

Chairman's statement



Robert Swannell
Chairman

**Interim dividend paid on
10 January 2014**

6.2p

**Final dividend to be paid on
11 July 2014**

10.8p

Total dividend for 2013/14

17.0p

The retail industry is going through a period of profound change. Many of the actions we set out as part of our strategy three years ago, and have since implemented, put M&S in a stronger position to compete in this new world.

In 2013/14, we delivered major infrastructure projects that strengthened our business. Our new M&S.com website and our new distribution centre at Castle Donington are both essential in our strategy to transform M&S from a traditional British retailer into an international, multi-channel retailer.

We have repositioned our website as our flagship and its design has been centred on the needs of our customers. Castle Donington is one of the largest dedicated e-commerce sites in the UK and is capable of processing over one million products a day. We are now working to ensure these projects deliver at their full operating capability.

We made these improvements against a challenging economic backdrop. Consumer confidence improved over our financial year but overall increases in incomes lagged inflation, meaning that consumers did not feel the benefit in their discretionary spending.

Our performance over the year was mixed and, as a result, our underlying profits before tax fell 3.9% to £623m.

Our three-year programme of exceptionally high capital expenditure associated with our strategic priorities is now completed. We are working hard to prepare our business for the future, while not forgetting the values that underscored our past. Now we are focused on delivering the financial results from this investment.

Performance

We made progress in three areas this year: Food, M&S.com and International. Our online business performed ahead of the market and the new website, launched in February, was recognised as industry-leading; our food business is growing faster than the market and operational efficiencies were achieved; and we saw growth in our International business, with a strengthened presence and significant growth in our priority markets. However, our General Merchandise performance did not meet our own expectations. The team is working hard on a comprehensive plan to address this. Improvements in product quality and style were welcomed by our customers and, together with operational efficiencies, now have to be delivered consistently to translate into the required improvements in financial performance.

Dividend

Our dividend policy remains a progressive one, with dividends broadly twice covered by earnings. In line with this policy, we remain committed to delivering consistent returns to our shareholders. We intend to pay a final dividend of 10.8p this year, taking the total dividend to 17p, unchanged from last year.

The Board's priorities

In my first report as Chairman in 2011, I wrote that the Board focuses its work on three main areas: strategy and execution, people and succession, and values. This remains the case.

Our strategy to transform M&S from a traditional British retailer to an

Governance profile

- Our number of independent non-executive directors is in line with the UK Corporate Governance Code
- Our Senior Independent non-executive director is Jan du Plessis
- We have clear separation of duties between Chairman and CEO roles
- Performance evaluation of the Board and its Committees was undertaken during the year and is externally facilitated at least every three years (due 2015)
- The Directors have all attended an acceptable level of Board and Committee meetings
- The Directors all stand for re-election annually
- The composition of all Board Committees complies with the application recommendations of the Code
- Two members of the Audit Committee have recent and relevant financial experience
- We have a Policy for the award of non-audit work, which is disclosed on our website, and we have disclosed the non-audit work undertaken
- The tenure of our external auditor was over 10 years. We have appointed a new statutory auditor for 2014/15, subject to shareholder approval
- We disclose our external auditor appointment policy
- Details on the internal audit function are provided in this report
- A significant part of our performance-related pay is delivered through shares
- Our reward framework is simple and transparent, designed to support and drive our business strategy.

international, multi-channel retailer remains unchanged. Whilst the Board continues to discuss each element of the strategy, the focus is on execution. With demonstrable progress in our Food and International business, and clear advances in our infrastructure, the attention has been particularly focused on the progress in executing the key steps to improve our General Merchandise business performance.

In relation to people and succession, there have been a number of changes to the Board this year. All of these have been carefully managed to ensure effective succession plans were in place.

Our governance principles

Leadership

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

 Read more on page 40

Effectiveness

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.

 Read more on page 40

Risk management

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

 Read more on pages 15 and 44

Engagement

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.

 Read more on page 45

In June 2013, Jeremy Darroch, a non-executive director and Chairman of our Audit Committee, stepped down from the Board after six years. Andy Halford, who joined us in January 2013, has taken over as Chairman of that committee, as planned.

As we announced last year, our longest serving non-executive director Steven Holliday will leave the Board after the AGM this July, having spent a decade with us. I would like to thank Steve for his outstanding contribution, and in particular for his role as Chairman of the Remuneration Committee for the last three years. Vindi Banga will replace Steve as Chair on his departure.

Ahead of Steve's departure, Alison Brittain was appointed as a non-executive director in January of this year. As Group Director for the Retail Division of Lloyds Banking Group, Alison brings strong financial and commercial experience, along with a wealth of knowledge from running customer-facing

retail branch networks, and I welcome her to the Board.

Within our executive team, Steve Sharp, our long-standing Executive Director of Marketing, was succeeded in this role by Patrick Bousquet-Chavanne following Patrick's election to the Board at the AGM last year. Steve left M&S in February 2014 with our thanks for the significant role he played in shaping the M&S brand over the last 10 years and for his help in introducing Patrick to the role.

Our heritage, values and Plan A

M&S has been trading for 130 years. Our success over that time stems in large part from our commitment to clear core values, including quality and trust. Just as enduring values have defined our past, so they are crucial to our future. In recent years public mistrust has spread through many areas of business and this stems from the absence of clear values. This is not the case at M&S, where an emphasis on integrity is at the heart of the way we do business. We expect to be held accountable by our customers, shareholders and other stakeholders in this respect.

Nothing demonstrates our commitment to our values more than Plan A, our programme to become the world's most sustainable major retailer. We have deliberately set the bar high for ourselves. We strive for excellence in this field and are candid when we don't measure up. 'Doing the right thing' makes economic as well as ethical and moral sense: a sustainable business is also a profitable business. We have just launched a new set of commitments that will refocus Plan A to ensure M&S is set up to respond to the new models of sustainable change. The commitments will also ensure that Plan A's values are clearly communicated to customers.

Stakeholder engagement

We take time to inform our stakeholders about progress in the business and we have found this is particularly important at a time of major transformation. We have held 10 investor days on different aspects of our business since August 2012. All information shared at these events is available to shareholders at marksandspencer.com/investors.

We also have strong internal channels of communication to keep employees informed. Our annual internal Business Conference ensures both our retail and head office leadership teams understand

our strategy, and employees are regularly updated on our plans through a wide range of activities, including our employee magazine and online news updates. All employees have access to Yammer, an internal social network. This year, our non-executive directors increased their engagement with colleagues in the business through our popular Employee Breakfasts and Non-Executive Lunches.

Looking ahead

Our capital expenditure will fall in the year ahead as we complete projects that accounted for exceptional capital expenditure as part of our transformation programme.

Our priority now is to deliver on the investment we have made and to make M&S more profitable, as well as a stronger, well-equipped business. There is real potential for further profitable growth, both in the UK and overseas. We have highlighted the opportunities for growth and performance improvements in each area of our business in this report and at our recent investor days: this applies in both our Food and General Merchandise businesses, whether in store or online, in the UK or internationally.

Finally, we are fortunate to have exceptionally talented and dedicated employees. I never cease to be impressed by their commitment to M&S and their pride in what they do. One of the great highlights of my year is meeting the many who have given 25 and 40 years service. There are some quite remarkable stories amongst them and they exemplify the spirit alive in the company. We thank every one of our employees for their contribution through a period of considerable change.



Robert Swannell
Chairman

Marketplace

Overview

It is crucial that we listen to our customers to understand what they expect from us and how the economy is affecting their shopping behaviour. Our Customer Insight Unit (CIU) listens to and analyses responses from 18,000 customers a week and combines market research with customer feedback to monitor the national mood.

Market overview

The UK economy is improving. Gross Domestic Product is predicted to grow by 2.7% in 2014, while house prices have increased by 8.5% in a year. Inflation is falling and employment is rising. Just 14 months ago, consumers were concerned about a triple-dip recession. Now, a genuine recovery feels like a more realistic possibility.

As a result, there has been a steady increase in consumer confidence over the last year and people have started to feel that the worst is over. But the increase in confidence is not yet translating into a complete turnaround in consumer behaviour. Spending remains measured. Despite glimpses of happier times ahead, people remain level-headed. Indeed, although confidence is higher than it has been for years, it is still in negative territory. There are two main reasons why.

First, people realise that we are not out of the woods yet. Consumer debt is still high, the government's austerity programme could run for another six years and wage growth has only just caught up with inflation. People recognise that the current low interest rates will not last for ever.

Second, the downturn has made consumers warier and more alert than they were. They are telling themselves that they won't be led into trouble again. They blame the banking crisis on reckless extravagance and the notion of consequence has taken root in the national psyche. As a result, shoppers are being more considered and consumers are being more cautious with their money.

They are prepared to spend, but they seek real value and real quality. When they do splash out, it is on targeted treats and celebrations.

How this has affected M&S

Subdued spending continued to affect the retail sector this year, and saw deep levels of promotion, particularly in the lead-up to Christmas. M&S responded to this promotional landscape by offering more promotions than in previous years. However, the emphasis on treats played to our strengths. Whether they were after a new pink coat, a special meal or cushions to refresh the home, customers were constantly recognising the quality of M&S products.

When it came to clothing, people were spending more money on our 'better' and 'best' ranges. This fitted in with our strategy of emphasising the quality, style and heritage of our clothes. The customer and fashion press feedback on our new ranges was extremely positive.

Consumers are taking greater pleasure in food and cooking. They have become more curious about different foods and are looking to experiment and for that little extra indulgence. This did not translate into extravagant spending, but contributed to the trend of consumers demanding more – if they were going to spend their money, they wanted something special in return. Customers are also willing to spend a little more on special events. We responded with newness and innovation, and more special occasion foods than ever before.

The internet has changed the way consumers shop. An increasing number of customers are using online as a source of inspiration and research before they purchase in stores or online. They are looking for editorial fashion and lifestyle guidance, and want a seamless brand experience wherever they choose to browse and buy. Customers also like

shopping in store and expect the flexibility offered by click and collect services – they want to purchase what they want, when and where they want it. We responded with our new website, which focuses on delivering a better browsing experience, as well as an improved buying process, as explained on page 26.

Our priority markets of India, China, the Middle East and Russia have all seen GDP growth. The rise of the middle class in these markets has firmly established shopping malls as the key vehicle for international trade, with the landscape dominated by large shopping mall operators who have specialist insight and expertise of the markets in which they operate. This has driven our international strategy of working with partners to open flagship stores in prime malls and key shopping locations. Another emerging trend is the growth of the lingerie market in the Middle East and India, which is expected to grow by 30% and 54% respectively by 2017. We responded with our first standalone Lingerie & Beauty store.

The Eurozone is also on the turn. The growth opportunity in our other priority market, Western Europe, lies in the rapidly expanding online clothing market. We responded with a bricks and clicks strategy, which focuses on flagship stores that deliver brand presence supported by a strong online offer. Our food is as unique internationally as it is in the UK, and the growing demand in Western Europe for convenience food shops opens up new opportunities for Food store growth.



How we have responded

Business area	Impact	Response
<p>Clothing</p> <p>The overall clothing market grew in value terms but slowed in volume terms as shoppers were more measured in their spending. Whilst confidence levels were up on last year, this did not translate to strong sales on the high street, although signs of improvement in the clothing market started to come through.</p>	<p>Consumers targeted their purchases carefully. They wanted to be sure they were getting a good balance of value and quality, and looked to purchase 'better and best' items.</p>	<p>We listened to our customers and focused the relaunch of our Womenswear on style, quality and design. We upgraded 70% of our fabrics, added more luxurious finishes and improved our 'better and best' offer with more leather, silk and cashmere. We brought more clarity and distinction to our sub-brands to make them more compelling and easier to shop, which had a good response from our target audiences. The well-received relaunch was also accompanied by a new, more inspirational store concept.</p>



<p>Food</p> <p>Inflation fell to below the Bank of England's target of 2% for the first time in over four years, giving households a welcome reprieve from the squeeze on their finances. Food price growth was among those to fall.</p>	<p>Consumers still wanted value from their day-to-day shop but were also treating themselves more, with millions splitting their weekly shop between low-cost discounters and high-quality convenience operators such as M&S. The mainstream supermarkets in the middle continued to cut prices. At the same time, people started eating out more.</p>	<p>Our Food business had another very strong year as customers were drawn by our top quality, competitively priced food and offers that continue to deliver restaurant-quality food at home. Our more indulgent festive range resulted in our biggest Christmas ever. The excitement and newness of our ranges continued to delight customers.</p>
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<p>M&S.com</p> <p>The UK online retail market grew by 16% in 2013 and is forecast to grow by a further 17% this year. 2013 was the 'year of the mobile', with twice as much spent via mobile devices in December 2013 than the year before.</p>	<p>Consumers across the UK now expect to be able to browse, shop and collect their goods anytime, any place, anywhere. The distinction between 'store' shopping and 'online' shopping is becoming increasingly blurred.</p>	<p>Our new flagship, M&S.com, launched in the spring and was built around the customer, with over two years of extensive testing with hundreds of existing and potential customers. The industry-leading site is designed to deliver a joined-up experience, whether viewed on a desktop, tablet or mobile phone.</p>
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<p>Brand</p> <p>Despite the improving economy, consumers wanted to buy brands on which they knew they could rely. Social media became an increasingly integrated part of many people's lives.</p>	<p>Brands had to be bolder in their messaging. After years of austerity, consumers wanted a touch of glamour in their lives.</p>	<p>Our bold 'Leading Ladies' campaign reasserted our quality credentials while also bringing some excitement back to our fashion campaigns. Our Christmas TV ad rekindled customers' love of Magic and Sparkle. We increased the use of social media in our marketing mix.</p>
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How we create value

