788.6	2,483.5
Realised revaluation reserve	-	3.5	-	3.5
Amounts added back in respect of scrip dividends (see note 7)	52.1	24.3	52.1	24.3
Amounts deducted in respect of shares issued to the QUEST (see note 25)	(23.4)	-	(23.4)	-
Undistributed surplus for the year	419.8	386.0	315.1	277.3
Exchange differences on foreign currency translation	(34.1)	(54.3)	-	-
At 31 March	3,518.4	3,104.0	3,132.4	2,788.6
Shareholders' funds at 31 March – all equity	5,065.8	4,529.3	4,683.4	4,219.5

Cumulative goodwill of £453.3m (last year £453.3m) arising on the acquisition of US, Canadian and Spanish subsidiaries has been written off against the profit and loss account reserve.

27 RECONCILIATION OF MOVEMENTS IN GROUP SHAREHOLDERS' FUNDS	THE GROUP	
	1998 £m	1997 £m
Profit attributable to shareholders	828.9	754.6
Dividends	(409.1)	(368.6)
	419.8	386.0
Other recognised gains and losses relating to the year	15.7	(44.3)
New share capital subscribed	72.3	43.7
Amounts deducted from profit and loss account reserve in respect of shares issued to the QUEST	(23.4)	-
Amounts added back to profit and loss account reserve in respect of scrip dividends	52.1	24.3
Net additions to shareholders' funds	536.5	409.7
Shareholders' funds at 1 April	4,529.3	4,119.6
Shareholders' funds at 31 March	5,065.8	4,529.3

28 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES	THE GROUP	
	1998 £m	1997 £m
Operating profit	1,116.7	1,037.9
Depreciation	166.5	162.8
Increase in stocks	(61.9)	(36.8)
Increase in customer advances	(264.1)	(323.8)
Increase in other debtors	(44.0)	(27.7)
Increase in creditors	44.0	84.7
Net cash inflow from operating activities	957.2	897.1

NOTES TO THE FINANCIAL STATEMENTS

29 ANALYSIS OF CASH FLOWS GIVEN IN THE CASH FLOW STATEMENT	THE GROUP	
	1998 £m	1997 £m
A RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
Interest received	56.9	72.3
Interest paid	–	(6.1)
Dividends paid to minorities	(0.8)	(0.8)
Net cash inflow from returns on investments and servicing of finance	56.1	65.4
B TAXATION		
UK corporation tax paid	(330.8)	(306.4)
Overseas tax paid	(11.5)	(12.2)
Net cash outflow for taxation	(342.3)	(318.6)
C CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		
Purchase of tangible fixed assets	(753.3)	(455.0)
Sale of tangible fixed assets	6.1	21.4
Net (purchase)/sale of fixed asset investments	(30.6)	20.5
Net cash outflow for capital expenditure and financial investment	(777.8)	(413.1)
D ACQUISITIONS AND DISPOSALS		
Increase in investment in subsidiary by the minority	2.6	–
Disposal of joint venture	–	7.3
Increase in investment in joint venture	–	(7.5)
Net cash inflow/(outflow) for acquisitions and disposals	2.6	(0.2)
E MANAGEMENT OF LIQUID RESOURCES		
Decrease in cash deposits treated as liquid resources	110.1	167.4
Net sale/(purchase) of government securities	41.3	(78.7)
Net sale/(purchase) of listed investments	47.6	(39.2)
Net sale of unlisted investments	27.6	41.8
Net cash inflow from decrease in liquid resources	226.6	91.3
F FINANCING		
(Decrease)/increase in bank loans, overdrafts and commercial paper treated as financing	(31.7)	107.2
Issue of medium term notes	272.9	–
Repayment of 8¼% guaranteed bonds	–	(100.0)
Increase in other creditors treated as financing	17.3	13.8
Debt financing as shown in analysis of net debt (see note 30)	258.5	21.0
Shares issued under employees' share schemes	48.9	43.7
Net cash inflow from financing	307.4	64.7

