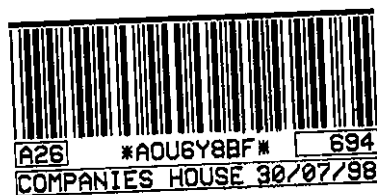


MARKS AND SPENCER
FINANCIAL SERVICES LIMITED

FINANCIAL STATEMENTS

31 March 1998

COMPANY REGISTRATION NUMBER 1772585



MARKS AND SPENCER FINANCIAL SERVICES LIMITED

INDEX

1-3	Report of the Directors
4	Directors' Responsibilities
5	Report of the Auditors
6	Profit and Loss Account
7	Balance Sheet
8-20	Notes to the Financial Statements

MARKS AND SPENCER FINANCIAL SERVICES LIMITED

1

REPORT OF THE DIRECTORS

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

ACTIVITIES

The Company provides retail credit and associated services principally to the UK market.

REVIEW OF ACTIVITIES

The Year Ended 31 March 1998

During the year, the number of Marks and Spencer Chargecard and Budgetcard accounts increased to 5 million. Personal Loans for general purposes and Marks and Spencer merchandise grew steadily during the year; at 31 March 1998 there were 297,000 accounts. There was a significant increase in the relatively new Personal Reserve product (launched July 1996) with 152,000 account holders at 31 March 1998. Customer outstandings net of provisions for bad debts, totalled £1,574 million at 31 March 1998. The Company intends to establish a strong position in the card business and improve its position in the lending business.

RESULTS AND DIVIDENDS

The Company made a profit after tax of £52.7 million. The directors do not recommend the payment of a dividend.

DIRECTORS

The directors of the Company during the year under review were as follows:

J K Oates (Chairman)
R W C Colvill
P G McCracken
P L Salisbury
D M Towell

All of the directors served throughout the year.

With the exception of Mr D M Towell, the directors holding office at 31 March 1998 are also directors of Marks and Spencer plc and as such are not required to disclose in these financial statements their interests in the shares of companies in the Marks and Spencer Group. The interests of Mr D M Towell are disclosed in note 19 on page 18.

MARKS AND SPENCER FINANCIAL SERVICES LIMITED

2

EMPLOYEE INVOLVEMENT

A policy of providing employees with information about the Company is in place. Personnel briefings and regular meetings are held, at which employees are encouraged to present their suggestions and views on the Company's performance. All members of staff have the Marks and Spencer Group results explained in the staff newspaper, "St Michael News". The Financial Services results are covered in the staff newsletter of Marks and Spencer Financial Services, "Kings Meadow News". The Company has long-established Employees' Profit Sharing and Savings-Related Share Options Schemes, membership of which is service-related. During the year the Company again obtained approval for a Profit Related Bonus Scheme.

DISABLED EMPLOYEES

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

CHARITABLE AND POLITICAL CONTRIBUTIONS

Direct donations to charitable organisations amounted to £122,850. No political contributions were made during the year.

CREDITOR PAYMENT POLICY

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

Trade creditor days of the Company for the year ended 31 March 1998 were 11 days, based on the ratio of Company trade creditors at the end of the year to the amounts invoiced during the year by trade creditors.

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

- agree the terms of payment at the start of business with the supplier;
- ensure that suppliers are aware of the terms of payment;
- pay in accordance with its contractual and other legal obligations.

The payment policy applies to all payments to creditors for revenue and capital supplies of goods and services without exception.

MARKS AND SPENCER FINANCIAL SERVICES LIMITED

3

YEAR 2000

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

- a) identify where modifications are necessary within the software programmes developed and maintained by the Company
- b) identify where similar changes are needed within computer programmes supplied to the Company or maintained by suppliers to the Company
- c) carry out the necessary coding changes
- d) accelerate, where appropriate, the introduction of new programmes which may replace other software which is not yet Year 2000 compliant.
- e) identify where the Company may be vulnerable to problems which could arise from computer chips embedded in non-IT equipment already in use. £355,000 is included in the current year accounts of Marks and Spencer Financial Services Limited relating to Year 2000 compliance. Specific future costs related to Year 2000 compliance are currently estimated to be £1.2 million across the Financial Services Group. In addition to this company the Financial Services Group consists of Marks and Spencer Unit Trust Management Limited, Marks and Spencer Savings and Investments Limited, Marks and Spencer Life Assurance Limited and Marks and Spencer Retail Financial Services Holdings Limited.