The M&S difference

The M&S difference

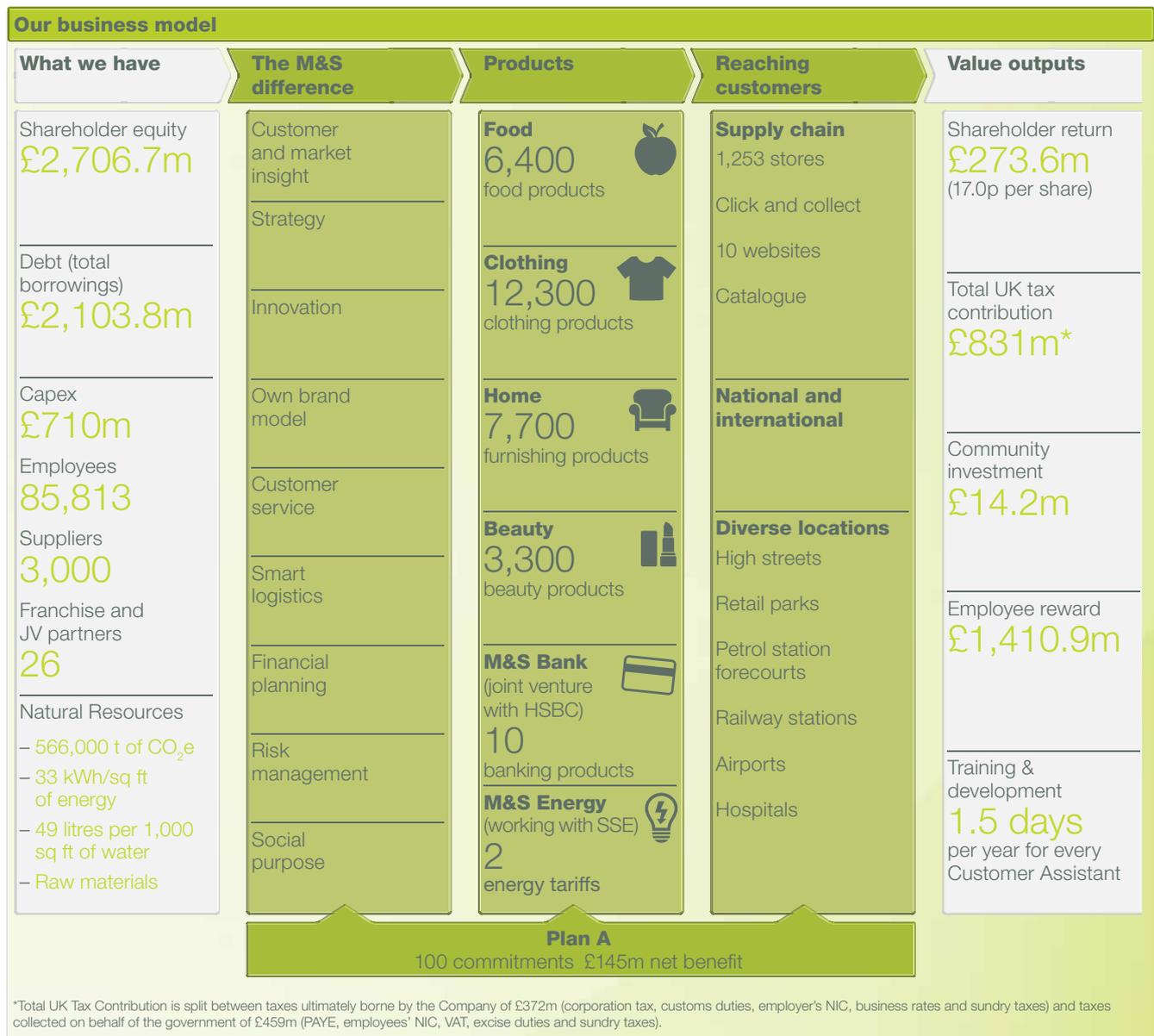
With our rich heritage, M&S occupies a unique place in Britain and is regularly voted as one of the UK's most trusted brands. Since we opened our first penny bazaar in Leeds 130 years ago, quality and innovation remain the steering force behind our business and they run through everything we do. They are what make the M&S difference across the 54 territories in which we now operate.

Understanding our customers

We listen to and closely monitor how our customers are feeling and how the wider economy is impacting their spending decisions. This way we can ensure that the products and services that we sell remain relevant to customers' needs. Our Customer Insight Unit (CIU) is a dedicated in-house team that listens and talks to around 18,000 customers every week through research and focus groups. We also have a constant dialogue with our 1.8 million Facebook fans and 318,000 Twitter followers. By understanding customers' everyday lives today, we can also anticipate how their needs and habits might change in the future.

Competitive advantage

Our clothing and food is developed especially for us, and our customers cannot buy them anywhere else – a business model which makes us unique. We have had an innovation culture since we went into business in 1884 and it ensures our products always stand out. We believe that encouraging innovation among our employees – from our clothing designers and food technologists, to our visual merchandisers and customer assistants – gives us a point of difference over our competitors.



*Total UK Tax Contribution is split between taxes ultimately borne by the Company of £372m (corporation tax, customs duties, employer's NIC, business rates and sundry taxes) and taxes collected on behalf of the government of £459m (PAYE, employees' NIC, VAT, excise duties and sundry taxes).



Reaching our customers

Our store network covers a diverse range of locations from UK high streets and retail parks to our international flagships on key shopping streets and malls. Our M&S Simply Food stores in city centres and travel locations ensure we are in the most convenient places for our customers. We are improving our operations behind the scenes to ensure that the business is as efficient as possible: from our tills to our distribution network to our web platform. This year, we launched our new M&S.com website, as well as our vast 900,000 sq ft distribution centre at Castle Donington, which forms part of the radical reshaping of our warehouse network. Both will improve our ability to reach our customers faster and in whatever way is most convenient for them.

Robust financial management

We believe that having the correct systems and processes in place is as important as firm cost management when it comes to managing our finances. Ongoing improvements in IT, availability and buying are key factors in helping us mitigate cost increases. Our funding approach is similarly disciplined. Future growth is funded through existing cash flows, a policy which supports our commitment to maintain an investment grade credit rating.

Strong relationships

Working closely with our suppliers is hugely important to us – these relationships underpin the trust in our brand. We collaborate with them on every step of a product's journey to ensure that we have a healthy, efficient and mutually-beneficial relationship.

M&S has over 3,000 product, raw material and service suppliers with current social compliance assessments covering many aspects of human rights listed on the Supplier Ethical Data Exchange (SEDEX). We are long-standing members of the UK-based Ethical Trading Initiative (ETI) and Global Social Compliance Programme. We work with our partners and suppliers to assess performance and enact corrective actions against our Global Sourcing Principles. Read more on our sourcing principles

marksandspencer.com/thecompany.

Keeping all our shareholders informed of the progress we are making is fundamental to achieving our goals. Since August 2012, we have held 10 investor and analyst events in the UK and overseas. All the information shared during these events is available for our private shareholders to see on marksandspencer.com/investors.

As well as training our employees to the highest standards, we always make sure that M&S colleagues are kept up to date with developments in the business. They are also able to connect with each other via our Yammer internal social network.

We hold regular events with members of the print and broadcast media to ensure that our customers are kept abreast of developments in our business via the press.

Social purpose

M&S cares deeply about the communities in which we operate and our stores are often community hubs. That's why we encourage volunteer work by our employees and open our stores for charity events. We work hard to engage our customers in Plan A – the more we involve them, the greater impact we will

have. This year, our employees and customers helped to raise a total of £4.2m for local charities and diverted 4 million pieces of clothing from being thrown away through our Shwopping initiative.

Plan A affects every decision we make; it forces us to think and do things differently. The scheme has grown significantly since we launched our initial sustainability commitments in 2007 and has gone from being prescriptive to being instinctive within the business. To find out more about the progress we made this year and our new Plan A commitments, visit marksandspencer.com/plana2014.

Returns to shareholders

Our dividend policy remains unchanged: to remain progressive with payouts to shareholders broadly twice covered by earnings. Through our Dividend Re-investment Plan, shareholders can automatically use their cash dividend to purchase additional shares in M&S.

Plan for growth

Creating shareholder value relies on having a clear plan for growth. Our three-year strategy to become an international, multi-channel retailer has put us in a strong position for the future. As we look towards the next chapter in our story, we will continue to strengthen our business, listen to our customers, move into new markets and evaluate the ones in which we operate.

Chief Executive's overview

A year of progress



Marc Bolland
Chief Executive

General Merchandise

£4.1bn

→level

Turn to page 20

Food

£5.1bn

↑ 4.2%

Turn to page 22

M&S.com

£800.1m

↑ 22.8%

Turn to page 26

International

£1.2bn

↑ 6.2%

Turn to page 28

“We have built a business that is more relevant and fit for the future of retail.”

I am pleased to say that this year we have taken several significant steps forward, and I have always described M&S's transformation as a step-by-step process. As we come to the end of our three-year transformation programme, much of our investment is starting to bear fruit and we have built a business that is more relevant for the future retail marketplace.

Sales over the last year rose by 2.7% and our clothing business is beginning to show clear signs of improvement. Our priorities for the year ahead are to continue to turn around our General Merchandise (GM) performance, to drive our Food business and to maximise the many opportunities around our new M&S.com flagship and in our international markets.

Performance overview

Our performance this year was mixed. Our Food division had an excellent year, outperforming the market, and our International division also saw strong growth. We saw online sales rise 22.8% over the year and launched our new website. We were particularly pleased that we saw positive sales growth in clothing in the last quarter. But despite this welcome improvement, our GM division is still not satisfactory and growth in our clothing business needs to be sustained. There remains much to do in GM but I am confident that we are on the right track.

Transforming our business

The last three years have been a period of unprecedented change and investment in M&S. Over the period we have become more customer-driven, repositioning our Food business to become more specialist and relaunching our clothing ranges with the focus on

quality and style. We have upgraded our store environments, launched our new website and accelerated our international expansion. We have also built the foundations of a robust infrastructure through new IT systems and logistics developments as we start to reshape our distribution network to a single-tier network.

General Merchandise

During the year, we faced a difficult trading environment, with a highly promotional market and, at times, unseasonal conditions. However, the team we appointed last year to turn around our clothing performance is making progress. I am particularly pleased that our core Womenswear ranges have started to gain momentum. Customers tell us that they like the improvements to the quality, style and newness of our clothing ranges. Our Indigo, Autograph and Limited ranges performed well over the year.

Food

Our Food business continues its strong performance, now with 18 consecutive quarters of like-for-like growth. 2013/14 was another very strong year, ahead of plan and ahead of the market. Sales rose 4.2% as customers continued to enjoy the quality and newness of our products.

Our unique position as an own-brand, specialist food retailer with a sizeable high street presence means that we can reach millions of customers a week with at least 5,000 products out of our range of 6,400. We continue to lead on speciality, quality and innovation. But being a specialist does not mean being expensive. Customers tell us that they get good value when they shop at M&S.

M&S.com

We are becoming a more multi-channel and agile business. Our new M&S.com flagship opened in February after over two years of extensive customer research and testing. Where previously we operated on an Amazon platform, we now have a powerful and flexible platform of our own, allowing continuous improvement and supported by the right skills and culture internally to drive continual innovation. The site is backed by our new 900,000 sq ft distribution centre in Castle Donington.

Our online sales continued to grow as more customers shopped via their computer, tablet or mobile phone.



Building on our progress

We have come to the end of our three-year programme to modernise M&S. It has been a period of profound and transformational change in the business. We must now build on the foundations that we have laid.

General Merchandise

In clothing, we will continue to drive the improvements in our ranges, with a focus on quality and style. Looking ahead, we will increase levels of newness and availability down the chain, while making sure that our ranges are appropriate to our customers' needs.

We believe that we can improve GM margins. Changes to our sourcing operations will see us significantly increase the amount of direct sourcing that we do, particularly in Asia. We will also increase the amount of fabric we obtain through our Open-to-Buy initiative.

Some of our ranges still need to be refreshed. We are working to address this. We must also do more to make our core 55-year-old customers feel at home when they shop with us, while still appealing to customers of all ages.

Food, International and M&S.com

We will continue to grow our Food business by opening 150 new UK M&S Simply Food stores over the next three years. We will keep investing in innovation, quality and newness to ensure that – as a specialist – we offer our customers exciting, great value products. Through supply chain efficiencies, we will work to improve our margins.

There remain significant growth opportunities overseas, where we see the potential for 250 new stores in the next three years. Expansion will continue in our priority markets and we will increase our franchise operations, as we believe that this is a low-capital but high-impact way of expanding. Where possible, we will also expand our Food offer overseas, particularly in Western Europe.

In M&S.com, we now have a flexible and modern web infrastructure that is fit for the future. We believe that M&S.com will be at least as profitable as our store channel. We now have the right skills and culture in place to drive continual innovation in our online activities.

Finance

Now that our period of significant investment is over, our capex will fall over the coming years. We will continue to manage the company prudently and will look to reduce costs where we can.

We are working to deliver a progressive improvement in margin over the coming years and we are committed to improving our free cash flow position.

We have exciting years ahead of us; our transformation is largely complete, we are fit for the future and focused on delivery.

Stores

The roll-out of our new store formats continued apace this year. Our top 70 stores already have refreshed Womenswear departments, and we are introducing revamped Footwear, Menswear and Beauty departments. A key feature of the new stores is their use of technology, from large touchscreens to our very popular Shop Your Way service.

International

Our International strategy continues to deliver strong results, with our priority markets delivering double-digit growth. This year we opened 55 new stores overseas, including flagship stores in India, the Middle East, France and the Netherlands. We see continued future opportunities for new stores, online and new formats in our international markets.