30 ANALYSIS OF NET DEBT	At 1 April 1997 £m	Cash flow £m	Exchange movement £m	At 31 March 1998 £m
Net cash:				
Cash at bank and in hand (see note 16)	671.5	(46.6)	(10.0)	614.9
Less: deposits treated as liquid resources (see below)	(435.0)	110.1	5.3	(319.6)
	236.5	63.5	(4.7)	295.3
Bank loans, overdrafts and commercial paper (see note 19B)	(488.6)	72.2	7.9	(408.5)
Less: amounts treated as financing (see below)	386.9	(31.7)	(3.3)	351.9
	(101.7)	40.5	4.6	(56.6)
Net cash per cash flow statement	134.8	104.0	(0.1)	238.7
Liquid resources:				
Deposits included in cash (see above)	435.0	(110.1)	(5.3)	319.6
Current asset investments (see note 14)	361.8	(116.5)	(3.0)	242.3
Liquid resources per cash flow statement and note 29E	796.8	(226.6)	(8.3)	561.9
Debt financing:				
Bank loans, overdrafts and commercial paper treated as financing (see above)	(386.9)	31.7	3.3	(351.9)
7¼% Guaranteed bonds (see note 19B)	(150.0)	–	–	(150.0)
US\$ Promissory note (see note 19B)	(274.1)	–	5.4	(268.7)
Medium term notes (see note 19B)	–	(272.9)	–	(272.9)
Other creditors (see note 19B)	(59.1)	(17.3)	–	(76.4)
Debt financing (see note 29F)	(870.1)	(258.5)	8.7	(1,119.9)
Net funds/(debt)	61.5	(381.1)	0.3	(319.3)

NOTES TO THE FINANCIAL STATEMENTS

31 COMMITMENTS AND CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	1998 £m	1997 £m	1998 £m	1997 £m
A Commitments in respect of properties in the course of development	364.2	100.5	357.8	57.2
B Deferred taxation not provided on the excess of capital allowances over depreciation on tangible fixed assets	202.7	204.2	188.4	191.2
C Guarantees by the Company in respect of the Eurobond, promissory note, medium term notes and commercial paper issued by subsidiaries	-	-	834.3	577.4
D Guarantees made in the ordinary course of business on behalf of overseas subsidiaries.	-	-	86.3	38.1
E Marks & 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.				
F 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.				
G 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.				
H Commitments under operating leases At 31 March 1998 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	2.3	1.2	0.6	0.6
Expiring in the second to fifth years inclusive	32.6	7.4	4.8	6.9
Expiring in more than five years	72.7	-	40.7	-
	107.6	8.6	46.1	7.5

32 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	
	1998	1997	1998	1997	1998	1997
Republic of Ireland	1.13	0.99	1.13	1.00	1.23	1.03
France	9.82	8.39	9.86	8.40	10.38	9.24
Belgium	60.38	50.99	60.88	51.54	63.88	56.63
Germany	2.92	2.60	2.95	2.47	3.10	2.74
The Netherlands	3.29	2.78	3.31	2.84	3.49	3.08
Spain	247.57	209.49	249.10	210.31	262.93	232.79
United States	1.65	1.60	1.64	1.58	1.67	1.64
Canada	2.32	2.19	2.34	2.20	2.38	2.27
Hong Kong	12.75	12.37	12.71	12.39	12.97	12.72
Japan	203.54	181.06	204.19	182.81	223.31	203.30