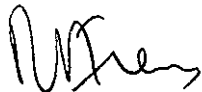
ECONOMIC AND MONETARY UNION

Although the United Kingdom will not be a member of the initial phase effective on 1 January 1999, transactions will take place in other participating countries.

A project team has been set up to assess the practical aspects of the introduction of the Euro.

Costs across the Financial Services Group related to EMU in the current year are £145,000 and have been charged in the accounts of Marks and Spencer Financial Services Limited. Estimated future costs are £1 million plus an additional amount estimated at £3.1 million should the United Kingdom enter the Euro.

By order of the board



RJ Ivens
Secretary

MARKS AND SPENCER FINANCIAL SERVICES LIMITED

4

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, must give a true and fair view of the state of affairs of the Company at the end of the financial year, and of the profit for that period, and they must comply with applicable accounting standards.

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

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 Company and to prevent and detect fraud or any other irregularities.

MARKS AND SPENCER FINANCIAL SERVICES LIMITED

5

REPORT OF THE AUDITORS

TO THE MEMBERS OF MARKS AND SPENCER FINANCIAL SERVICES LIMITED

We have audited the financial statements on pages 6 to 20.

Respective responsibilities of directors and auditors.

As described on page 4 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 at 31 March 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand

Coopers & Lybrand

Chartered Accountants and Registered Auditors
London

13 July 1998

MARKS AND SPENCER FINANCIAL SERVICES LIMITED

6

PROFIT AND LOSS ACCOUNT

For the year ended 31 March 1998

		Continuing Operations 1998	Continuing Operations 1997
	Notes	£000	£000
Interest receivable:			
Other interest receivable and similar income	4	224,149	181,626
Interest payable	7	<u>(85,608)</u>	<u>(63,546)</u>
NET INTEREST INCOME		138,541	118,080
Fees and commissions receivable		16,337	10,706
Other operating income:			
Insurance profit share		7,329	5,024
OPERATING INCOME		<u>162,207</u>	<u>133,810</u>
Administrative expenses		62,964	53,457
Depreciation and amortisation		3,638	2,158
Provisions for bad and doubtful debts	10	18,259	11,409
		<u>84,861</u>	<u>67,024</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	7	77,346	66,786
Taxation on profit on ordinary activities	8	<u>24,608</u>	<u>22,377</u>
PROFIT FOR THE FINANCIAL YEAR		<u>52,738</u>	<u>44,409</u>
RETAINED PROFIT BROUGHT FORWARD		<u>133,699</u>	<u>89,290</u>
RETAINED PROFIT CARRIED FORWARD		<u>186,437</u>	<u>133,699</u>

The Company has no recognised gains or losses other than the profit for the year. There is no difference between the values in the profit and loss account and their historical cost equivalent.

MARKS AND SPENCER FINANCIAL SERVICES LIMITED

7

BALANCE SHEET

At 31 March 1998

	Notes	1998 £000	1997 £000
ASSETS			
Cash and balances at central banks		175	133
Loans and advances to banks repayable on demand		6,377	19,846
Loans and advances to customers	9	1,573,578	1,308,728
Tangible fixed assets	11	19,236	8,239
Other assets	12	17,044	9,395
Prepayments and accrued income		1,706	550
Total assets		<u>1,618,116</u>	<u>1,346,891</u>
LIABILITIES			
Customer accounts	14	2,450	15,260
Other liabilities	15	1,366,704	1,128,017
Provisions for liabilities and charges - Deferred taxation	21	578	352
Accruals and deferred income		6,947	4,563
Subordinated liabilities	16	20,000	30,000
Called up share capital	17	35,000	35,000
Profit and loss account		186,437	133,699
Total equity shareholders' funds	18	<u>221,437</u>	<u>168,699</u>
Total liabilities		<u>1,618,116</u>	<u>1,346,891</u>

The financial statements on pages 6 to 20 were approved by the board of directors on 13 July 1998 and signed on its behalf by:



D M Towell
Director

MARKS AND SPENCER FINANCIAL SERVICES LIMITED

8

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

The financial statements have been prepared in accordance with Section 255 of, and Schedule 9 to, the Companies Act 1985 and with applicable accounting standards in the United Kingdom. The principal accounting policies, which have been applied consistently, are described below.