In line with our 'bricks and clicks' strategy, and to complement our existing flagship stores and local website, we announced a partnership with Relay France to open franchise Food stores in key travel locations in Paris, a model that we will replicate in other markets.

Brand

Through our marketing activity, this year we aimed to re-establish M&S's quality and heritage credentials. Our bold, 'Leading Ladies', campaigns showcased our Womenswear lines and featured a diverse cast of British women of achievement. The ads achieved high levels of brand recognition. Our Christmas campaign, which revived our famous, 'Magic & Sparkle' strapline, combined clothing and food for the first time and achieved exceptionally high recognition levels.

Plan A

The principles of Plan A underpin everything that we do. Through initiatives such as Shwopping, our clothes recycling scheme, and the Big Beach Clean-up, customers and colleagues participated in a wide range of Plan A activities this year. Increasing numbers of our suppliers are also now involved in making our sustainability goals a reality. We have worked hard to make Plan A an integral part of our business and our brand.



Marc Bolland
Chief Executive

Our plan in action

Three years of transformation

This year we have made significant progress in transforming M&S from a traditional British retailer into an international, multi-channel retailer. The changes that we have made to our ranges, our stores and our website – as well as to our infrastructure behind the scenes – mean that we are well-placed for the future.

Focus on the UK

Turn to page 18

Vibrant stores

We are currently rolling out phase two of our store refurbishment programme, giving customers clearer, better-merchandised and more exciting stores.



Trusted for special occasions

We had a record Christmas in Food, with sales up 6.1%, including our biggest ever day at £63m. We sold 1.3 million Christmas puddings and one in four families enjoyed an M&S turkey on Christmas Day.



M&S.com

Turn to page 26

Find our full range online
Shop your way – mobile, online & via our apps

Convenience and flexibility

Online sales rose by 23% this year as customers increasingly chose the convenience and flexibility of shopping with us via their computer, tablet or mobile phone. Our multi-channel strategy allows customers to shop with us anytime, anyplace, anywhere.

23%



Our new flagship

We call M&S.com our new flagship. Radically different and significantly better, it's the best representation of what M&S stands for today. The site contains a range of new features and functions.

International

Turn to page 28

Extending our reach

This year we opened our largest international store in Kuwait, our first store in Lebanon and our biggest store in India.



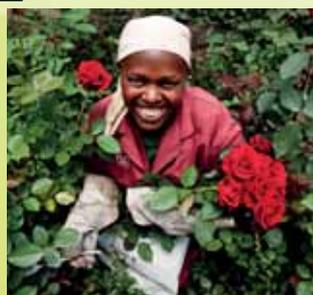
The Hague

In February we opened a 51,700 sq ft flagship in The Hague. The store, which sells extensive food and clothing ranges, forms part of our 'bricks and clicks' strategy in the Netherlands. It sits alongside our Dutch site, marksandspencer.nl, our Kalverstraat multi-channel store in Amsterdam and a series of food stores.



Plan A

marksandspencer.com/plana2014



A global plan

Plan A is not just about the UK. We are now carbon neutral in all our own-operated and joint venture locations worldwide.



Youth employment

We know that the high level of youth unemployment is one of the biggest issues facing the country. Through our Make Your Mark scheme, we are giving young people the confidence and skill sets they need to make the all-important first steps on the career ladder.

M&S on the catwalk

We participated in London Fashion Week for the first time this year, with a preview of our 2014 Best of British Autumn/Winter Womenswear collection. The 54-piece collection was well received by the fashion press.



Quality and style

Customers are responding to the improved quality and style of our clothing ranges and we returned our Womenswear sales to growth for the first time in three years.



EDITOR'S PICK+

Style & Living

Style & Living is the independent editorial section of our new website, offering customers everything from Editor's Picks of all the latest trends to style guides and in-depth articles.



Castle Donington

Having a sleek multi-channel business is as much about what goes on behind the scenes as what happens on-screen. At the start of the year we opened one of the UK's largest fully mechanised e-commerce distribution centres in Castle Donington.



Fresh food overseas

We now have 10 Food stores overseas, with plans to open more in key travel locations in major cities, meaning that more customers can enjoy fresh M&S food every day.

10



Multi-channel

Customers in 9 international territories can buy M&S products from in-language, local currency websites. It is part of our plan to roll-out our multi-channel strategy to more countries.



Plan A products

Over half of all the products we sell now have at least one Plan A attribute to them, either relating to the materials they are made of or to the processes by which they were manufactured.



Fundraising

Our employees and customers have raised £4.2m this year through various fundraising initiatives and charity events, including a 24-hour bike relay and participation in the World's Biggest Coffee Morning.



Performance against the plan

Key Performance Indicators

Our KPIs have been updated in line with our future plans for the business. This includes our growth ambitions in online and international, a greater focus on margin improvements and recognition of sales through our franchise partners reported as global retail sales.

Financial Highlights																													
Group Revenue £10.3bn ↑ 2.7% Definition: Total Group sales including retail sales for owned business and wholesale sales to franchise partners. This year Group revenues were driven by good performance across our Food, M&S.com and International businesses.	Underlying Group profit before tax £622.9m ↓ 3.9% <table border="1"> <thead> <tr> <th>10/11</th> <th>11/12</th> <th>12/13</th> </tr> </thead> <tbody> <tr> <td>£714.3m²</td> <td>£705.9m²</td> <td>£648.1m²</td> </tr> </tbody> </table> Definition: Underlying profit provides additional useful information on the underlying performance of the business adjusting for either income or charges which are both one-off and significant. As we responded to a highly promotional marketplace, UK gross margin was down 20bps. Whilst we worked hard to mitigate impact on profitability, this factor, coupled with a 3.5% increase in UK operating costs, impacted underlying Group PBT.	10/11	11/12	12/13	£714.3m ²	£705.9m ²	£648.1m ²	ROCE 14.8% LY 15.8% <table border="1"> <thead> <tr> <th>10/11</th> <th>11/12</th> <th>12/13</th> </tr> </thead> <tbody> <tr> <td>16.7%²</td> <td>16.4%²</td> <td>15.8%¹</td> </tr> </tbody> </table> Definition: Return on capital employed is a relative profit measurement that demonstrates the return the business is generating from its net operating assets. The reduction in ROCE from last year reflects a reduction in underlying earnings and an increase in average net operating assets.	10/11	11/12	12/13	16.7% ²	16.4% ²	15.8% ¹	Underlying earnings per share 32.2p ↑ 0.9% <table border="1"> <thead> <tr> <th>10/11</th> <th>11/12</th> <th>12/13</th> </tr> </thead> <tbody> <tr> <td>34.8p²</td> <td>34.9p²</td> <td>31.9p¹</td> </tr> </tbody> </table> Definition: Earnings per share (EPS) is the underlying profit divided by the average number of ordinary shares in issue. Underlying earnings per share increased by 0.9% to 32.2p per share. The weighted average number of shares in issue during the period was 1,615.0m (last year 1,599.7m).	10/11	11/12	12/13	34.8p ²	34.9p ²	31.9p ¹								
10/11	11/12	12/13																											
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<table border="1"> <thead> <tr> <th>Year</th> <th>UK (£bn)</th> <th>International (£bn)</th> <th>Total (£bn)</th> </tr> </thead> <tbody> <tr> <td>10/11</td> <td>8.7</td> <td>1.0</td> <td>9.7</td> </tr> <tr> <td>11/12</td> <td>8.8</td> <td>1.1</td> <td>9.9</td> </tr> <tr> <td>12/13</td> <td>8.9</td> <td>1.1</td> <td>10.0</td> </tr> <tr> <td>13/14</td> <td>9.1</td> <td>1.2</td> <td>10.3</td> </tr> </tbody> </table>	Year	UK (£bn)	International (£bn)	Total (£bn)	10/11	8.7	1.0	9.7	11/12	8.8	1.1	9.9	12/13	8.9	1.1	10.0	13/14	9.1	1.2	10.3	Free cash flow (pre dividend) £427.9m ↑ 109.7% Definition: Free cash flow is the net cash generated by the business in the period before dividend payment. Improvement in free cash flow was driven by a year-on-year reduction in capital expenditure and better working capital management.	Dividend per share 17.0p → Level <table border="1"> <thead> <tr> <th>10/11</th> <th>11/12</th> <th>12/13</th> </tr> </thead> <tbody> <tr> <td>17.0</td> <td>17.0</td> <td>17.0</td> </tr> </tbody> </table> Definition: Dividend per share declared in respect of the year. The Board is recommending a final dividend of 10.8p per share, resulting in a total dividend of 17.0p, in line with last year. The Board remains committed to a progressive policy with dividends broadly twice covered by earnings.	10/11	11/12	12/13	17.0	17.0	17.0	Looking ahead We have previously announced our plan to improve free cash flow from 2014/15, as we continue to reduce capital expenditure, deliver a progressive improvement to gross margin and improve business performance. We have worked hard to prepare our business for the future. Now we are focused on delivering the results from this investment and driving returns for our shareholders.
Year	UK (£bn)	International (£bn)	Total (£bn)																										
10/11	8.7	1.0	9.7																										
11/12	8.8	1.1	9.9																										
12/13	8.9	1.1	10.0																										
13/14	9.1	1.2	10.3																										
10/11	11/12	12/13																											
17.0	17.0	17.0																											

General Merchandise			
Global retail sales £6.1bn ↑ 1.7% Definition: Global retail sales to the customer from both owned and franchise businesses. Whilst our General Merchandise (GM) performance is not yet satisfactory, our clothing business is beginning to show clear signs of improvement, with new ranges consistently well received by customers.	UK gross margin 50.7% ↓ 110 bps Definition: Gross margin reflects the percentage of sales revenue retained after incurring the direct costs associated with producing and transporting goods to a saleable location. Due to the highly competitive market, GM gross margin was down 110bps at 50.7% as a result of increased markdown and promotional cost.	UK LFL sales growth -1.4% Definition: Sales growth from those stores which have been open for 12 months. We faced difficult trading conditions, with a highly promotional clothing market and unseasonal weather. However, improvements were demonstrated by positive sales growth in our clothing division in the last quarter.	Looking ahead We will continue to improve our GM business with a focus on style and quality. As a result of operational improvements, we expect to improve our GM gross margin in FY2014/15 by c.100bps through a combination of tactical changes, new systems and a new approach to sourcing, as well as early benefits from structural improvements.

Food			
Global retail sales £5.8bn ↑ 4.5% Definition: Global retail sales to the customer from both owned and franchise businesses. Our strategy is to be more specialist and focus on quality and innovation. Through improvements in availability and choice, we made M&S food more relevant to our customers, more often.	UK gross margin 32.5% ↑ 80 bps Definition: Gross margin reflects the percentage of sales revenue retained after incurring the direct costs associated with producing and transporting goods to a saleable location. Food gross margin was up 80bps at 32.5%. This was driven by supply chain efficiencies and effective management of promotional activity – more than offsetting commodity price inflation.	UK LFL sales growth 1.7% Definition: Sales growth from those stores which have been open for 12 months. The Food division has seen 18 quarters of positive like-for-like sales growth and our customer satisfaction ratings are at an all-time high.	UK space growth 2.3% Definition: Year-on-year increase in weighted average UK selling space. We continue to grow Food space, particularly our successful M&S Simply Food format. Looking ahead We will continue to exploit the opportunity in our Food business – maintaining our specialist strategy and growing our Food space. The planned opening of new Food space will add c.2.5% in 2014/15. Food gross margin is expected to grow by 10bps to 30bps due to further operational efficiency.

1. Restatement relates to the adoption of the revised IAS 19 'Employee Benefits' (see note 1).

2. For the years ended pre-2011-12, no restatement for the revised IAS 19 'Employee Benefits' have been made.

M&S.com

M&S.com sales

£800.1m

↑ 22.8%

Definition: Total multi-channel sales including web to home and Shop Your Way transactions.

Our new flagship M&S.com website offers customers an improved browsing and buying experience. M&S.com has delivered a strong performance in 13/14 and outperformed the market with sales up 22.8%.

Weekly site visits

5.5m

↑ 7.8%

Definition: Weekly visits to our UK desktop, tablet, mobile and app sites.

As customer shopping habits continue to evolve, and as part of the new M&S.com, we launched a dedicated tablet platform and updated versions of all our mobile sites and apps. Visits from tablet devices grew by around 90% this year.

Looking ahead

As our new website settles we are encouraging more customers to shop with M&S online. Our infrastructure investment will help us further improve our delivery proposition and create a more efficient and more profitable online channel.

Year	Sales
10/11	473.6
11/12	559.0
12/13	651.8
13/14	800.1

International

Revenue

£1.2bn

↑ 6.2%

Definition: Sales from the International business including retail sales for owned business and wholesale sales to franchise partners.

Our priority markets delivered a good performance with strong growth in India and our flagship stores in China, driven by an increase in like-for-like sales and the opening of new space. While trading in the Republic of Ireland continued to be difficult, performance in our European business improved.

Our franchise business across the Middle East and Asia continued to perform well.

Underlying operating profit

£122.7m

↑ 2.1%

Definition: Year-on-year increase in operating profit generated by the International business.

We increased International operating profit by 2.1%, which also takes into account pre-opening costs from our owned stores.

Space growth

9.3%

Definition: Year-on-year increase in International selling space. International space is expected to grow by c.10% in 2014/15.

Looking ahead
We will expand our presence through opening new space, growing our food business and increasing our franchise operations. Over the next three years we will grow International revenues by 25% and grow International operating profit by 40%.

Year	Revenue
10/11	1.0
11/12	1.1
12/13	1.1
13/14	1.2

Year	Operating profit
10/11	147.0
11/12	133.4
12/13	120.2
13/14	122.7

Plan A

Percentage of M&S products with a Plan A quality

57%

Definition: Plan A qualities are best practice environmental or social standards and are measured by the volumes of products sold worldwide. These include factory best practices and the use of sustainable raw materials such as sustainable wood, fish and cotton, as well as Fairtrade and recycled materials.

