

OUR BUSINESS

CHAIRMAN'S STATEMENT



From our values to our infrastructure, M&S is a **more capable and better equipped** business than it was a year ago – helping us become the modern, agile company we need to be.

ROBERT SWANNELL CHAIRMAN

INTERIM	FINAL	TOTAL DIVIDEND FOR 2014/2015
6.4p	11.6p	18.0p
PAID ON 9 JANUARY 2015	TO BE PAID ON 10 JULY 2015	

OVERVIEW

This year we have seen outstanding performance in some areas of the business but performance below our expectations in others. The overall result is that underlying profits before tax moved ahead 6.1% to £661.2m. We have achieved a number of the strategic priorities we set out at the beginning of the year, becoming a more capable company with significantly stronger infrastructure, but we experienced some implementation issues along the way. We embedded new values aligned with our strategic goals. These values, which put integrity at their core, respect our heritage whilst helping us to become the modern, agile company we need to be. Above all, we remain focused on one thing: offering our customers products of exceptional quality and value that they can trust, however they choose to shop with us.

PERFORMANCE

Our Food business had an outstanding year in a sector that continues to go through profound change. In the most competitive food market of recent years, we delivered like-for-like growth in every quarter and maintained our margin. We have a clear and distinct offering and our growth plans look clear and achievable.

Our General Merchandise (GM) business delivered significant margin gains – the first step in reaping the benefits of the investment we have made – and our products were well received by our customers and the fashion press. Whilst our overall performance was affected by

the implementation issues outlined below, it was pleasing to exit the year in the final quarter with all elements of our GM business showing growth.

Performance in our International business was disappointing. Strong sales performance in key owned markets, for example India and Hong Kong, was more than offset by macroeconomic issues and performance in key franchise markets, particularly Russia, Ukraine and Turkey.

We implemented two crucial pieces of infrastructure: our new M&S.com website and our automated distribution centre at Castle Donington, two of the largest projects of their kind in Europe. Whilst projects of this scale are likely to experience some initial performance issues, these were greater than we anticipated. Our skilled teams acted decisively to address the issues. The strategic rationale for both projects remains clear.

BOARD PRIORITIES

The Board's three priorities have remained the same since I became Chairman in 2011: we are focused on strategy and execution, people and succession, and values. Having completed the bulk of our major three-year investment programme to transform M&S into an international, multi-channel retailer, the Board's focus again this year was on ensuring that our substantial investment delivers the required returns. We also devoted time to ensuring we have the right talent and skills required in our business, and to debating and articulating our values, discussed below.

BOARD CHANGES

There have been a number of changes to the Board this year.

Jan du Plessis, our Senior Independent Director, stepped down in March 2015, having served on the Board since 2008. I would like to thank Jan for his commitment and contribution to M&S over the years. His insights and experience have been invaluable. Vindi Banga, who has served on our Board since 2012, took on the position of Senior Independent Director; he also chairs the Remuneration Committee.

In April 2015, Richard Solomons joined the Board as a non-executive director. Richard is Chief Executive of InterContinental Hotels Group and brings strong commercial, consumer, branding and global experience to the M&S Board.

On the executive team I would like to extend a warm welcome to Helen Weir, our new Chief Finance Officer. Helen has exceptional credentials in both retail and finance having previously held the same position at John Lewis Partnership, Lloyds Banking Group and Kingfisher.

This year we reviewed our senior remuneration framework to align it more clearly with our strategic objectives. Further details are laid out in our Remuneration Report on page 52.

OUR VALUES AND PLAN A

The culture at M&S is important to the Board. Our values are a fundamental part of how we do business – they are what makes M&S different. Last June we introduced four

GOVERNANCE PROFILE

Independence Half of our Board is made up of independent non-executive directors, in line with the UK Corporate Governance Code.

Senior Independent Director Our Senior Independent Director is Vindi Banga.

Accountability and election We have clear separation of duties between Chairman and CEO roles, and require all the directors to stand for re-election annually.

Evaluation An externally facilitated performance evaluation of the Board and its committees was undertaken during the year, as it is every three years.

Attendance The Directors have all attended an acceptable level of Board and Committee meetings.

Compliance The composition of all Board committees complies with the application recommendations of the Code.

Experience Throughout 2014/15, two members of the Audit Committee had recent and relevant financial experience.

