

MARKS AND SPENCER RETAIL
FINANCIAL SERVICES HOLDINGS LIMITED

FINANCIAL STATEMENTS

31 MARCH 2001

COMPANY REGISTRATION NUMBER 2278807



MARKS AND SPENCER
RETAIL FINANCIAL SERVICES HOLDINGS LIMITED

INDEX

1-2	Report of the Directors
3	Directors' Responsibilities
4	Report of the Auditors
5	Profit and Loss Account
6	Balance Sheet
7-12	Notes to the Financial Statements

MARKS AND SPENCER
RETAIL FINANCIAL SERVICES HOLDINGS LIMITED

1

REPORT OF THE DIRECTORS

The directors present their report for the year ended 31 March 2001.

ACTIVITIES

The Company is the holding company for the financial services retailing activities of Marks and Spencer plc, carried out by the following subsidiaries:-

- Marks and Spencer Financial Services Limited - provides credit and associated services, and acts as ISA deposit taker for the Unit Trust Management Company
- Marks and Spencer Unit Trust Management Limited - trades as a unit trust manager & offers ISA's
- Marks and Spencer Savings and Investments Limited - trades as a corporate personal equity plan manager and offers ISA based share investments.
- Marks and Spencer Life Assurance Limited - trades as an authorised life assurance company.

During the year the company invested £22.5 million in Marks and Spencer Life Assurance Limited.

RESULTS AND DIVIDENDS

The Company made a profit of £47.5 million (2000: £35 million). The directors recommend the payment of a dividend of 37.3p per share equating to £25 million.

The Company aims to continue as the holding company for the financial services retailing activities.

DIRECTORS

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

R W C Colvill (Chairman)	
D M Towell (Chief Executive)	
M Dunbar	
P S Fennell	
G Lynott	Appointed 24 November 2000
S Rushton	Resigned 24 November 2000
J Walton	
K Culley (Non Executive)	Appointed 22 September 2000
A McWalter (Non Executive)	
R Ranson (Non Executive)	
P Sellwood (Non Executive)	Resigned 31 October 2000
B Wells (Non Executive)	

Mr Colvill and Mr McWalter are directors of Marks & Spencer plc and as such they are not required to disclose in these financial statements their interests in the shares of companies in the Marks & Spencer Group. The interests of Mr Towell, Mrs Dunbar, Mr Fennell, Mr Lynott, Mr Walton, Mr Culley, Mr Ranson, and Mr Wells are disclosed in note 13 on page 11.

MARKS AND SPENCER
RETAIL FINANCIAL SERVICES HOLDINGS LIMITED

2

ECONOMIC AND MONETARY UNION

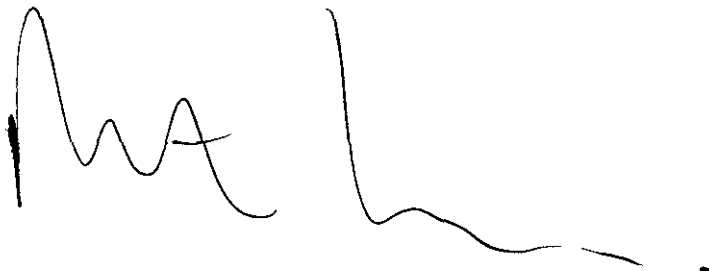
The Company completed an impact analysis in 1998, which identified the changes required in the business to accommodate the introduction of the euro, both in its initial phase, which excludes the United Kingdom, and for possible United Kingdom entry in the future.

Expenditure in the current year in preparation for the first phase is immaterial. Future costs are estimated at £3.1 million for the Group, should the United Kingdom enter EMU.

AUDITORS

PricewaterhouseCoopers have indicated their willingness to continue in office as auditors of the Company and a resolution for their re-appointment is to be proposed at the next meeting of the directors of the Company.

By order of the Board

A handwritten signature in black ink, appearing to be 'P H Green', written over a horizontal line.

P H Green
Secretary

10 May 2001

MARKS AND SPENCER
RETAIL FINANCIAL SERVICES HOLDINGS LIMITED

3

DIRECTORS' RESPONSIBILITIES FOR PREPARING THE FINANCIAL STATEMENTS

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for that period.

In preparing those financial statements, the directors are required to adopt suitable accounting policies and apply them on a consistent basis, making judgements and estimates which they consider prudent and reasonable and to state whether appropriate accounting standards have been followed.

The directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

MARKS AND SPENCER
RETAIL FINANCIAL SERVICES HOLDINGS LIMITED

4

REPORT OF THE AUDITORS

We have audited the financial statements on pages 5 to 12 which have been prepared in accordance with the accounting policies set out on page 7.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 3 this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

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

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

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 March 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers

Chartered Accountants and Registered Auditors

London

10 May 2001

MARKS AND SPENCER
RETAIL FINANCIAL SERVICES HOLDINGS LIMITED

5

PROFIT AND LOSS ACCOUNT

For the year ended 31 March 2001

	Notes	Continuing Operations 2001 £000	Continuing Operations 2000 £000
Other income	7	47,500	35,000
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		47,500	35,000
Taxation on profit on ordinary activities	6	-	-
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		47,500	35,000
DIVIDENDS PAID AND PROPOSED		25,000	30,000
RETAINED PROFIT FOR THE YEAR		22,500	5,000
RETAINED PROFIT BROUGHT FORWARD		29,102	24,102
RETAINED PROFIT CARRIED FORWARD		51,602	29,102

The company has no recognised gains or losses other than the profit for the year. There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above, and their historical cost equivalent.

MARKS AND SPENCER
RETAIL FINANCIAL SERVICES HOLDING LIMITED


6

BALANCE SHEET

At 31 March 2001

	Notes	2001 £000	2000 £000
Fixed assets			
Investments in subsidiaries	8	118,600	96,100
Current assets			
Cash at bank and in hand		-	2
Debtors	9	25,002	-
Total assets		<u>143,602</u>	<u>96,102</u>
Current Liabilities			
Creditors	10	25,000	-
Capital and reserves			
Called up share capital	11	67,000	67,000
Profit and loss account		51,602	29,102
Equity shareholders' funds	12	<u>118,602</u>	<u>96,102</u>
Total liabilities and shareholders' funds		<u>143,602</u>	<u>96,102</u>

The financial statements on pages 5 to 12 were approved by the board of directors on 10 May 2001 and signed on its behalf by:



D M Towell
Chief Executive

MARKS AND SPENCER
RETAIL FINANCIAL SERVICES HOLDINGS LIMITED

7

NOTES TO THE FINANCIAL STATEMENTS

- 1 Accounting policies** The financial statements have been prepared in accordance with the Companies Act 1985 and applicable accounting standards in the United Kingdom. The principle 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.

- 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 does not operate in more than one geographical segment, or in more than one class of business, based on the location of the office in the United Kingdom.
-

- 4 Consolidated financial statements** Consolidated financial statements are not prepared as the Company is a wholly owned subsidiary of another company incorporated in Great Britain.
-

- 5 Directors' emoluments** Emoluments are paid to directors by a subsidiary company as follows:

	2001	2000
	£	£
Highest paid director	340,164	295,217
Aggregate of other directors	729,770	580,552
Compensation for loss of office	36,500	-
	<u>1,106,434</u>	<u>875,769</u>

Retirement benefits are accruing to five directors (2000 – seven) under a defined benefit scheme. Five directors (2000 – seven) are entitled to receive shares under a long-term incentive scheme.

Mr Colvill and Mr McWalter served as directors of Marks and Spencer plc, and their remuneration has been disclosed in those financial statements. No additional remuneration was paid for their services to the subsidiary company and therefore no apportionment of their emoluments has been made.

MARKS AND SPENCER
RETAIL FINANCIAL SERVICES HOLDINGS LIMITED

8

NOTES TO THE FINANCIAL STATEMENTS

The amount of pension benefit accrued to the highest paid director at the end of the year is £75,600 (2000 - £58,500).

None of the directors of the Company received any emoluments in respect of their services as directors of the Company (2000: nil)

6 Taxation

There is no taxation charge attributable to the Company's profits, consisting of dividend income from United Kingdom companies, which is not chargeable to corporation tax.

7 Other Income

	2001	2000
	£000	£000
Income from Investments	47,500	35,000

8 Investments in subsidiaries

	2001	2000
	£000	£000
Marks and Spencer Financial Services Limited	35,000	35,000
Marks and Spencer Unit Trust Management Limited	3,000	3,000
Marks and Spencer Savings and Investments Limited	100	100
Marks and Spencer Life Assurance Limited	80,500	58,000
	<hr/>	<hr/>
	118,600	96,100
	<hr/>	<hr/>

MARKS AND SPENCER
RETAIL FINANCIAL SERVICES HOLDINGS LIMITED

9

NOTES TO THE FINANCIAL STATEMENTS

Marks and Spencer Financial Services Limited is a wholly owned subsidiary incorporated in Great Britain. The Company provides credit and associated services.

Marks and Spencer Unit Trust Management Limited is a wholly owned subsidiary incorporated in Great Britain. The Company trades as a unit trust manager.