We have again extended the number of products featuring a Plan A quality – helping to make our products, suppliers and raw materials more efficient and resilient.

Gross greenhouse gas emissions

566,000 tonnes CO₂e

(No last year equivalent)

Definition: Total gross CO₂e emissions resulting from M&S operated activities worldwide calculated in compliance with the WRI/ WBCSD GHG Protocol Corporate Accounting and Reporting Standard (Revised) using revised carbon conversion factors published by DECC/ DEFRA in June 2013.

This is the equivalent of 30 tonnes per 1,000 sq ft of salesfloor. Our net emissions are offset to zero.

Looking ahead

Our aim is for all M&S products to have at least one Plan A quality by 2020.

We have targets to improve energy efficiency by 50% and reduce refrigeration gas emissions by 80% by 2020. We also plan to continue to offset our gross greenhouse gas emissions to zero (carbon neutral).

M&S products

2012/13 45%
2020 target 100%

Percentage of M&S products with a Plan A quality

2012/13 45%
2020 target 100%

Looking ahead

Our aim is for all M&S products to have at least one Plan A quality by 2020.

People behind the plan

Driving transformation

Management committee			
			
			
			
			

- 1. Marc Bolland**
Chief Executive
- 2. Patrick Bousquet-Chavanne**
Executive Director, Marketing & Business Development
- 3. John Dixon**
Executive Director, General Merchandise
- 4. Steve Rowe**
Executive Director, Food
- 5. Alan Stewart**
Chief Finance Officer
- 6. Laura Wade-Gery**
Executive Director, Multi-channel E-commerce
- 7. Andy Adcock**
Trading Director, Food
- 8. Sacha Berendji**
Retail Director
- 9. Clem Constantine**
Director of Property
- 10. Tanith Dodge**
Director of Human Resources
- 11. Steve Finlan**
Director of International Operations
- 12. Dominic Fry**
Director of Communications and Investor Relations
- 13. Jan Heere**
Director of International
- 14. Dirk Lembregts**
Director of Supply Chain
- 15. Amanda Mellor**
Group Secretary and Head of Corporate Governance
- 16. Darrell Stein**
Director of IT

“The progress that M&S has made this year would not have been possible without the dedication of all our employees. I would like to thank every employee for their enthusiasm, hard work and passion over the last year.”

Having the right team in place is crucial to delivering our plan, and this year we continued to benefit from the wealth of experience on our Management Committee.

Our leadership team is composed of people with extensive and broad careers at M&S, as well as those brought in from outside with specialist expertise. The team has wide-reaching global experience, which is an essential asset as we become a more internationally-focused retailer. Together they have helped to build a significantly stronger M&S.

In March this year, we announced that Clem Constantine, Director of Property, and Darrell Stein, Director of IT, will be leaving the business in the summer. Both of their roles have significantly changed recently as we will be opening less GM space which changes our property focus, and our new e-commerce platform has now been delivered. Clem has brought his considerable expertise to growing our store network and Darrell has played an integral role in delivering M&S.com. I wish them both all the very best for the future.

The Management Committee is ably supported by a strong team from across the business. The progress that M&S has

made this year would not have been possible without the dedication of all our employees. Our customers constantly tell us that they recognise the high levels of commitment among our people. I would like to thank every employee for their enthusiasm, hard work and passion over the last year.



Marc Bolland
Chief Executive

Risk management

We believe that effective risk management is critical to the achievement of our strategic objectives and the long-term sustainable growth of our business.

What is our approach to risk management?

The Board has overall accountability for ensuring that risk is effectively managed across the Group and, on behalf of the Board, the Audit Committee reviews the effectiveness of the Group Risk Process. Each business area is responsible for identifying, assessing and managing the risks in their respective area.

Risks are identified and assessed by all business areas half-yearly and are measured against a defined set of criteria, considering likelihood of occurrence and potential impact to the Group. The Group Risk function facilitates a risk identification and assessment exercise with the Executive Board members. This information is combined with a consolidated view of the business area risks. The top risks (based on likelihood and impact) form our Group Risk Profile, which is reported to the Executive Board for review and challenge, ahead of it being submitted to Group Board for final review and approval.

To ensure our risk process drives continuous improvement across the business, the Executive Board monitors the ongoing status and progress of key action plans against each risk quarterly. Risk remains a key consideration in all strategic decision-making by the Board, incorporating debate on risk appetite.

Key areas of focus

We continue to drive improvements to our risk management process and the quality of risk information generated, whilst at the same time maintaining a simple and practical approach.

During the year we have focused on a number of key areas:

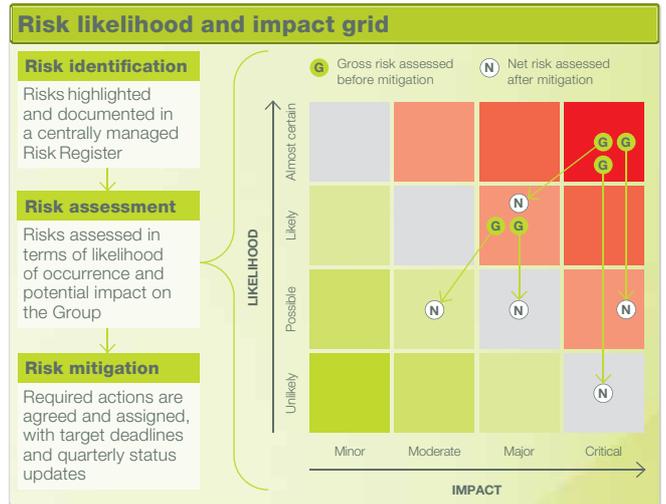
1. Evolving risks

Our Group Risk Profile has evolved over the course of the last year, responding to the dynamic environment within which we operate and our strategy to become a truly international, multi-channel retailer. Three new risks have been introduced (M&S.com business resilience, GM margin and Information security).

2. Risk appetite

Risk appetite is an expression of the types and amount of risk we are willing to take or accept to achieve our objectives and aims to support consistent, risk informed decision-making across the Group. Our vision for risk management is that all significant risks to the achievement of our strategic objectives are identified, assessed and managed to within acceptable levels.

Risk appetite continues to be a key consideration in strategic decision-making by the Board and we recognise the importance of including the concept in risk discussions across all levels of the organisation. It is especially relevant in determining the nature and extent of mitigating actions and their role in addressing risk likelihood or impact.



Our principal risks and uncertainties

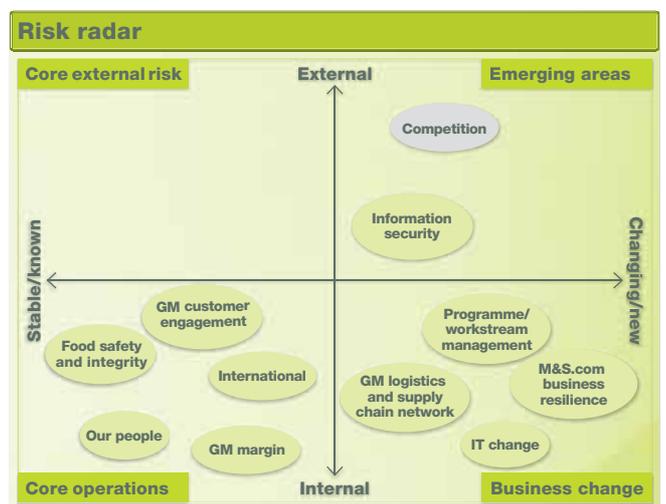
As with any business, we face risks and uncertainties on a daily basis. It is the effective management of these that places us in a better position to be able to achieve our strategic objectives and to embrace opportunities as they arise.

Overleaf are details of our principal risks and the mitigating activities in place to address them. It is recognised that the Group is exposed to a number of risks, wider than those listed. However, a conscious effort has been made to disclose those of most concern to the business at this moment in time and those that have been the subject of debate at recent Board or Audit Committee meetings.

To achieve a holistic view of the risks facing our business, both now and in the future, we consider those that are:

- External to our business;
- Core to our day-to-day operation;
- Related to business change activity; and
- Those that could emerge in the future.

The 'risk radar' below maps our principal risks against these categories. This tool is also used to facilitate wider Executive and Board-level discussions on risk.



Risk management continued

Description	Mitigating activities
Brand and reputation: Our founding principles of Quality, Value, Service, Innovation and Trust continue to influence how we do business and our reputation for being one of the UK's most trusted brands	
<p>GM customer engagement Continued loss of engagement with our customer As we seek to enhance the M&S brand, it is important that we understand and address our customers' needs in increasingly competitive UK and international markets and that we deliver a consistent M&S customer experience across all selling channels.</p>	<ul style="list-style-type: none"> – Prioritisation of core customer in both GM and Marketing objectives – Regular review of customer reaction to product and in-store and online experience through focus groups and in-house Customer Insight Unit presentations – Ongoing improvements to product style and quality and to store environment, addressing specific customer feedback – Targeted marketing and promotional activity using customer loyalty data – Increased focus on quality and style, including the introduction of a Clothing Quality Charter – Updated M&S.com website to enhance the online customer shopping experience
<p>Food safety and integrity A food safety or integrity related incident occurs or is not effectively managed As a leading retailer of fine quality fresh food, it is of paramount importance that we manage the safety and integrity of our products and supply chain, especially in light of the business' greater operational complexity and the heightened risk of fraudulent behaviour in the supply chain.</p>	<ul style="list-style-type: none"> – Dedicated team responsible for ensuring that all products are safe for consumption through rigorous controls and processes – Continuous focus on quality – Proactive horizon scanning including focus on fraud and adulteration – Established supplier and depot auditing programme
People and change: Our people are fundamental to the long-term success and growth of this business	
<p>Our people Our organisational culture and structure limit our ability to adapt to market changes with pace To support our transformation to an international, multi-channel retailer, it is essential that our organisational set-up allows us to respond to market changes and competition with pace.</p>	<ul style="list-style-type: none"> – External hires recruited into a number of senior roles bringing an alternative perspective and new skills – Robust employee engagement process for effective communication – Alignment of development programmes with business strategy – Faster decision-making enabled through the removal of structural complexity
<p>Programme and workstream management Benefits from our major business programmes and workstreams are not realised We continue to undertake a number of major programmes to underpin the achievement of our plan; the delivery of forecasted benefits is critical to this.</p>	<ul style="list-style-type: none"> – Strategic Programme Office centrally governs Group initiatives providing regular status and benefits realisation updates to the Executive Board – Proactive management of programme portfolio and associated benefits in the context of current market conditions and the Group's three-year plan – Programme governance structures in place for all major programmes, supported by robust project management discipline – Proactive identification and management of major cross-programme interdependencies
<p>GM logistics and supply chain network We fail to evolve our supply chain and logistics network to maximise availability to customers and speed-up delivery times Now that we have successfully launched the new national e-commerce distribution centre, we must continue to focus on the implementation of our single-tier network, including the full ramp-up of the Castle Donington distribution centre ahead of Christmas peak trading.</p>	<ul style="list-style-type: none"> – Robust programme governance in place with clear identification of interdependencies with other Group initiatives – Phased approach to distribution centre transformation – Ongoing monitoring of progress against milestone plans and operating objectives – Ongoing review of contingency requirement during Castle Donington facility ramp-up

Description	Mitigating activities
Selling channels: We have ambitious plans for our UK, International and Multi-channel businesses as part of our transformation to be an international, multi-channel retailer	
<p>M&S.com business resilience A major failure of our M&S.com platform or at our Castle Donington distribution centre impacts our ability to trade online</p> <p>As our online flagship grows and our network infrastructure and operating model evolves, it will become increasingly important to ensure that the M&S.com business is resilient and key dependencies are identified and mitigated.</p>	<ul style="list-style-type: none"> – Dual site M&S.com command centre operates 24/7 to monitor website availability and performance – Social media monitored 24/7 to observe and respond to trends in customer experience online – Business continuity plans, incident reporting and management procedures are well established and tested with regular monitoring, including quarterly Business Continuity Committee meetings
<p>International Our plan to grow our International business is limited by performance in legacy markets, the start-up profitability of new markets and substandard infrastructure</p> <p>As we continue to increase our international presence and build our position in priority markets, it is crucial that we maximise performance in both legacy and new markets, supported by robust systems and supply chain capability.</p>	<ul style="list-style-type: none"> – Senior International team strengthened – Local knowledge provided by franchise and joint venture partnerships – Frequent monitoring of performance, including individual country reviews and a particular focus on like-for-like performance and poor performing stores – Property Board approval of new store openings and monitoring of returns on investment – Representation of International in key Group initiatives
Day-to-day operation: We are a customer-centric business and strive to deliver an efficient and effective operation	
<p>GM margin Failure to improve GM margin</p> <p>It is important that we deliver increased GM margin through improved design and sourcing capability, whilst continuing to drive improvements to product quality.</p>	<ul style="list-style-type: none"> – Margin targets defined and regularly monitored – Robust planning process for all promotional activity – Sourcing capability strengthened through hiring two overseas Sourcing Directors – End-to-end review of General Merchandise design, trading and sourcing underway – Clothing Quality Charter embedded
<p>Information security We experience a major breach in cyber, system or information security</p> <p>The business is subject to external threats from hackers or viruses, or sensitive data is accessed without authorisation.</p>	<ul style="list-style-type: none"> – Extensive security controls in place in accordance with International Standards (ISO 27002) – Established processes, policies and technologies in place designed to enhance security – Tight control of sensitive data through limited and monitored access and the roll-out of systems possessing enhanced security – Established team dedicated to managing security requirements for the new M&S.com platform
<p>IT change Unforeseen impact of IT changes to new and existing systems disrupts business operations</p> <p>As we undertake a number of significant change programmes, the rate and scale of IT change remains high, with potential to significantly impact our complex and interdependent systems.</p>	<ul style="list-style-type: none"> – Established Change Approval Board process – Clear decision-making process for system changes, including the adoption of change freezes during critical trading periods – Proactive management of cross-programme dependencies including 'release management' to group system changes together – Robust Disaster Recovery plans in place for critical business applications
<p>The Group Risk Profile will evolve as mitigating activities succeed in reducing the net risk over time, or as new risks emerge. As such, we have removed three risks from our Group Risk Profile since the prior year:</p> <ul style="list-style-type: none"> – Economic outlook: the economic environment in which we operate will always present an inherent risk to our business. Our ability to respond to market changes is key and this is reflected within the risk related to 'Our people' – Multi-channel: we have successfully launched the multi-channel platform on time and on budget – GM stock management: this no longer features in our principal risks, recognising our increased controls in this area <p>There are three new risks (Information security, GM margin and M&S.com business resilience). Two have been updated; GM customer engagement (2013: GM product), and GM logistics and supply chain network (2013: Distribution centre restructure). The remaining five risks are broadly consistent with the prior year.</p>	

The risks listed do not comprise all those associated with Marks & Spencer and are not set out in any order of priority. Additional risks and uncertainties not presently known to management, or currently deemed to be less material, may also have an adverse effect on the business.