Basis of accounting

The financial statements are drawn up on the historical cost basis of accounting.

Trading results

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

Interest receivable

Interest is accrued on a daily basis for cards and loans.

Where collection of a card advance is considered doubtful, interest is suspended.

Where collection of a loan advance is considered doubtful, a provision is made and deducted from interest receivable.

Provision for bad debts

Specific provisions are made against all advances identified as impaired at the balance sheet date to the extent that, in the opinion of the directors, recovery is doubtful. General provisions are made against other impaired balances not yet identified, based on past experience and an evaluation of current economic and political factors.

Depreciation of fixed assets

Depreciation is provided so as to write off the cost of fixed assets by equal annual instalments over the following periods:

Fixtures, fittings and catering equipment: over 10 years.

Computer equipment and vehicles: over 5 years

Deferred taxation

Deferred taxation is accounted for at anticipated tax rates on differences arising from the inclusion of items 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.

NOTES TO THE FINANCIAL STATEMENTS

**1 Accounting policies
continued**

Operating leases

Costs of operating leases are charged to the profit and loss account on a straight line basis over the life of the lease.

Finance leases

Where assets are financed by leasing agreements that give rights approximating to ownership ('finance leases'), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as obligations to the lessor and reported under other liabilities.

Depreciation on the relevant assets is charged to the profit and loss account on a straight line basis to write the assets off over their expected useful lives. Lease payments are treated as consisting of capital and interest elements, and the interest is charged to the profit and loss account using the annuity method.

Foreign Currencies

Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Assets and liabilities held at the year end are translated at year-end exchange rates. The resulting exchange gain or loss is dealt with in the profit and loss account.

Derivatives

The cost of options purchased to hedge equivalent liabilities for guarantees issued is written off over the period to maturity. If the option is 'in-the-money' the value is included in the balance sheet with any movements being accounted for in the profit and loss account which will offset any amounts provided for under the guarantee.

2 Cash flow statement

The Company is a wholly owned subsidiary of an EU company which publishes consolidated financial statements that include a consolidated cash flow statement and therefore is not required to produce a cash flow statement itself.

3 Segmental reporting

The Company operates principally in the UK in one class of business.

NOTES TO THE FINANCIAL STATEMENTS

4	Other interest receivable and similar income	1998 £000	1997 £000
	Cards	108,913	92,724
	Loans	88,334	81,488
	Personal Reserve	23,807	5,452
	Other	3,095	1,962
		<u>224,149</u>	<u>181,626</u>

Interest due but not received on loans and advances in arrears has not been recognised in interest receivable where collectability is in doubt.

- (a) The value of loans on which interest is suspended is as follows:

	1998 £000	1997 £000
Loans and advances to customers	12,144	10,345
Provisions	(12,144)	(10,345)
	<u>-</u>	<u>-</u>

- (b) Cards and Personal Reserve

Due to the revolving nature of these balances, it is not possible to calculate the interest suspended on these balances.

NOTES TO THE FINANCIAL STATEMENTS

5	Employees	1998 £000	1997 £000
	Staff costs (including directors):		
	Wages and salaries	16,258	12,836
	Social security costs	1,043	826
	Other pension costs	2,203	1,724
		<hr/>	<hr/>
		19,504	15,386
		<hr/>	<hr/>

Average monthly number of employees
(including directors):

1998	1997
<hr/>	<hr/>
1,208	985
<hr/>	<hr/>

If the number of part-time hours worked was converted on the basis of a full working week, the equivalent average number of full-time employees would have been 1,050 (1997: 842)

NOTES TO THE FINANCIAL STATEMENTS

6	Directors' emoluments	1998	1997
		£	£

Directors

Aggregate Emoluments	175,080	158,179
----------------------	---------	---------

Retirement benefits are accruing to one director under a defined benefit scheme. One director is entitled to receive shares under a long-term incentive scheme.

With the exception of Mr D M Towell, the directors of Marks and Spencer Financial Services Limited are also directors of Marks and Spencer plc and therefore receive remuneration from Marks and Spencer plc. The relevant information is disclosed in the financial statements of Marks and Spencer plc.