33 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

	1998 £m 52 weeks	1997 £m 52 weeks	1996 £m 52 weeks	1995 £m 52 weeks	1994 £m 53 weeks
PROFIT AND LOSS ACCOUNT⁽¹⁾					
Turnover:					
General	4,811.4	4,601.7	4,181.4	3,967.2	3,785.8
Foods	3,157.1	3,024.1	2,871.3	2,703.6	2,632.6
Financial Services	274.8	216.1	181.0	139.1	125.3
Total turnover (excluding sales taxes)	8,243.3	7,841.9	7,233.7	6,809.9	6,543.7
Retailing – continuing	7,968.5	7,625.8	7,030.3	6,645.0	6,387.8
– discontinued	–	–	22.4	25.8	30.6
Financial Services	274.8	216.1	181.0	139.1	125.3
Operating profit⁽²⁾:					
United Kingdom	1,026.1	946.5	865.5	829.9	775.4
Europe (excluding UK)	32.8	37.7	32.0	32.0	37.9
Americas ⁽³⁾	16.8	21.0	13.9	13.3	21.7
Far East	18.3	32.7	26.0	19.7	17.5
Excess interest charged to cost of sales of Financial Services	22.7	–	–	–	–
Total operating profit	1,116.7	1,037.9	937.4	894.9	852.5
Analysed as:					
Before exceptional operating income	1,063.5	1,037.9	937.4	894.9	852.5
Exceptional operating income	53.2	–	–	–	–
Retailing – continuing	1,004.6	962.2	880.6	847.4	814.8
– discontinued	–	–	(2.2)	(1.2)	(1.6)
Financial Services	89.4	75.7	59.0	48.7	39.3
Excess interest charged to cost of sales of Financial Services	22.7	–	–	–	–
Loss on disposal of discontinued operations	–	–	(25.0)	–	–
Loss on disposal of property and other fixed assets	(2.8)	(1.8)	(4.2)	(5.4)	(17.3)
Net interest income	54.1	65.9	57.6	34.8	16.3
Profit before taxation	1,168.0	1,102.0	965.8	924.3	851.5
Taxation on ordinary activities	(338.7)	(346.1)	(312.0)	(299.5)	(272.2)
Minority interests	(0.4)	(1.3)	(1.2)	(1.0)	(1.1)
Profit attributable to shareholders	828.9	754.6	652.6	623.8	578.2
Dividends	(409.1)	(368.6)	(320.9)	(288.2)	(255.5)
Undistributed surplus	419.8	386.0	331.7	335.6	322.7
BALANCE SHEET					
Tangible fixed assets	4,175.7	3,609.9	3,428.4	3,297.0	3,095.4
Fixed asset investments	69.7	36.6	46.0	43.3	15.5
Current assets	3,402.7	3,204.2	2,875.5	2,365.8	2,053.7
Total assets	7,648.1	6,850.7	6,349.9	5,706.1	5,164.6
Creditors due within one year	(2,345.0)	(1,775.1)	(1,674.9)	(1,363.8)	(1,181.0)
Total assets less current liabilities	5,303.1	5,075.6	4,675.0	4,342.3	3,983.6
Creditors due after more than one year	(187.2)	(495.8)	(497.8)	(568.7)	(599.3)
Provisions for liabilities and charges	(31.0)	(31.8)	(35.0)	(37.9)	(40.9)
Net assets	5,084.9	4,548.0	4,142.2	3,735.7	3,343.4

⁽¹⁾ 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.

⁽²⁾ Restated for 1994 to include profit share and to include the results of the Republic of Ireland within Europe and MS Insurance within the United Kingdom.

⁽³⁾ Inclusive of discontinued operations.

GROUP FINANCIAL RECORD

FOR THE YEAR ENDED 31 MARCH

	1998 £m 52 weeks	1997 £m 52 weeks	1996 £m 52 weeks	1995 £m 52 weeks	1994 £m 53 weeks	
CASH FLOW^{(1) (2)}						
Net cash inflow from operating activities	957.2	897.1	798.4	908.8	885.2	
Returns on investments and servicing of finance	56.1	65.4	55.7	29.8	16.8	
Taxation	(342.3)	(318.6)	(296.8)	(273.4)	(231.8)	
Capital expenditure and financial investment	(777.8)	(413.1)	(319.4)	(387.8)	(278.2)	
Acquisitions and disposals	2.6	(0.2)	(4.9)	(9.6)	(1.4)	
Equity dividends paid	(325.8)	(305.6)	(271.3)	(248.1)	(214.4)	
Cash (outflow)/inflow before management of liquid resources and financing	(430.0)	(75.0)	(38.3)	19.7	176.2	
Management of liquid resources	226.6	91.3	(127.7)	(15.7)	— ⁽²⁾	
Financing	307.4	64.7	113.5	15.6	— ⁽²⁾	
Increase/(decrease) in cash	104.0	81.0	(52.5)	19.6	—⁽²⁾	
Decrease/(increase) in net funds defined by FRS1	380.8	35.5	4.3	(30.4)	(210.4)	
KEY PERFORMANCE MEASURES						
Gross margin ⁽³⁾⁽⁴⁾	$\frac{\text{Gross profit}}{\text{Turnover}}$	35.2%	34.9%	34.7%	35.0%	35.0%
Net margin ⁽³⁾⁽⁴⁾⁽⁶⁾	$\frac{\text{Operating profit}}{\text{Turnover}}$	13.3%	13.2%	13.0%	13.2%	13.1%
Net margin excluding exceptional income ⁽⁵⁾		12.6%				
Profitability ⁽³⁾	$\frac{\text{Profit before tax}}{\text{Turnover}}$	14.2%	14.1%	13.8%	13.7%	13.1%
Profitability excluding exceptional income ⁽⁵⁾		13.5%				
Earnings per share (Defined by FRS3)	$\frac{\text{Standard earnings}^{(7)}}{\text{Weighted average ordinary shares in issue}}$	29.1p	26.7p	23.3p	22.4p	20.9p
FRS3 Earnings per share adjusted for exceptional income		27.8p				
Earnings per share (Defined by IIMR)	$\frac{\text{Headline earnings}^{(8)}}{\text{Weighted average ordinary shares in issue}}$	29.2p	26.8p	24.3p	22.6p	21.5p
IIMR Earnings per share adjusted for exceptional income		27.9p				
Dividend per share		14.3p	13.0p	11.4p	10.3p	9.2p
Dividend cover	$\frac{\text{Profit attributable to shareholders}}{\text{Dividends}}$	2.0	2.0	2.0	2.2	2.3
Return on equity ⁽³⁾	$\frac{\text{Profit after tax and minority interests}}{\text{Average shareholders' funds}}$	17.3%	17.5%	17.4%	17.8%	18.5%
Capital expenditure	£739.7m	£425.6m	£303.3m	£366.9m	£343.5m	