Further information on the financial risks we face and how they are managed is provided on pages 112 to 115.

Our brand

Driving reappraisal



Patrick Bousquet-Chavanne
Executive Director,
Marketing & Business Development

Overview

Intelligence and innovation. Quality and style. A rich history and an extraordinary global reach. These are some of the attributes that make M&S unique. Our aim this year was clear: to reassert M&S as a brand of style and substance in GM, and to showcase the quality, innovation and provenance of our Food. In order to stand out in both a competitive marketplace and our customers' minds, it is crucial that we are consistent in everything we do. We aim to deliver a holistic brand experience that spans our products, our sub-brands, our marketing and, critically, our in-store environments. We have a broad range of customers. But within that we have clear customer groups, and we worked hard this year to remain relevant to each one of these groups via compelling and relevant targeted marketing initiatives. There remains plenty to do. Even though we have over 34 million customers, there are many more people who we should appeal to. If the past year has been about restating our values to core customers, next year is about reactivating a love for M&S among lapsed customers and attracting new ones.

Leading campaigns

Our 'Leading Ladies' campaign by Annie Leibovitz is a powerful expression of what today's M&S stands for. Arranged in Leibovitz's signature life-style tableau, the images featured influential British women of achievement wearing M&S – from Oscar-winner Emma Thompson to Olympian Nicola Adams and Baroness Lawrence of Clarendon. Although diverse in background, they share one common attribute: an uncompromising drive to

achieve their goal. These dynamic women represent and celebrate the unique and diverse women of modern Britain.

The campaign, which launched in September and March on social media first, followed by print media with billboard backing, achieved remarkable recognition of 52% at its peak and led to an 89% sell-through of the top items. Web videos of the Leading Ladies reminded our customers that we cater for diverse personalities and tastes. The posters and magazine inserts were powerful symbols of M&S's heritage and quality. We don't believe that anyone else could have assembled such a strong line-up.

Our festive campaign

For our Christmas TV campaign we revived the popular 'Magic & Sparkle' franchise, a firm favourite with customers. And for the first time, we combined Food and GM in one campaign. With the nation's mindset still prudent, people went into Christmas with the desire to escape. So the campaign was a rich fantasy, with fashion at its core, based on our favourite fairy tales, starring Rosie Huntington-Whiteley and Helena Bonham Carter. The ad was one of our strongest, with recognition peaking at 83%. The campaign dovetailed with our festive food: many products had a sprinkling of Magic & Sparkle of their own, from our Glitter Juice with drinkable glitter to our Whisky Gold Scottish Smoked Salmon topped with gold flecks.

Many new roads

Marketing was simpler in the past. There was only one way to shop – in a store – and only a limited number of media through which to advertise. Now, many roads lead to M&S, 24/7, 365 days a year. We have to be present wherever our customers are: on the high street, on computers and tablets, on social media or watching TV. The nature of our

Our brand highlights



A My Plan A

This year, we engaged over 330,000 customers in a wide range of online Plan A activities including our Shwopping Facebook app and registering for our Big Beach Clean-up.



Emphatically M&S

Our brands have distinct identities to make them emphatically different, while remaining emphatically M&S. Carolyn Murphy and David Gandy are the faces of M&S Collection, and Rosie Huntington-Whiteley is now the face of Autograph.

"M&S is modern, stylish and has something for everyone."

M&S Customer Feedback

relationship with customers has changed: our marketing today is interactive, multifaceted and nuanced, and our new M&S.com flagship is pivotal.

Leading Ladies overseas

As well as running in the UK, our Leading Ladies campaigns featured in 10 of our international flagship stores, from Paris to Prague and Singapore to Shanghai.



M&S en Vogue

As part of a partnership with Condé Nast, the editors-in-chief of magazines, including Vogue and GQ, choose their favourite M&S products to feature in a Pick of the Month section in their magazines, with a crossover to M&S.com.



Socially yours

- We spent over 20% of our Christmas digital marketing budget on social media for the first time, helping us achieve record levels of customer awareness.
- Our Pass the Parcel Facebook game saw customers pass 1.7 million virtual parcels via their mobile phone.
- Over four million people received news of our Valentine's Day offers on lingerie, food and flowers through social media.



Make Today Delicious

Our Make Today Delicious food campaign highlighted M&S as the destination for everyday events, such as picnics, barbecues and Sunday roasts.



Our plan for the future

- Our marketing activity will seek to excite our regular shoppers, entice lapsed shoppers and recruit future shoppers across all product categories.
- We will ensure that M&S communicates in a relevant and inspirational way with our core customers.
- Our store environments will continue to improve to reflect our brand reappraisal and improved shopping experience.
- We will build on the M&S.com publishing platform to deliver an authoritative brand point of view.

Harnessing our brand power

M&S's reach into customers' households is exceptional: we sell everything from fashion and furniture to food, flowers and energy. Consistency in brand execution across all products and media is paramount. We are working hard to close the gap in brand perception between GM and Food and harness the same brand power across our whole business. The same goes for our stores. We are working to bridge the disparity between our flagships and our smaller regional stores that too often lag in reflecting the brand. Addressing that

disparity will drive sales and enhance shareholder value.

A Trust in our brand

Plan A underpins the trust our customers have in M&S. So we want to make it as easy as possible for them to get involved. Our aim is to engage one million M&S customers in Plan A activities by 2015 and three million by 2020. Through projects like our Shwopping clothes recycling initiative, we will run a continuous programme of Plan A marketing activity encouraging customers to take action.

R Staying relevant

It is crucial that M&S remains a modern and contemporary brand, both in the UK and overseas. We must attract the customers of the future to ensure our long-term growth. In order to achieve this, we constantly talk to our customers and study trends across the world to help us give them what they want. As a business, we are continually adapting how we do things to fit in with changing desires, media consumption and lifestyles. This way, we ensure that we stay relevant.

General Merchandise

Quality and style



John Dixon
Executive Director,
General Merchandise

Overview

The strategy we outlined in May 2013 was to refocus our GM business on the values that make us famous: quality and style. After a year of exciting changes, our customers are noticing the difference in the fabrics, fit and finishes of our clothing. Our strategy is bearing fruit. In the fourth quarter our clothing division saw positive like-for-like sales growth for the first time in three years. We have listened hard to what our customers want and have increased the amount of new products on sale. Around 45% of our Womenswear range was new this year, helping us return our Womenswear business to growth. We have faced a challenging consumer economy and a highly promotional high street, and we are looking for an improvement in performance. But we have a clear strategy, and this year we have taken great strides in implementing it.

Quality, style, design

Details matter. Our well-received Womenswear relaunch last September was about ensuring that every feature of our garments demonstrated improved quality. We introduced more noble fabrics, upgraded our seams to give a neater finish and introduced more innovation.

Quality, desirability and confident style are at the heart of all we do. As the country's biggest clothing retailer, our shoppers expect nothing less. These attributes have been reflected in our new store format and our successful 'Leading Ladies' marketing campaign.

We have listened to customers. In response to their feedback, we have improved availability of smaller sizes and

83% of our dresses have sleeves. We have also introduced Dress and Coat shops into every store, from flagships to market town stores. This contributed to dress sales rising 78% and coat sales rising 29% during the year.

Clearer brands

Customers found our sub-brands difficult to shop. So we refined them to give them more distinct personalities. We launched M&S Collection, which replaced M&S Woman and became an umbrella brand for our Classic and Limited ranges. In streamlining the brands, we reduced product overlap by 10%. Our sub-brands are now more relevant to our customers, who are far clearer about what they stand for.

Our Limited range of trend-led fashions and our casual Indigo range both had fantastic years, with sales up 64% and 21% respectively.

We extended our commitment to British clothing and manufacturing with the launch of our Best of British collection. Every item is designed and made in the UK, celebrating the best in domestic design and craftsmanship.

In Menswear, we also introduced a tailoring service in our Marble Arch store, which will be rolled out to other stores. Men's suits now take in price points from £50 to £799, demonstrating our breadth and choice.

A strong team

We have significantly bolstered the senior GM team that work alongside me and Belinda Earl, our Style Director, and made key appointments to our product, buying and design teams to ensure that we have the right talent in place to take us forward. We have also made additions to our supply chain team overseas, including appointing two new Sourcing Directors.

General Merchandise highlights

GM revenue

£4.1bn

→ Level

Womenswear market share

9.7%

↓ 0.4% pts

Lingerie market share

27.1%

↑ 0.3% pts

Menswear market share

11.6%

→ Level

Kidswear market share

6.4%

→ Level

Lingerie

As the market-leader, our share of the Lingerie market is three times that of our nearest competitor. Our collaboration with Rosie Huntington-Whiteley remains the best-selling Autograph line in the sub-brand's 14-year history.



"M&S is great quality at a good price and the recent ranges are so much more stylish."

M&S Customer Feedback

Based in Hong Kong, they oversee our GM sourcing in the region and will increase our direct sourcing operations as we look to speed up our supply chain and improve margins.

M&S Studio @ Fashion Street

We opened a new creative space in the heart of London's Shoreditch at the British School of Fashion, giving our design teams a vibrant new location where they can draw inspiration for new capsule collections, like our Best of British range, and develop innovative ideas.



A Listening to our suppliers

We now survey 22,500 workers in our clothing supply chain in India, Sri Lanka and Bangladesh four times a year via their mobile phone keypads, and ask local-language questions on issues including working conditions and job satisfaction.



This year's innovations

- The No Peep design on our women's shirts has a hidden placket and concealed extra button to prevent gaping.
- Hi Heel Hosiery features a secret pad to relieve foot pain from wearing heels all day.
- Our Gym Slim range gently flattens and flatters to help increase confidence in the gym.
- Our Easy Close Ultimate Non-Iron school shirts feature riptape fastenings to help younger children get ready for school.



Our plan for the future

- We will continue to build on our design and quality credentials, with the ongoing improvement of our sub-brands.
- We will improve ranging to ensure we are offering our customers the best choice at all of our stores, as well as online.
- We will improve efficiency and availability through changes to our supply chain and systems.
- We will work to improve margins by building our design, trading and sourcing capabilities.



The interactive Home

Our new Home store concept transforms the way we display products and features a host of interactive services on giant tablets. The 70 stores with the new Home concept are seeing sales 10% ahead of the rest of the estate.



Availability

As part of an ongoing overhaul of our systems, we have changed how we send clothing to stores. We now centrally manage and replenish stock, which has led to GM availability improving by 2.3%. We will now begin implementing new GM systems that will support our growth plans for the next decade.

A Trust, traceability and ethics

Our customers trust us to source our clothing ethically and we want to have the best supply chain traceability of any retailer in the world - we're delighted to have recently been named the UK's most

ethical High Street Clothing retailer. We are working with the Better Cotton Initiative and WWF towards 50% sustainable cotton and have committed to having traceability on all principal raw materials by 2020.

We regularly revisit our policies to make sure they adhere to our Plan A goal to always do the right thing. Following customers' concerns about the production of angora wool, we conducted additional visits to the farms our suppliers buy from. We found no evidence that our strict animal welfare policy had not been adhered to.

However, we investigated the possibility of moving to a free range model and found this was not feasible, so we stopped selling products containing angora wool and have completely removed it from our supply chain.

R Listening to customers

We recognise the importance of listening to our customers to ensure that we continue to provide the products they want. Every month, we survey 55,000 shoppers to help understand how our customers think and encourage our shoppers to share their suggestions with us.

Food

Trust and innovation



Steve Rowe
Executive Director,
Food

Overview

Our mission in Food is simple: to delight and excite our customers with high quality, good value products. We have had a very strong year, with sales up 4.2%. The Food division has seen 18 quarters of positive like-for-like sales growth and our customer satisfaction ratings are at an all-time high. During the Christmas period, our market share peaked at 4.7%. Although inflation is falling and there are signs of economic recovery, consumers' budgets remain under pressure. Equally, customers have told us they still want a touch of adventure in the food they eat, and they want to treat themselves on special occasions. We have made M&S food more relevant to our customers, more often. Our promotions are well targeted and our shelves are stocked with new and exciting foods that customers love.