Marks and Spencer Savings and Investments Limited is a wholly owned subsidiary incorporated in Great Britain. The Company operates as a corporate personal equity plan manager and offers ISA based share investments.

Marks and Spencer Life Assurance Limited is a wholly owned subsidiary incorporated in Great Britain. The Company trades as an authorised Life Assurance Company.

During the year the company invested £22.5 million in Marks and Spencer Life Assurance Limited.

9 Debtors

	2001	2000
	£000	£000
Amounts due from Subsidiary Undertakings	25,002	-
	<hr/>	<hr/>

Amounts due from Subsidiary Undertakings are unsecured, interest free and have no fixed repayment date.

10 Creditors

	2001	2000
	£000	£000
Amounts falling due within one year:		
Proposed dividend	25,000	-
	<hr/>	<hr/>

MARKS AND SPENCER
RETAIL FINANCIAL SERVICES HOLDINGS LIMITED

10

NOTES TO THE FINANCIAL STATEMENTS

11 Called up share capital

	2001	2000
	£000	£000
Authorised share capital		
80,000,000 ordinary £1 shares	80,000	80,000
	<hr/>	<hr/>
Allotted, called up and fully paid		
67,000,000 ordinary shares of £1 each	67,000	67,000
	<hr/>	<hr/>

12 Reconciliation of movements in shareholders' funds

	2001	2000
	£000	£000
Profit for the financial year	47,500	35,000
Dividends paid	25,000	(30,000)
	<hr/>	<hr/>
Net movement in shareholders' funds	22,500	5,000
Equity shareholders' funds at 1 April	96,102	91,102
	<hr/>	<hr/>
Equity shareholders' funds at 31 March	118,602	96,102
	<hr/>	<hr/>

MARKS AND SPENCER
RETAIL FINANCIAL SERVICES HOLDINGS LIMITED

11

NOTES TO THE FINANCIAL STATEMENTS

13 Directors' interests Interests in the Marks and Spencer Group.

Ordinary shares of Marks and Spencer plc
 - beneficial and family interests.

	DM Towell Number	M Dunbar Number	P S Fennell Number	G Lynott Number
At 1 April 2000*				
Shares	23,138	10,677	-	2,566
Total Options	267,716	80,533	68,588	4,344
Exercisable options	103,926	-	-	-
Options granted	223,254	102,604	129,371	10,817
Options exercised	-	-	-	-
Or lapsed	22,950	-	4,344	4,344
At 31 March 2001				
Shares	26,396	12,174	1,194	2,583
Total Options	468,020	183,137	193,615	10,817
Exercisable options	99,879	-	-	-
	J Walton Number	K Culley Number	R Ranson Number	
At 1 April 2000*				
Shares	1,148	5,000	-	
Total Options	-	-	-	
Exercisable options	-	-	-	
Options granted	128,347	-	-	
Options exercised	-	-	-	
Or lapsed	-	-	-	
At 31 March 2001				
Shares	1,148	5,000	8,334	
Total Options	128,347	-	-	
Exercisable options	-	-	-	

Mr Wells held no shares or share options during the year. The interests of Mr Colvill and Mr McWalter are shown in the accounts of Marks and Spencer plc.

*or date of appointment
 K Culley 22 September 2000
 G Lynott 24 November 2000

MARKS AND SPENCER
RETAIL FINANCIAL SERVICES HOLDINGS LIMITED

12

NOTES TO THE FINANCIAL STATEMENTS

14 Ultimate holding company

The ultimate parent undertaking and ultimate controlling party is Marks and Spencer plc, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. The immediate controlling party is Marks and Spencer Retail Financial Services Holdings Limited. Copies of Marks and Spencer plc consolidated financial statements can be obtained from the Company Secretary at Michael House, Baker Street, London, W1A 1DN, a company incorporated in Great Britain.

15 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 90% or more owned within the same group.

The Company has engaged BJW International Ltd (a company wholly owned by Mr Wells, a non-executive director of the Company) to provide consultancy services in respect of the Company's decision to enter the Personal Lines Insurance market. The Company has paid BJW International £34,596 during the year in respect of this engagement (this charge is included as part of Administrative Expenses in the Profit & Loss Account of Marks and Spencer Financial Services Ltd.).

As part of the Company's standard relocation package offered to all qualifying staff, the Company, during the previous financial year, acquired Mr Walton's house in the south-east of England, at a price of £587,000. The price at which the property was bought from Mr Walton was the deemed open market value at the date of acquisition. This open market value was arrived at following two independent valuations of the property. The property was held on a temporary basis until it was sold during the year to an independent third party. The property was sold at a loss. Under the terms of the relocation package Mr Walton will not have to make any repayment.