7	Profit on ordinary activities before taxation	1998	1997
		£000	£000

Profit is stated after charging:

Audit fees	61	56
Other remuneration to auditors for non-audit services	23	24
Operating lease rentals		
- plant and machinery	255	149
- buildings	1,620	900
Finance lease charges	-	2
Interest payable on subordinated liabilities	1,805	2,055
Inter-company interest payable	80,221	57,992
Other interest payable	3,582	3,499

MARKS AND SPENCER FINANCIAL SERVICES LIMITED

13

NOTES TO THE FINANCIAL STATEMENTS

8	Taxation	The taxation charge comprises:		
			1998	1997
			£000	£000
		Current Taxation		
		UK corporation tax at 31 %		
		(1997 33 %)	23,730	22,206
		Adjustment in respect of prior years	652	(181)
		Deferred Taxation (see note 21)		
		Current Year	226	310
		Prior Years	-	42
			<u>24,608</u>	<u>22,377</u>

9	Loans and advances to customers		1998	1997
			£000	£000
		Total unsecured loans and advances	1,573,578	1,308,728
		Repayable:		
		- over 5 years	10,322	-
		- 5 years or less but over 1 year	907,968	750,855
		- 1 year or less but over 3 months	479,046	406,458
		- 3 months or less	206,391	174,463
		General and specific bad and doubtful debt provisions	(30,149)	(23,048)
			<u>1,573,578</u>	<u>1,308,728</u>

The above analysis is based on the minimum repayment required on card balances - 5% per month, and on personal reserve - 3% per month.

10	Provisions for bad and doubtful debts		1998		1997	
		Specific	General	Total	Specific	General
		£000	£000	£000	£000	£000
	At 1 April	20,148	2,900	23,048	20,917	83
	Charge against profits	18,698	(439)	18,259	8,592	2,817
	Amounts written off	(12,557)	-	(12,557)	(10,539)	-
	Recoveries	1,399	-	1,399	1,178	-
		<u>27,688</u>	<u>2,461</u>	<u>30,149</u>	<u>20,148</u>	<u>2,900</u>
	At 31 March	27,688	2,461	30,149	20,148	2,900

NOTES TO THE FINANCIAL STATEMENTS

11 Tangible fixed assets

	Fixtures Fittings & Equipment £000	Assets under finance lease (Equipment) £000	Total £000
Cost			
At 1 April 1997	20,839	366	21,205
Additions	13,694	-	13,694
Disposals	483	-	483
	<hr/>	<hr/>	<hr/>
At 31 March 1998	34,050	366	34,416
	<hr/>	<hr/>	<hr/>
Accumulated depreciation			
At 1 April 1997	12,600	366	12,966
Charge for the year	2,697	-	2,697
Eliminated in respect of disposals	(483)	-	(483)
	<hr/>	<hr/>	<hr/>
At 31 March 1998	14,814	366	15,180
	<hr/>	<hr/>	<hr/>
Net book value			
At 31 March 1998	19,236	-	19,236
	<hr/>	<hr/>	<hr/>
At 31 March 1997	8,239	-	8,239
	<hr/>	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

12	Other assets	1998	1997
		£000	£000
	Amounts falling due within one year:		
	Amounts owed by fellow subsidiary undertakings	2,568	1,519
	Amounts owed by ultimate holding company	5,151	-
	Derivatives	5,644	2,974
	Other	3,042	4,788
	VAT receivable	639	114
		<u>17,044</u>	<u>9,395</u>

13 Derivatives

The Company has purchased FTSE 100 put options to hedge the potential liability to the investors of a fellow subsidiary who are guaranteed against adverse index fluctuations.

The Company's credit assessment policy has been applied with reference to the Bank of England's requirements, and an internal credit assessment which applies a conservative methodology to determine potential counterparty exposure. The Company has no significant concentration of exposure to any counterparty.

The options held are non-trading options that have a total notional principal of £95.5 million (1997: £55 million).

The book value is the cost of the option amortised over the period to maturity and is included within other assets (see note 12).

	1998		1997	
	Book Value	Replacement	Book value	Replacement
		Cost		Cost
	£000	£000	£000	£000
Remaining maturity:				
Between one and five years	5,644	4,194	2,376	1,652
Over five year	-	-	598	598
	<u>5,644</u>	<u>4,194</u>	<u>2,974</u>	<u>2,250</u>

At 31 March 1998 the directors have assessed the likelihood of a liability crystallising under the guarantee as remote and therefore no amount has been provided (1997: £ nil).