An extensive range

With a catalogue of over 6,400 products, we offer everything from everyday essentials to special occasion food. This year, more people turned to us to help deliver Christmas and we saw record sales. We had more festive show-stoppers than ever before, and the 800 new Christmas products included our Sugar Plum Christmas Pudding, with its hidden centre of Armagnac-soaked plums. With a 38% market share, we are the established market leader in party food and sold 5.5 million packs during the festive season. At the same time, our Simply M&S range of everyday essentials continues to grow – accounting for 11% of total sales.

Choice and convenience

We are a food specialist, not a supermarket. Our products are made exclusively for M&S and this unique position means they are not comparable with the rest of the market. Rather than joining the race to the bottom on price, we can focus on developing top-quality ranges that are competitively priced, whilst ensuring our farmers get a fair deal too. Stand-out promotions, like our 3 for £10 on meat and fish and 3 for £6 on deli items, offer customers M&S quality at outstanding value.

The market dynamics are working in our favour. People are shopping more locally and more regularly – 41% of our Food customers shop 'for tonight'. We have introduced more products to more stores, and around 110 stores now stock our full range – M&S customers don't have to sacrifice choice for convenience. The result is that we are seeing more customers shop with us more often. We are growing significantly faster than the overall food market and we plan to open 150 new M&S Simply Food stores over the next three years.

Innovation

Our innovation is unrivalled – 20% of our products were new this year. Our team of 35 product developers scour the world for exciting new products. This year, we have introduced customers to the Achacha, a Bolivian tropical fruit, and the Tiddly Pomme, the world's smallest apple. We also became the first major UK retailer to sell wine from Macedonia and Georgia. We expanded our healthy food offer with Delicious & Nutritious, a range of salads and flatbreads inspired by Middle Eastern and Asian flavours. And in a nod to the American trend, our Grill range included Posh Dogs barbecue hotdogs, which were a summer hit, selling 926,000 units.

Food highlights

Food revenue

£5.1bn

↑ 4.2%

Market share

3.9%

↑ 0.1% pts

Number of new lines

1,643



From rice wine to pickle brine

Our experts have hand-picked over 100 international food brands for us to sell exclusively at M&S, from fragrant Japanese rice wine to American pickles in brine that doubles as a marinade.

"I trust M&S food completely and they are always coming up with exciting new things."

M&S Customer Feedback

Shoppers love to Dine In

Our Dine In deals, offering restaurant-quality food at home, remain popular, with 800,000 couples enjoying our £20 Valentine's Day menu.

800,000



Popular products

As the nation celebrated the birth of the future king, our Prince George commemorative biscuit tin was in our stores within 24 hours of his name being announced. We sold

223,000



New ranges

Our customers told us they wanted to try a wider variety of meats, so we launched a new range of game, which included rabbit, wood pigeon and pheasant, and we were the first retailer to sell whole wild red grouse.

A



Supporting British farmers

- Milk Pledge Plus guarantees a fair price to our farmers, and rewards them for their animal welfare standards.
- We donated £150,000 to support farmers in the flood affected areas, and commissioned a review of the impact on British farming, led by Sir John Beddington.
- Farming for the Future, run with our suppliers, helps young people get into farming.

GO

Our plan for the future

- We will accelerate the opening of standalone food stores, both in the UK and overseas.
- We will continue to develop new and exciting products, including frozen recipe dishes for the first time.
- Our store environments will continue to improve, with more theatre and the roll-out of our Tasting Kitchens.
- We will extend our dominance in healthy eating categories.

Suppliers

We have embarked on a number of projects to restructure our supply base, aimed at improving our efficiency and our margins without compromising product quality. One of the projects ensures we utilise our factories better, while another is a review of our processes. We are making progress on efficiency; over the year availability rose by seven percentage points.

A Doing the right thing

Ninety of our suppliers have already signed up to create more vocational

training and work experience placement opportunities for young unemployed people. In turn we are asking them to extend the call to action to their own suppliers, therefore creating a multiplier model through the supply chain. We continue to develop innovative packaging aimed at reducing our footprint, and we were the first retailer to offer 100% 'water free' packaging for all flower bouquets bought online. Not only will this save over 500,000 litres of water a year, but each bouquet takes up 25% less space, so we can deliver more flowers using fewer lorries.

R Trust and provenance

Trust is key to us, and we know the importance of provenance to our customers. We were the only major retailer to be untouched by the traceability issues surrounding the horsemeat issue and pride ourselves on being able to trace our meat back to the field in which the animals were reared - our meat is tested to check breed and lineage, not just species. Each year our product audit team tests 20,000 products, checking the provenance of everything from olive oil to Manuka honey.

UK stores

Inspiring our customers

Overview

Our priority over the last year has been to ensure that we offer the very best shopping experience to the 20 million people who shop with us each week. We know that our stores must inspire and impress everyone who enters them. But we also know that we don't have long – the average customer shopping in our Womenswear department spends 24 minutes in store. That's why we have improved the look and feel of our stores, sharpened up our merchandising and improved our levels of customer service.

Store portfolio

As the high street evolves and technology continues to change shopping habits, we have focused on maximising the convenience and effectiveness of our space.

Our roll-out of M&S Simply Food stores enables us to grow market share while gaining a presence in towns where we are under-represented. We opened 11, taking our total number of wholly-owned M&S Simply Foods to 185.

We also opened a number of larger full line stores on retail parks, including Durham, Bexhill and Fareham in Hampshire. Store openings and extensions added 260,600 sq ft of space.

Technology means that we can extend the product catalogue of all our stores, whatever their size. Our popular Shop Your Way service enables customers to use all of our owned stores as order and collection points for our entire product range. Some 321 stores are equipped with 1,500 iPads™ and 40,000 store employees have the skills to sell from our new website to maximise selling opportunities.

New concept stores

We have focused on retailing basics to help create uncluttered stores in a two-phase modernisation programme.

Phase one is now complete, and we are currently implementing the second phase. Our top 70 stores now have refreshed Womenswear departments, and we are introducing revamped Footwear, Menswear and Beauty departments.

By introducing high-impact entrance zones highlighting the latest trends and most popular lines on catwalk-style displays, we are inspiring our customers from the moment they enter. We are showcasing our food better in store, bringing theatre to our Food Halls with cooking demonstrations and Event Zones.

We have improved the presentation of the clothes on display and given them more space. Our sub-brands are complementing, rather than competing with, each other, helping our customers find what is right for them. Within M&S Collection, we have created a distinct edit of each of our hero departments. Our new look Coat, Dress and Skirt shops have proved very popular, as has the Cashmere shop, which we introduced to 225 stores this year and is now in a total of 335. We know that seven out of 10 women shop alone and our customers have told us they are looking for helpful advice and guidance about purchases. We have ensured our displays are coordinated and well-accessorised with bags and shoes, and there are more mannequins and outfit suggestions on display throughout the store.

Service

Our customers tell us that they want to be served by engaged and knowledgeable employees when they shop at M&S, which is why we have increased training.

UK stores highlights

Total UK portfolio

798

Premier

12

Major

59

High Street

232

Outlet

48

M&S Simply Food (owned)

185

M&S Simply Food (franchised)

262

UK average weekly footfall

19.5m

↓ 2.9%



“I like the space and displays – it's so easy to find the outfits within each of the brands.”

M&S Customer Feedback

Over 60,000 assistants have completed our Notice Me programme, aimed at giving customers the personal touch. Around 10,000 Womenswear employees

An M&S welcome

The new Welcome Zones in our stores aim to inspire customers from the second they walk in. The areas showcase the latest trends and our most popular lines.



PACK

We have developed four key priorities for our stores that underpin the changes we are making: Presentation, Availability, Cross-selling and Service, and Knowledge. 'PACK' is also central to our employee training programme.



Customer satisfaction

In its first year, around 680,000 shoppers filled out our weekly in-depth satisfaction survey. They tell us they are noticing and liking the differences in our stores.

680,000



How our stores use technology

- Our Shop Your Way service gives our customers flexibility, whether they are ordering products at home for collection in-store or using our Browse and Order in-store screens for home delivery.
- Technology has enhanced our In Touch initiative, ensuring our store employees are better connected and informed.
- Through our Knowledge to Share app, customer-facing employees can improve their know-how of M&S products.



Our plan for the future

- We will continue to roll-out our new store format. Refreshed Menswear departments will be in our top 70 stores by Christmas, while new Beauty departments will reach another 100 stores.
- Shoppers can expect to see new products in-store more often.
- We will ensure that the quality of our space improves as high streets evolve and technology changes shopping habits.
- We plan to open around 368,000 sq ft of new owned space in 2014/15.



A Love Shopping

As part of our popular Shwopping initiative with Oxfam, over the last two years our customers and employees brought a total of 7.8 million items of clothing into our stores to be resold, reused or recycled, worth £6.1m.

£6.1m



attended our inaugural Fashion Camp last summer to learn about the changes we had made, and the second phase of this training will take place this summer. Internal communication has also improved. We introduced a new app for our retail team to use on store visits to ensure we are always looking at our stores from a customer's point of view. By collating feedback for the store manager on presentation, availability, service and knowledge, we can be sure customers get a consistent experience.

The work going on behind the scenes to overhaul our supply chain has given store employees more time to serve customers. Moving to a push allocation system, whereby stock is replenished automatically, has freed up salesfloor employees while also leading to improved availability and fewer mark-downs.

A Sustainable stores and engaged employees

In the seven years since it launched, Plan A has become part of the rhythm and routine of our store development programme. We are currently piloting

four sustainable M&S Simply Food stores and are introducing aspects of our Cheshire Oaks store – one of the world's largest green stores – into new openings. Throughout M&S, employees remain actively involved with local charities. In September, all our Cafés and Food Halls took part in Macmillan Cancer Support's 'World's Biggest Coffee Morning', contributing £800,000 of the total £1.2m M&S helped raise for the charity this year.

M&S.com

Transforming our business



Laura Wade-Gery
Executive Director,
Multi-channel E-commerce

Overview

This has been a landmark year for M&S as two world-class infrastructure projects went live: our new M&S.com website and our 900,000 sq ft distribution centre at Castle Donington. Both developments represent major milestones on our journey to becoming an international, multi-channel retailer. They also highlight the rapid pace of change that is running through M&S. As we completed this transformative work, we continued to see a very strong performance from our website, with sales rising 23%, ahead of the market. Our online business now accounts for 16% of our General Merchandise sales, up from 13% last year, and we have over 5.5 million visitors to our UK site each week. Our multi-channel strategy focuses on meeting customers' needs as shopping habits change and technology evolves. Multi-channel shopping presents us with enormous growth opportunities and we will put our customers at the heart of our offer as we adapt and change. Whether customers are shopping in-store, online or with tablets and mobiles, we want to offer them an inspiring, convenient and service-driven experience.

Our new flagship

M&S.com is our 'flagship'; not just our biggest store, it is also the best expression of today's M&S and a 24/7 window to our products and style perspective. The industry-leading site, which went live in February, was built around the customer, following over two years of development and testing.

As well as including an improved search function, better browsing options and

product images that are 50% bigger, the site brings our brand to life with bold imagery and regularly updated editorial content. We have also introduced a range of interactive services to create a richer buying experience. We are providing clearer, more consistent product information and offering a better view of stock availability, which is refreshed every 15 minutes and live at checkout, ensuring customers can buy with confidence.

Unlike the previous website which ran on an Amazon platform, M&S.com is now wholly run by us, giving us complete control over presentation and delivery options.

Each of our customers shops our website in a multitude of ways, whether they are buying something via their desktop computer or browsing on a tablet at home. We have designed the site to be flexible and to cater for their many needs, both now and in the future.

Feedback about M&S.com from customers and industry experts has been extremely positive.

The website has been built to allow us to make continual improvements as our business develops, flexing and adapting to future requirements and our customers' needs.

Castle Donington

The new website is only half of the story — it is backed up by our new distribution centre at Castle Donington, which opened in May 2013.

The fully automated centre will build its capacity ahead of peak trading this Christmas, when it will be capable of processing 750,000 items a day.

Castle Donington forms part of our ongoing plan to replace 110 smaller

M&S.com highlights

Sales

£800.1m

↑ 22.8%

Weekly site visitors

5.5m

↑ 7.8%

Mobile and tablet sales increase

99.4%



Style Adviser

Our Style Adviser service allows customers to create a personal online profile. Once created, they will be treated to recommendations to suit their shape, style and personality.

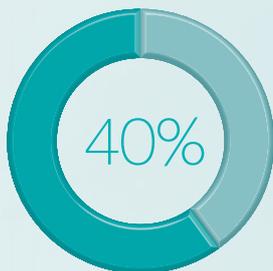
warehouses. This move to a single-tier network will provide us with a modern, flexible infrastructure designed precisely for our needs.

Growth opportunities

We know that we can significantly increase the number of people who shop via M&S.com. Of the 34 million people who shop in our stores every year, around 6.7 million also shop using our website. Whilst 8.3 million of our customers do not shop online at all, that still leaves over 19 million M&S customers who shop online but are yet

Shopping by outfit

With around 40% of our customers shopping for outfits, the new site has a number of features to help them put these together. These include 'Style With' recommendations, where shoppers can browse by trend, occasion or as a personalised recommendation.



A strong point of view

M&S.com is about more than selling our products – it is about sharing our point of view. Our specialist editorial team provides stimulating content on the website's Style & Living editorial hub.



Kalverstraat

Our 'bricks and clicks' multi-channel strategy extends overseas. We opened a new concept store showcasing our latest digital innovations on Kalverstraat in Amsterdam, which features the world's first Virtual Rail.



Taking the tablets

- Just under 30% of our online sales are made through iPads™ and other tablets, up from just 5% two years ago.
- The peak time for tablet usage by our customers is between 8pm and 9pm.
- We've launched a dedicated tablet platform and updated versions of all our mobile sites and apps. We will continue to develop these as shopping habits evolve.