⁽¹⁾ Figures for 1996 and prior years have been restated in accordance with the revised version of FRS1 'Cash flow statements'.

⁽²⁾ Figures for 1994 are not readily available.

⁽³⁾ Based on results reported as continuing operations.

⁽⁴⁾ Based on segmental results.

⁽⁵⁾ Figures for 1998 exclude exceptional operating income of £53.2m in respect of VAT.

⁽⁶⁾ Restated for 1994 to include profit share.

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

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

SHAREHOLDER INFORMATION

FINANCIAL CALENDAR

Record date to be eligible for final dividend	1 June 1998
Annual General Meeting	16 July 1998
Final ordinary dividend for the year to 31 March 1998 to be paid	31 July 1998
Interim results to be announced	3 November 1998
Circulation of Interim Report	November 1998
Record date to be eligible for interim dividend	13 November 1998
Interim ordinary dividend to be paid	15 January 1999
Preliminary announcement of results for the year to 31 March 1999	May 1999
Circulation of Annual Report	June 1999

ORDINARY SHARES

There are 307,715 holders of ordinary shares who receive dividends at rates declared either by the directors or at the Annual General Meeting. Their shareholdings are analysed as follows:

Size of shareholding	Number of shareholders	Percentage of total number of shareholders	Number of ordinary shares 000s	Percentage of ordinary shares
Over 1,000,000	338	0.1	1,875,041	65.5
100,001 – 1,000,000	919	0.3	303,290	10.6
10,001 – 100,000	10,003	3.3	219,544	7.7
5,001 – 10,000	18,150	5.9	126,764	4.4
2,001 – 5,000	55,733	18.1	175,815	6.2
1,001 – 2,000	65,698	21.3	95,876	3.3
501 – 1,000	61,166	19.9	46,312	1.6
1 – 500	95,708	31.1	19,658	0.7
	307,715	100.0	2,862,300	100.0

Shareholders are further analysed as follows:

Type of owner	Number of shareholders	Percentage of total number of shareholders	Number of ordinary shares 000s	Percentage of ordinary shares
Private holders	266,789	86.7	650,090	22.7
Corporate holders	40,926	13.3	2,212,210	77.3
	307,715	100.0	2,862,300	100.0

SCRIP DIVIDENDS

In 1989 the Group introduced a scheme to allow shareholders to elect to receive additional shares in lieu of a cash dividend. This scheme has now been suspended and replaced with a dividend reinvestment plan.