NOTES TO THE FINANCIAL STATEMENTS

14 Customer Accounts

	1998	1997
	£000	£000
Amounts owed to fellow subsidiary undertakings	-	13,380
Credit balances on unsecured loans and advances	2,450	1,880
	<u>2,450</u>	<u>15,260</u>
Repayable on demand	<u>2,450</u>	<u>15,260</u>

15 Other liabilities

	1998	1997
	£000	£000
Amounts falling due within one year:		
Bank loans and overdrafts	3,189	2,229
Amounts owed to fellow subsidiary undertakings	1,263,009	1,042,788
SAYE liability	76,428	59,138
Corporation tax	21,057	21,369
Insurance Premium Tax	556	220
Other liabilities	2,465	2,273
	<u>1,366,704</u>	<u>1,128,017</u>

Repayment of amounts due to fellow subsidiary undertakings will not be requested until the Company is in a position to do so.

NOTES TO THE FINANCIAL STATEMENTS

16 Subordinated liabilities

The subordinated liabilities consist wholly of sterling subordinated loan stock due to the ultimate holding Company.

The Stockholder shall, subject to the subordination provisions, be entitled to demand early repayment of the loan stock in any voluntary or compulsory winding up of the Company.

In the event of the winding up of the Company, the claims of the Stockholder in respect of the stock shall be subordinated to the claims of the Company's ordinary creditors.

The subordinated loan stock is repayable as follows:

	£000
December 2001	15,000
December 2005	5,000
	<u>20,000</u>

Interest on subordinated loans is payable at rates up to LIBOR + 1/16%.

17 Called up share capital

	1998 £000	1997 £000
Authorised, allotted, called up and fully paid:		
35,000,000 ordinary shares of £1 each	35,000	35,000

18 Reconciliation of Movements in Shareholders' Funds

	1998 £000	1997 £000
Profit for the financial year	52,738	44,409
Net movements in shareholders' funds	52,738	44,409
Opening equity shareholders' funds	168,699	124,290
Closing equity shareholders' funds	<u>221,437</u>	<u>168,699</u>

NOTES TO THE FINANCIAL STATEMENTS

19	Directors' interests	Interests in the Marks and Spencer Group.		
		Ordinary shares of Marks and Spencer plc - beneficial and family interests.		D M Towell Number
		At 31 March 1997	shares total options exercisable options	16,756 206,536 55,173
		Options granted		16,834
		Options exercised or lapsed		48,952
		At 31 March 1998	shares total options exercisable options	8,514 174,418 15,136
<hr/>				
20	Transactions with Directors	The following interest free loan made in prior years was outstanding with directors:		
			1998 £	1997 £
		D M Towell	-	667
		The outstanding loan was paid over the year.		
<hr/>				
21	Deferred Tax		1998 £000	1997 £000
		Deferred tax provision on accelerated capital allowances	578	352
		At 1 April	352	-
		Charge to profit and loss account	226	352
		At 31 March	578	352
		There was no unprovided deferred tax at 31 March 1998 (1997: nil).		

NOTES TO THE FINANCIAL STATEMENTS

22 Commitments**(a) Commitments under operating leases.**

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

	1998		1997	
	£000		£000	
	Land & Other		Land & Other	
	Buildings		Buildings	
Expiring within one year	-	40	-	14
Expiring between one year and five years	1,620	91	900	104

(b) Pensions

The Company is a member of the Marks and Spencer Group pensions scheme.

The Marks and Spencer Group operates a number of defined benefit funded pension schemes throughout the world. The pensions cost relating to the UK scheme is assessed in accordance with the advice of an independent firm of qualified actuaries using the projected unit method, on the basis of triennial valuations. The date of the last formal valuation was 1 April 1995. In the current year the cost to the Company was £2,202,823 (1997: £1,724,070). Contributions are based on pensions costs across the group as a whole.

Details of the pensions scheme as required by SSAP24 are disclosed in the accounts for the year ending 31 March 1998 of Marks and Spencer plc.

NOTES TO THE FINANCIAL STATEMENTS

23 Ultimate holding company

The ultimate holding company is Marks and Spencer plc, Michael House, Baker Street, London, W1A 1DN, a company incorporated in Great Britain.

24 Related party disclosures

The Company has taken advantage of the exemption under Section 3C of Financial Reporting Standard 8 not to disclose any transactions with entities that are part of the group.