Our plan for the future

- Our delivery times will become faster as we continue to leverage the efficiencies of Castle Donington.
- We will continue to foster in-house innovation through our Digital Lab, seeking to develop first-to-market e-commerce technologies.
- We will continue to edit M&S.com and publish inspirational content, refining and extending the site's content to meet people's changing needs.
- We will continue our international growth through both local language sites and deliveries from M&S.com.

to shop online with us. They represent our biggest opportunity for growth. New websites can typically take some months to settle and we deliberately slowed down marketing activity during the launch period. This was reflected in the post-launch performance during Q4. As our website settles in the coming months, we aim to build growth again and we are well set up to capitalise on this opportunity.

But the site is not merely an extra channel, it is also a way of increasing loyalty and spend per head: customers who shop both online and in-store spend

significantly more with us, appreciating the extended hours and reach of the internet, alongside the social and traditional shopping experience of our stores. It is therefore a crucial tool for driving sales.

A Doing the right thing

M&S.com now includes a range of symbols that highlight products with Plan A qualities, for example where a product is Fairtrade or uses sustainable materials, helping customers make informed decisions. In partnership with Remploy, we recruited over 110 of our Castle

Donington employees through Marks & Start Logistics, the extension of our Marks & Start employability scheme, which helps people with disabilities and health conditions into work.

R Business resilience

With M&S.com, we have migrated from the third-party Amazon platform to our own, bespoke platform, which puts us fully in control of how the site functions and evolves. Our 24/7 command centre constantly manages the customer experience from end-to-end and ensures the site runs smoothly at all times.

International

Growing our presence overseas

Overview

Over the year, sales in our International business rose by 6.2% to £1.2bn, driven by strong growth in our priority markets of India, Russia, China, the Middle East and Western Europe. We opened 55 new stores, and now trade from 455 stores in 54 territories. Our strategy remains one of delivering capital-light expansion in a manner appropriate to each individual market, whether through franchise agreements, partnerships or wholly-owned stores. We aim to offer our customers consistent store environments wherever in the world they shop. We also carefully edit our product ranges to suit each market.

A strong, international team

We have structured our international team to give us a better understanding of our markets and better control of our product catalogue. The team has focused on improving the responsiveness between our overseas stores and the UK.

Today's international leadership team has a stronger overseas background than in previous years. Between them, the team speak 14 languages and have worked in 32 markets.

Priority markets

Our performance in Asia remains strong. We continue to grow ahead of the competition in India, where we saw double-digit like-for-like growth. Over the year, we opened 10 Indian stores through our partnership with Reliance Retail, taking our total number of stores to 38. In November, we announced plans to double our Indian presence by 2016, which will make it our biggest international market.

Our operation in China is moving in the right direction, although the performance of our 15 stores has been mixed. We saw strong results from our Hong Kong stores and our flagship Shanghai stores continued to perform well. In April, we announced plans to focus on our centrally-located Shanghai stores and to open flagships in other cities, including Beijing and Guangzhou. We also announced plans to find a local partner to support this roll-out – in a country as diverse as China, local knowledge and experience is key.

Sales in the Middle East grew by 2.6%. In February, we unveiled our largest international store, a 72,000 sq ft flagship in Kuwait. This year also saw our first store in Lebanon and a new flagship in Cairo. All three stores were opened with our long-term franchise partner, Al-Futtaim Group, which operates 25 stores across eight markets. We also worked with another key franchise partner, FIBA, which operates 100 M&S stores, on the modernisation of our Europeyskiy store in Moscow. Overall, we aim to increase the proportion of our international revenue that comes from franchised stores, as part of our strategy for capital-light international growth.

The Netherlands and France were the focus of our European growth, where sales rose by 3.9%. We opened our largest continental European store in a prime location in The Hague, which includes an M&S Cafe and in-store Bakery. We also opened our fourth full line store in Paris in the Beaugrenelle mall, with our largest Food Hall outside of the UK and Ireland. Our presence in France will grow strongly. A partnership agreement with Relay France will see us open 10 Food stores at key travel locations in Paris by 2018, while our

International highlights

International revenue

£1.2bn

↑ 6.2%

Stores

455

↑ 37 net new stores

Territories

54

↑ 3 new markets



Bricks and clicks

Our international 'bricks and clicks' strategy offers customers the best of online and physical retailing. Our eight European websites have high conversion rates, while our site on TMall in China receives positive customer service reviews.

"M&S Den Haag is a beautiful store, with an even better Food Hall and the clothes are lovely."

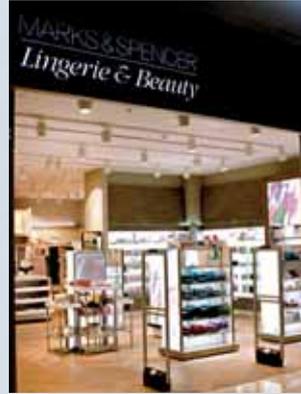
M&S Customer Feedback

Twitter

Bandra

In November, we opened our largest store in India in Bandra, Mumbai. Ranges in the 35,000 sq ft store include our exclusive Savile Row Inspired collection of men's suits.

35,000 sq ft



Lingerie and Beauty

We opened our first standalone Lingerie & Beauty store in Saudi Arabia with our long-term franchise partner, Al Hokair.

A UNICEF

We launched our first ever co-ordinated fundraising challenge with UNICEF to raise money from our international stores.



International tastes

- We have expanded our fresh food offer so customers from Prague to Hong Kong can buy fresh M&S food daily.
- We will open around 20 Food Stores in Paris over the next three years which will make France our largest food market outside the UK.
- We sell more clotted cream in our Kalverstraat Store and more crumpets and curries in our Beaugrenelle, Paris, store than anywhere else in our global store network.



Our plan for the future

- We will open 250 international stores over the next three years focusing on priority markets: India, China, Russia, the Middle East and Western Europe.
- We will strengthen our relationships with existing franchise partners and build relationships with new ones. 60% of openings over the next three years will be franchise stores.
- We will expand in Western Europe with a 'bricks and clicks' approach by opening flagship stores, supported by Food stores and an online offer.



partnership with SFH Invest will see over 20 stores open by 2021.

Sales improved in the Czech Republic and Greece following action to address the stores' performance. We are reviewing our store portfolio in Central and Eastern Europe to ensure we are in the right locations in key cities. After a strategic review of our stores in the Republic of Ireland, where the economy remains challenging, we took the difficult decision to close four. We remain committed to the business and will invest in our remaining stores, and open a new flagship in Limerick in 2016.

A Doing the right thing

Due to our broad reach, we can't take a 'one size fits all' approach to Plan A across all our territories. So we adapt it to suit local markets. By establishing a minimum set of criteria in each location, we can work towards our environmental and ethical goals in a realistic way with local partners. Some of our leading campaigns, like clothes recycling, will be rolled-out internationally. Our employability programme, Marks & Start International, runs in certain stores and suppliers' factories overseas.

R Strong partnerships

We know that the infrastructure in some of our emerging markets and the challenges of entering new markets could affect our ambition to be a leading international, multi-channel retailer. Local knowledge and strong partnerships are therefore essential. That's why we work closely with our trusted overseas partners, who know the markets and can take decisive action should problems arise.

Our people

Engaging our employees

Overview

Our people are at the heart of what makes M&S different. As we continue to transform the business, we have worked hard to ensure that we have the capabilities in place to drive the company forward. We have continued to make sure that our 86,000 employees throughout the business are confident, engaged and knowledgeable. As the retail landscape evolves, we continue to train our colleagues in the latest digital developments in retail. But despite changing shopping habits, we know that customers still want the personal touch. That's why our store employees are as dedicated as ever to providing exceptional levels of customer service.

An engaged, positive team

It is crucial that all our people understand our priorities and objectives, and that they are engaged with the ongoing transformation of the business. Our annual 'Your Say' survey shows we are achieving this – levels of engagement among our employees grew by 2% on last year to 80% and our overall positivity score also rose compared to last year. Meanwhile, 95% of our employees said that they regularly look for ways to better serve our customers.

An increasing number of store employees said that their store managers are making more time to keep them informed about the Company's overall performance and plans. This fits in with our belief that knowledge bolsters confidence, which in turn leads to increased levels of customer service and employee motivation.

Our 'Your Say' survey was conducted online this year for the first time, making it easier for our international colleagues to participate. We were pleased that the response rate rose by 2% compared to last year following this change.

Bolstering our capabilities

As technology continues to change the way that our customers shop, we are building our in-house skills to ensure we have the capabilities to evolve with the retail landscape. We have also actively looked to recruit people from outside the company with skills to suit the new environment. From designers to online editors to copywriters, we have substantially bolstered our digital team. For example, the recent launch of M&S.com saw us create a 50-strong software development team. Our 2014 Graduate Scheme and Business Placement Programme offered over 200 opportunities across our stores and office locations, and our IT software engineer scheme was one of our biggest graduate programmes for the second year running.

We also enhanced our leadership team with a number of senior appointments and around two-thirds of our top 100 managers have international experience.

Transformation

As part of the ongoing transformation of M&S over the last year, we looked at how we could become more connected with each other and with our customers. Over 60,000 of our store colleagues have been involved in the 'Notice Me' programme to continue to improve the in-store customer experience. The majority of our senior leaders have also attended development days to support them in leading the way in a multi-channel, international business and responsible leadership.

A Youth employment

Youth unemployment remains one of the biggest social issues that the UK faces. That is why this year we have provided over 1,450 16-25 year-olds with vocational work experience through our

Our people highlights

Average number of employees*

85,813

Employee engagement score

80%

Training and development days

1.5

per customer assistant

*This figure represents the average total number of employees throughout the year and accounts for seasonal fluctuations.



GM Apprenticeships

To build a pipeline of future talent we have taken on nine GM technologist apprentices. They split their week between M&S and Fashion Enter, one of our clothing suppliers based in London.

"The most valuable and truly lasting thing I've gained is self-belief. Make Your Mark has proved such a lifeline for me and I would strongly recommend it."

Hannah Fallis

Trainee Visual Merchandiser,
M&S Omagh

Employee diversity as at year end



BIKE 24
1,300 employees participated in BIKE 24, a 24-hour charity cycle event, and a further 60 cycled from 'Arc to Arch' – from our Champs Elysées store to our Marble Arch store. They raised £942,000 for five charity partners.

£942,000



Staying connected

- Our employees have access to Yammer, an internal social network, which allows them to ask and answer questions, join groups and post comments.
- We keep our employees informed about which products have made the headlines through our weekly press summary that goes to all our stores.
- Our In-Touch programme includes weekly video downloads to help employees stay in touch with what's happening across the business.



Our plan for the future

- We will drive a performance culture by continuing to nurture talent within M&S, as well as recruit skilled people from outside the business.
- As digital technology continues to change the way that people shop, we will train our employees with the relevant skills needed to serve customers.
- We will continue to embed clear, core M&S values across our business.



Inspiring Women's Network

One of our non-executive directors, Martha Lane Fox, the co-founder of lastminute.com, spoke at the launch event of our women's leadership network, which aims to inform and inspire our people.

Supporting our communities

Helping in the community is a key strand of Plan A. To this end, we offer all our employees one day's paid time off so that they can take part in volunteer activities. Last November, 600 IT employees from M&S and our suppliers joined forces to take part in one of the biggest ever volunteer programmes in the IT industry, training IT Ambassadors in schools and helping elderly people enjoy the social benefits of getting online. In April, thousands of employees and customers took part in our annual

Big Beach Clean-up, which cleared litter from 140 UK beaches and canals. During the day, which was run in partnership with the Marine Conservation Society and the Canal & River Trust, we cleared 25 tonnes of litter, equivalent to 3,969 black bags.

new Make Your Mark scheme. The four-week programme, which we launched last summer in partnership with The Prince's Trust, aims to fill the skills gap that prevents so many young people from finding work.

Make Your Mark was inspired by our Marks & Start employability scheme, which has helped 6,000 people take their first steps into the jobs market since it launched a decade ago. Our pioneering approach has also been mirrored in the launch of a scheme, Movement to Work, which M&S is part of along with 14 other companies.

Financial review



Alan Stewart
Chief Finance Officer

Throughout the year, M&S has performed satisfactorily in a challenging marketplace. We delivered sales of £10.3bn, 2.7% ahead of last year. In 2013/14 our underlying profit was £623m, down 3.9% on last year, with underlying earnings per share at 32.2p, up 0.9% on last year.

Whilst the transformation of M&S to an international, multi-channel retailer has progressed, we have addressed the short-term market challenges through prudent financial management.

During the past year the retail landscape has been highly promotional and this environment impacted our General Merchandise margin. Whilst we were required to respond to the marketplace, we worked hard to mitigate the impact through markdown clearance. Within Food, we have offset commodity price increases through effective promotional activity, increased volumes, and by working closely with our suppliers to deliver further efficiencies.

Over the course of the year, our UK operating costs have been well managed, up 3.5% against last year.

Investing in our future

In line with our strategic ambitions, we have seen strong growth in both our International and M&S.com businesses. M&S.com delivered sales of £800.1m, up 22.8% on last year. In International, we saw sales reach £1.2bn, up 6.2% on a constant currency basis. Despite new store opening costs within our owned businesses, International operating profit increased 4.6%.

This year we added 1.8% new UK selling space and expect space to increase by 1.0% in 2014/15. This growth will be

focused on our successful M&S Simply Food format and there will be no net new space in GM.

Last year, we stated that 2013/14 was the final year of significant capital expenditure. Through prudent management we saw capex this year of £710m, behind previous guidance of £775m. Over the last three years, we have invested to transform M&S – to drive reappraisal of our brand and create a strong and efficient platform to drive sustainable long-term growth. However, from 2014/15 we expect capex to fall to c.£500m to £550m per annum.