Shares have been issued in respect of scrip dividends at the following prices:

Dividend	Interim payment date	Issue price (p)	Final payment date	Issue price (p)
1988/89	–	–	18 August 1989	186.0
1989/90	26 January 1990	195.0	10 August 1990	221.5
1990/91	18 January 1991	234.5	2 August 1991	251.1
1991/92	24 January 1992	295.3	7 August 1992	329.1
1992/93	15 January 1993	322.5	30 July 1993	333.9
1993/94	21 January 1994	408.1	5 August 1994	404.5
1994/95	20 January 1995	407.7	4 August 1995	416.5
1995/96	19 January 1996	437.1	2 August 1996	459.9
1996/97	17 January 1997	482.9	1 August 1997	509.6
1997/98	16 January 1998	581.2		

Capital Gains Tax

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

Share Dealing Facility

A postal share dealing facility is available through the Company's stockbroker for the purchase and sale of Marks & Spencer shares. Further information may be obtained by writing to the following address:

Cazenove and Co
12 Tokenhouse Yard
London
EC2R 7AN

Personal Equity Plans

The Group operates Corporate Personal Equity Plans for the exclusive holding of Marks & Spencer shares. For further details please contact:

Marks and Spencer Savings and Investments Limited
Kings Meadow
Chester Business Park
Chester CH99 9LP
Telephone:
Freephone 0800 363444
Regulated by IMRO

Registrars and Transfer Office

Lloyds Bank Registrars
54 Pershore Road South
Kings Norton
Birmingham
B30 3EP
Telephone: 0121 433 8000

Registered Office and Head Office

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

Registered Number

214436

Audio Tape

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

NOTICE OF MEETING

Notice is hereby given that the seventy-second Annual General Meeting of Marks and Spencer p.l.c. will be held at the Grosvenor House Hotel, Park Lane, London W1 on Thursday 16 July 1998 at 11am for the following purposes:

ORDINARY BUSINESS

1 To receive the Report of the Directors and the financial statements for the year ended 31 March 1998, together with the Report of the auditors.

2 To declare a final dividend on the ordinary shares.

To re-elect the following directors retiring by rotation pursuant to Article 85 of the Company's Articles of Association who, being eligible, offer themselves for re-election:

3 Mrs C E M Freeman

4 Sir Martin Jacomb

5 Mr P G McCracken

6 Mr S J Sacher, CBE

7 Mr P L Salsbury

8 Mr P P D Smith

9 Lord Stone of Blackheath

10 To reappoint the auditors, Coopers & Lybrand, and to authorise the directors to determine their remuneration.

SPECIAL BUSINESS

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

"That the authority conferred on the directors by Article 11(B) of the Company's Articles of Association be renewed for the period ending on the date of the Annual General Meeting in 1999 or on 15 October 1999, whichever shall be the earlier, and for such period:

(a) "the Section 80 Amount" shall be £83,750,000;

(b) "the Section 89 Amount" shall be £35,781,631."

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

"That the Company be generally and unconditionally authorised to make market purchases (as defined in Section 163 of the Companies Act 1985) of its ordinary 25p shares provided that;

(a) the Company does not purchase under this authority more than 286 million ordinary shares;

(b) the Company does not pay less than 25p for each share;

(c) the Company does not pay more for each share than 105 per cent of the average of the middle market price of the ordinary shares according to the Daily Official List of the London Stock Exchange for the five business days immediately preceding the date on which the Company agrees to buy the shares concerned;

(d) this authority shall continue in force until the conclusion of the Annual General Meeting in 1999 or on 15 October 1999, whichever shall be the earlier; and

(e) the Company may agree before the authority terminates under (d) above to purchase ordinary shares where the purchase will or may be executed after the authority terminates (either wholly or in part). The Company may complete such a purchase even though the authority has terminated."

To transact any other business appropriate to be dealt with at an Annual General Meeting.

By Order of the Board

G Oakley, Secretary
London, 10 June 1998

Notes:

(a) Sir Martin Jacomb is a member of the Remuneration Committee.