Tenure The tenure of our previous external auditor was over ten years. In 2014/15 we appointed a new statutory auditor, Deloitte, following a thorough tender process.

Non-audit policy We have a policy for the award of non-audit work performed by our auditor, which is disclosed on our website, and we have disclosed the limited non-audit work undertaken.

Auditor appointment We disclose our external auditor appointment policy.

Internal Audit Details on the internal audit function are provided within this report.

Performance-related pay A significant part of our performance-related pay is delivered through shares.

Reward Our reward framework is simple and transparent and is designed to support and drive our business strategy.

➤ See Governance Section p32-82

new core values built on the principles that have guided M&S since it was founded in 1884. The values – Inspiration, Innovation, Integrity and In Touch – aim to equip us all to deliver our strategic plans.

But while the words are new, we have not changed what matters to us. Acting with integrity is at the heart of the way we do business. So our customers can be sure that the GM margin gains we achieve will not come at the expense of the standards we expect in our factories; they can be safe in the knowledge that we will not compromise on the provenance of our food; and they can rely on us to be a force for good in the communities in which we operate.

Our commitment to Plan A, the programme we launched eight years ago to become the world's most sustainable major retailer, remains as deeply held today as it ever was. As people become increasingly aware of how their behaviour impacts the world around them, we believe businesses need to connect with the communities in which they operate. From healthy living to ethical sourcing, we are committed to leading the way and striving to offer our customers the most sustainable options possible. As M&S becomes more international, our ability to lead with others on a global scale grows, whether by using our scale to drive improvements in our own supply chain, or by lending our expertise to global industry initiatives.

STAKEHOLDER ENGAGEMENT

Engaging with stakeholders and employees is particularly important during times of change. We communicate regularly with our shareholders to ensure they understand our progress and plans. Outside our results, this year, we held investor briefings on M&S.com and our International business, and Marc Bolland and his executive team had many meetings with investors. All information shared at these events is available to shareholders at marksandspencer.com/investors. We again held a governance event for our largest shareholders, which I led with our Senior Independent Director.

We have recently implemented a new loyalty scheme for our private investors. The scheme allows over 190,000 of our UK-registered private investors to use money from their dividend payment to buy an M&S Shareholder Card at a discount. It operates much like a gift card. The initiative reflects the fact our private investors are also some of our most loyal customers and we value them greatly.

Our 'Fit for the Future' programme was one of our biggest ever engagement exercises, where employees discussed the shape of the new values. We also launched a scheme for the 3,500 section managers who between them manage 92% of our sales floor colleagues. The programme inspired and motivated these managers, who are the beating heart of M&S.

OUR GOVERNANCE PRINCIPLES

LEADERSHIP

➤ See p34

The Board rigorously challenge each other on strategy, performance, responsibility and accountability to ensure that the decisions we make are of the highest quality.

EFFECTIVENESS

➤ See p41

The Board's performance is scrutinised in an annual effectiveness review. This examines the progress we are making against our plan, our collective and individual effectiveness, and the independence of our non-executive directors.

ACCOUNTABILITY

➤ See p44

All of our decisions are discussed within the context of the risks involved. Effective risk management is central to us achieving our strategic objectives.

ENGAGEMENT

➤ See p51

Maintaining strong relationships with our shareholders, both private and institutional, is crucial to achieving our aims. We hold numerous events throughout the year to maintain an open dialogue with investors.

LOOKING AHEAD AND DIVIDEND

➤

M&S is a more capable and better equipped business than it was a year ago. In the coming year we will continue to focus on growth in Food, improving GM performance, further improving margins and cash generation.

Our dividend policy remains a progressive one, with dividends broadly covered twice by earnings. We intend to pay a final dividend of 11.6p this year, taking the total dividend to 18.0p, up 5.9% on last year. In the context of our increased free cash flow, we are also pleased to announce an ongoing programme of returns of capital to shareholders, starting this year, with a share buyback programme of £150m.

Finally, I would like to thank all our employees for their hard work and commitment at a time of significant change. M&S employees are dedicated and upbeat – I am always struck by their positive attitude and energy. Their pride in M&S and commitment to the business are what makes us special. I want to thank every one of them in stores and in our offices for their contribution this year.



ROBERT SWANNELL CHAIRMAN