Creating an agile infrastructure – fit for the future

2013/14 has been a landmark year in the transformation of our infrastructure and operational capabilities. In February 2014, we completed the transition from Amazon to an M&S-owned platform. The site has been built on a flexible technology platform to enable continual improvement in line with changing consumer and technology trends. This agile infrastructure, coupled with increased in-house software development capabilities, will allow efficient evolution of the site and help avoid future peaks in capital investment.

Since its launch in May 2013, we have been building capacity at our major distribution centre at Castle Donington. As we continue to increase activity ahead of the peak Christmas trading period, we will deliver further improvements to our delivery proposition.

This is underpinned by the work we are doing to simplify our IT and management systems and create a best-in-class supply chain from end-to-end. The restructure of our supply chain has made us a more efficient business, ensuring M&S is well set up for the future retail landscape.

Dividend policy and capital structure

The Board is committed to a progressive dividend policy with dividends broadly twice covered by earnings. The Board is also committed to an investment grade rating, and intends to operate with a net debt/EBITDA ratio within the range 2.0x–1.5x.

Strengthening our financial position

In line with our commitment to maintain an investment grade credit rating and a progressive dividend policy, we have

funded our investment through existing cash flows.

We have maintained a strong balance sheet, improving our net debt position to £2.46bn, down from £2.61bn last year. Over the course of the year, we have seen the Group's average cost of funding improve to 5.4%, down from 5.9% last year. Fixed charge cover is 3.4 times, broadly level with last year. This gives significant headroom compared with 2.75 times required by the covenant on our bonds.

Sustainable reporting

M&S has long been an advocate of the value created through sustainable business practice. Through our commitment to Plan A – our eco and ethical plan – we have adopted more efficient processes and created new revenue streams, and this year have delivered a net benefit of £145m, which has been invested back into the business.

As members of the International Integrated Reporting Council and members of the Prince's Accounting for Sustainability Project (A45) CFO Leadership Network, we are committed to sustainable reporting principles and embedding sustainability into decision making. For example, this year we have included further information about the broader value outputs created through M&S's business activities within our business model on page 6. This includes our 1.5 days worth of training received by every customer assistant through to details of our total cash tax contribution to the UK Exchequer. For 2013/14 our contribution was £831m; split between taxes borne by the company of £372m, and taxes attributable to our economic activities collected on behalf of the government of £459m.

marksandspencer.com/corporate

Our plan for the future

- With our last significant year of capital investment behind us we believe we have created a strong and agile platform from which to grow efficiently.
- We have shared plans to deliver progressive improvement in margin over coming years.
- Through this activity we will improve our free cash flow.
- We are targeting a net debt/EBITDA ratio within the range 2.0x–1.5x.

Summary of Results

	52 weeks ended		
	29 March 2014 £m	30 March 2013 restated* £m	% variance
Group revenue	10,309.7	10,026.8	+2.8
UK	9,155.7	8,951.4	+2.3
International	1,154.0	1,075.4	+7.3
Underlying operating profit	741.9	778.6	-4.7
UK	619.2	658.4	-6.0
International	122.7	120.2	+2.1
Underlying profit before tax	622.9	648.1	-3.9
Non-underlying items	(42.5)	(100.9)	
Statutory profit before tax	580.4	547.2	+6.1
Underlying basic earnings per share	32.2p	31.9p	+0.9
Basic earnings per share	32.5p	28.3p	+14.8
Dividend per share (declared)	17.0p	17.0p	

*The Group has adopted the revised IAS 19 'Employee Benefits' which has retrospective application and has resulted in the restatement of last year's results (last year reported underlying profit before tax £665.2m and statutory profit before tax £564.3m).

Revenues

Group revenues were up 2.8% (+2.7% on a constant currency basis), driven by good performance across both the UK and the International business.

UK revenues were up 2.3% in total with a like-for-like increase of 0.2%. We added 1.8% of space, 1.6% in General Merchandise and 2.3% in Food, on a weighted average basis.

International revenues were up 7.3% (6.2% on a constant currency basis).

Operating profit

Underlying operating profit was £741.9m, down 4.7%.

In the UK, underlying operating profit was down 6.0% at £619.2m. Gross margin was down 20bps at 40.6%. General Merchandise gross margin was down 110bps at 50.7% as a result of increased markdown and promotional cost due to the highly competitive market during the year. Food gross margin was up 80bps at 32.5% due to supply chain efficiencies and effective management of promotional activity more than offsetting commodity price inflation.

UK underlying results for the year include the previously disclosed double running costs, which were partially offset by credits in the year relating to changes in accounting estimates.

Underlying UK operating costs were up 3.5% to £3,159.6m. A breakdown of the costs is shown below:

	52 weeks ended		
	29 March 2014 £m	30 March 2013 restated* £m	% variance
Retail staffing	978.8	931.3	+5.1
Retail occupancy	1,054.4	1,030.7	+2.3
Distribution	445.5	405.1	+10.0
Marketing and related	147.7	155.3	-4.9
Support	533.2	530.4	+0.5
Total	3,159.6	3,052.8	+3.5

*Restated from the reported £3,049.8m as a result of adoption of the revised IAS 19 'Employee benefits'.

Retail staffing costs increased as a result of our investment in store staffing in order to improve customer service. In addition, costs were impacted by pension auto-enrolment, as well as growth in selling space and the annual pay review.

The increase on occupancy costs reflects new space, rent, rates and utilities inflation, as well as double running costs associated with the new M&S.com platform.

During the year we opened the new EDC/NDC, and in addition to the resulting double running costs, also saw distribution costs rise as a result of higher volumes in multi-channel and Food.

Marketing and related cost reduction reflects a decrease in the number and a change in approach to marketing campaigns in both General Merchandise and Food. Support costs increased due to salary and pension costs, as well as higher IT costs associated with the launch of the new web platform.

The underlying UK operating profit includes a contribution from the Group's continuing economic interest in M&S Bank of £57.2m (last year £51.1m).

International underlying operating profit was up 2.1% (up 4.6% on a constant currency basis). Franchise operating profits were up 7.4% to £114.2m, with improvements across all regions. Owned store operating profits were down 38.1% to £8.5m, due to start-up costs of new stores in priority markets including Western Europe and India, as well as continued macroeconomic pressure in the Republic of Ireland.

Non-underlying profit items

	52 weeks ended	
	29 March 2014 £m	30 March 2013 £m
Profit on property disposal	82.2	–
One-off pension credits (UK and Ireland)	27.5	–
Interest income on tax repayment net of fees	3.3	–
Restructuring costs	(77.3)	(9.3)
International store review	(21.9)	–
Fair value movement of embedded derivative	(3.5)	5.8
Strategic programme costs	(2.0)	(6.6)
Fair value movement on buy back of puttable callable bonds	–	(75.3)
Reduction in M&S Bank income	(50.8)	(15.5)
Total non-underlying profit items	(42.5)	(100.9)

The profit on property disposal relates to the sale of a warehouse site and mock shop in White City for a total consideration of £100m, with £25m received on completion and the remaining consideration deferred over three years. The property has been leased back to Marks and Spencer plc for a period of five years on an operating lease basis.

The one-off pension credit in Ireland of £17.5m has arisen as a result of changes to the Marks and Spencer Ireland defined benefit scheme rules. In the UK, the one-off pension credit of £10.0m has arisen as a result of ceasing to grant pension increases to transferred-in pensions for all members in the UK defined benefit scheme.

Interest income on tax repayment relates to a successful tax litigation claim and is presented net of related fees.

Restructuring costs relate to the Group strategy of transitioning to a one-tier distribution network and the associated closure costs of legacy logistics sites (£53.2m) and restructuring costs incurred in Ireland, including the closure costs of four stores and redundancies (£24.1m).

International store review relates to the impairment of assets (£13.6m) and onerous lease provisions (£8.3m) in poor performing international stores in non-strategic locations in China and the Czech Group.

The fair value movement on the embedded derivative is driven by a decrease in the expected RPI rate.

Strategic programme costs are the cost of implementing the Focus on the UK element of the strategy announced in November 2010. We do not anticipate incurring any further costs in relation to this programme.

The reduction in the fee income received from M&S Bank is due to M&S Bank's potential redress to customers in respect of possible mis-selling of financial products, as previously announced. M&S Bank recognised a further estimated liability in the year.

Net finance costs

	52 weeks ended	
	29 March 2014 £m	30 March 2013 restated* £m
Interest payable	(121.1)	(125.3)
Interest income	8.4	5.3
Net underlying interest payable	(112.7)	(120.0)
Pension finance income (net)	11.7	7.1
Unwinding of discount on partnership liability	(17.8)	(16.6)
Unwinding of discounts on financial instruments	(0.2)	(1.0)
Underlying net finance costs	(119.0)	(130.5)
Fair value movement on buy back of puttable callable bonds	–	(75.3)
Interest income on tax repayment	4.9	–
Net Finance Cost	(114.1)	(205.8)

*Restated from the reported £191.7m as a result of adoption of the revised IAS 19 'Employee benefits'.

The net underlying interest payable was down 6.1% (£7.3m) at £112.7m as a result of a higher proportion of floating debt and lower cost of funding of 5.4% (last year 5.9%). Underlying net finance costs were down £11.5m to £119.0m due to an increase in pension interest income as a result of favourable movement in the net pension benefit.

Statutory profit before tax

Statutory profit before tax was higher at £580.4m (last year £547.2m) after a reduction in net non-underlying charges.

Taxation

The full year underlying effective tax rate was 18.8% (last year 22.7%) and statutory effective tax rate was 12.8% (last year 18.7%). The non-underlying adjustment to the tax charge principally arises from the successful outcome of litigation in relation to the Group's claim for UK tax relief of losses of its former European subsidiaries (£18.5m).

Earnings per share

Underlying basic earnings per share increased by 0.9% to 32.2p per share. Statutory basic earnings per share increased by 14.8% to 32.5p per share. The weighted average number of shares in issue during the period was 1,615.0m (last year 1,599.7m).

Dividend

The Board is recommending a final dividend of 10.8p per share. This will result in a total dividend of 17.0p, in line with last year. The Board's dividend policy remains unchanged; a progressive policy with dividends broadly twice covered by earnings.

Capital expenditure

	52 weeks ended	
	29 March 2014 £m	30 March 2013 £m
Focus on the UK	138.2	197.4
Multi-channel	96.8	75.3
New stores	89.4	94.1
Store modernisation programme	25.0	85.7
International	69.0	53.7
Supply chain and technology	249.4	247.2
Maintenance	67.2	67.9
Proceeds from property disposals	(25.0)	–
Total capital expenditure	710.0	821.3

We continued to invest in our UK stores in order to create a more inspiring environment. The first phase of the new store layout concept has now been completed.

Last year we completed the significant investment in improved multi-channel capabilities with the launch of our new web platform in February.

We added 1.8% of selling space in the UK (on a weighted average basis), trading from 16.6m square feet at the end of March 2014. We opened a net 32 new stores during the year, including 28 M&S Simply Food stores. In our International business, space increased by c.10%.

We continued to invest in our supply chain and technology in line with our strategy to build an infrastructure fit to support the future growth of the business. Our new EDC/NDC in Castle Donington opened in May.

Cash flow and net debt

	52 weeks ended	
	29 March 2014 £m	30 March 2013 restated* £m
Underlying EBITDA	1,219.7	1,241.8
Working capital	47.9	75.3
Pension funding	(92.0)	(70.9)
Capex net of disposals	(616.6)	(829.7)
Interest and taxation	(175.2)	(235.3)
Dividends and share issues/purchases	(229.5)	(248.4)
Net cash inflow/(outflow)	154.3	(67.2)
Opening net debt	(2,614.3)	(2,463.1)**
Exchange and other movements	(3.6)	(84.0)
Closing net debt	(2,463.6)	(2,614.3)
<i>Free cash flow pre dividends</i>	427.9	204.1

*Restated as a result of adoption of the revised IAS 19 'Employee Benefits' in relation to underlying EBITDA and working capital.

**Opening net debt in FY2013 has been restated to reflect the impact of the change in terms of the property partnership in May 2012, which resulted in £606.0m being transferred from reserves to liabilities.

The Group reported a net cash inflow of £154.3m (last year outflow of £67.2m). This inflow reflects a £213.1m reduction in capital expenditure and a £60.1m decrease in interest and taxation. This is partly offset by a £22.1m reduction in underlying EBITDA, a £21.1m increase in pension funding driven by auto-enrolment to the defined contribution scheme and a £27.4m reduction in the working capital inflow.

In March 2014, the Group repaid a £400m bond from existing facilities and operating cash.

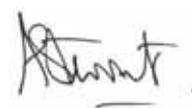
Pensions

At 29 March 2014, the IAS 19 net retirement benefit surplus was £189.0m (last year £236.0m). The decrease is due to a £200.6m reduction in the market value of scheme assets partly offset by a decrease in the present value of scheme liabilities due to an increase in the discount rate from 4.30% to 4.45%.

The investment strategy of the UK defined benefit scheme has hedging that covers 80% of interest rate movements and 84% of inflation movements which aims to reduce significant fluctuations in the scheme assets relative to the liabilities.

The most recent actuarial valuation of the UK Defined Benefit Pension Scheme was carried out at 31 March 2012 and showed a deficit of £290m. As a result, a funding plan of £112m cash contributions was agreed with the Trustees. The Group has contributed c.£28m to the UK Defined Benefit Scheme on 31 March 2014 and expects to contribute an additional c.£28m each year until 31 March 2017. The difference between the valuation and the funding plan is expected to be met by better than expected investment returns on the scheme's assets.

The Strategic Report was approved by a duly authorised Committee of the Board of Directors on 22 May 2014, and signed on its behalf by



Alan Stewart
Chief Finance Officer

22 May 2014