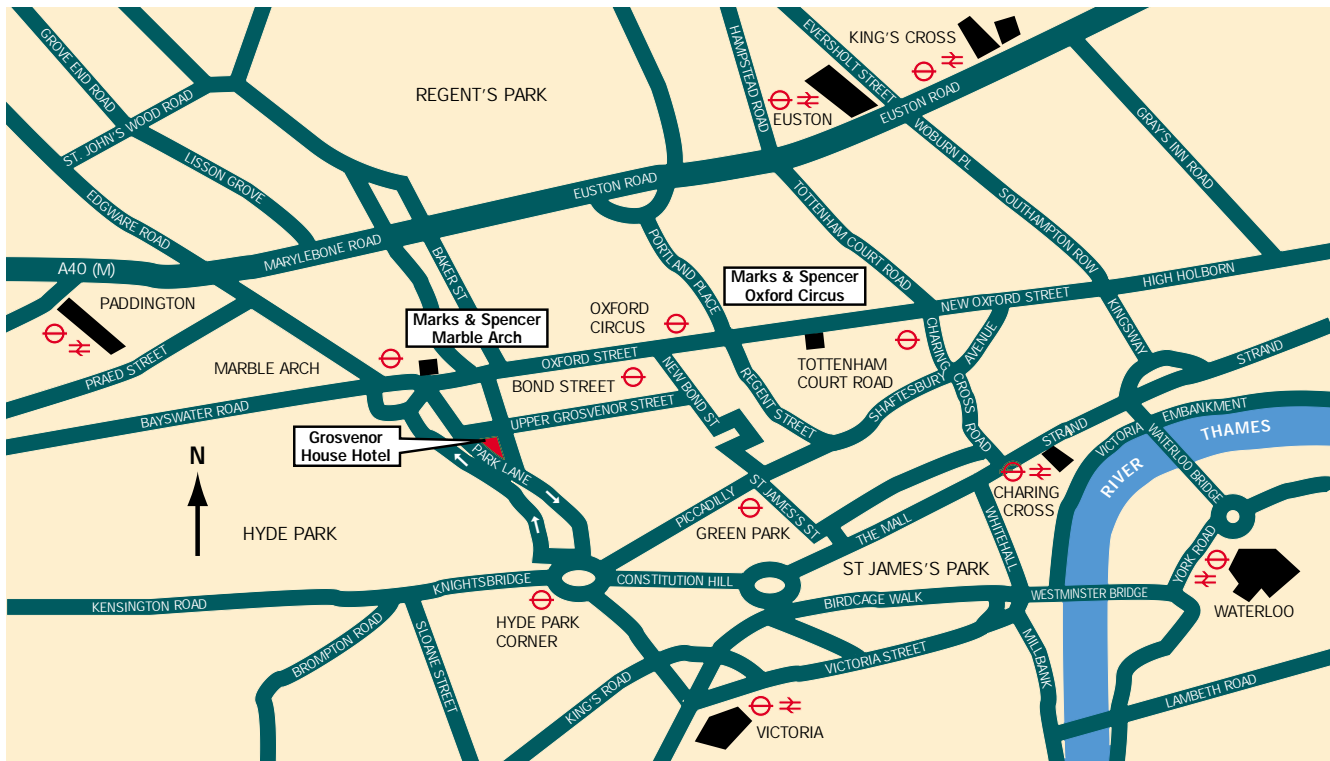
(b) Details of those directors seeking re-election are given on pages 32 and 33 of the Annual Report and membership of the principal committees on page 37.

(c) Further information about resolutions 11 and 12 is given in the Report of the Directors on page 47 and the Chairman's letter to shareholders that accompanies the Annual Report.

(d) Every member entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy to attend and, on a poll, to vote instead of that member. A proxy need not be a member of the Company. Further details are given in the Form of Proxy which accompanies the Annual Report.

(e) To be entitled to attend and vote at the meeting (and for the purpose of the determination by the Company of the number of votes they may cast), members must be entered on the Company's register of members at 6pm on Tuesday 14 July 1998 ("the specified time"). If the meeting is adjourned to a time not more than 48 hours after the specified time applicable to the original meeting, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned meeting. If, however, the meeting is adjourned for a longer period then, to be so entitled, members must be entered on the Company's register of members at the time which is 48 hours before the time fixed for the adjourned meeting or, if the Company gives notice of the adjourned meeting, at the time specified in that notice.

ANNUAL GENERAL MEETING



The Annual General Meeting of Marks and Spencer p.l.c. will be held on Thursday 16 July 1998 at the Grosvenor House Hotel, Park Lane, London W1 at 11.00 am. Shareholders should enter by The Great Room entrance on Park Lane.

Special facilities for disabled people have been arranged. Shareholders who need assistance should contact a member of Marks & Spencer staff on arrival. To help those who are hard of hearing to participate in the Annual General Meeting there is an induction loop system at the Grosvenor House Hotel and a sign-language interpreter will be present at the meeting.

Visit our internet site at <http://www.marks-and-spencer.co.uk>

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St Michael



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