

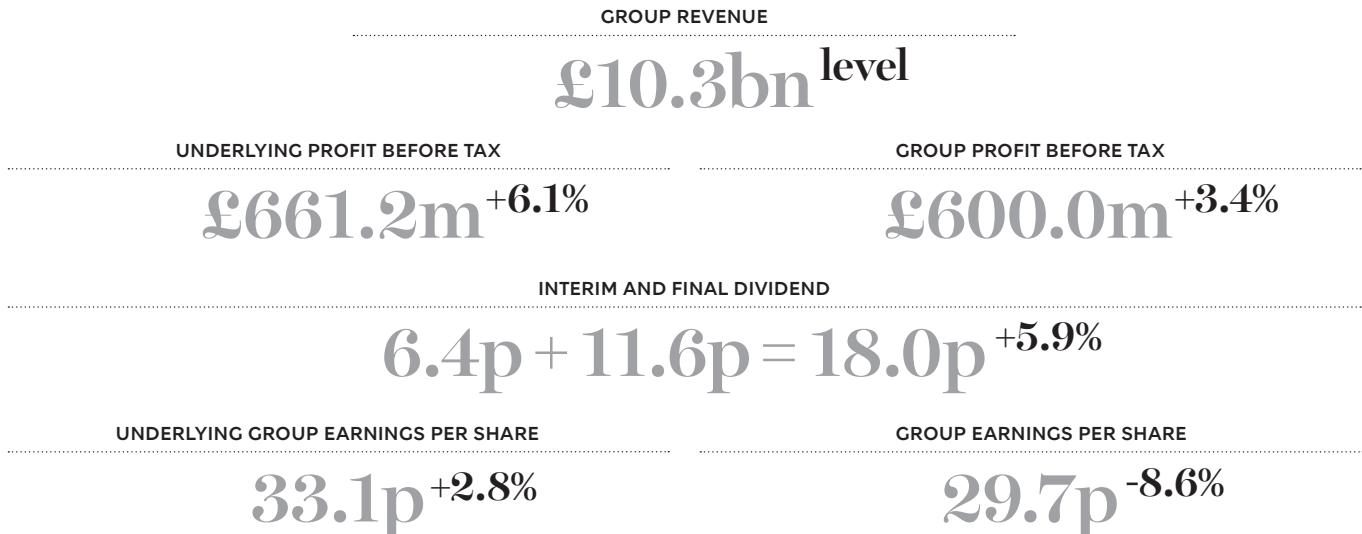


M&S

EST. 1884

STRATEGIC REPORT
AND SUPPLEMENTARY INFORMATION
2015

FINANCIAL OVERVIEW



STRATEGIC PRIORITIES FOR THE YEAR

At the start of this financial year, we set out four strategic priorities to enable us to deliver our plan to become a leading, international multi-channel retailer: Food sales growth, GM gross margin improvement, improving GM performance and strong cash generation.

UK FOOD REVENUE	GENERAL MERCHANDISE GROSS MARGIN	UK GENERAL MERCHANDISE REVENUE	FREE CASH FLOW PRE DIVIDENDS
£5.2bn	52.6%	£4.0bn	£524.2m
^{+3.4%}	^{+190bps}	^{-2.5%}	^{+22.5%}

⊕ See Chief Executive's strategic overview p06-07

ABOUT OUR REPORTING

NAVIGATING THE REPORT In this document you will see a series of icons that demonstrate how we've integrated information about our business model with details of our strategy and risk. The easy to identify icons also tell you where to look for further information.



INTEGRATED REPORTING As members of the International Integrated Reporting Council pilot, we have committed to reporting the long-term value created by sustainable business. Our ambition is to have a report that fully meets the principles of the IIRC framework by 2016. Progress this year includes a revised depiction of our business model, which better demonstrates how we create long-term value through the effective use of our resources and relationships, and clear links between our KPIs and remuneration.

PLAN A Plan A is integrated throughout this report to demonstrate how it is embedded in every part of our business. This makes it easier for shareholders to see how our sustainability programme is creating value in our different divisions. More detailed information is available in our online 2015 Plan A Report at marksandspencer.com/plana2015

ONLINE INFORMATION To keep shareholders fully up-to-date, we have comprehensive financial and company information on our website. It means that shareholders can access the information they require, 24 hours a day. To register, go to marksandspencer.com/investors and follow the 'Electronic Shareholder Communication' link.

INVESTOR RELATIONS APP Our Marks & Spencer Investor Relations app provides information to investors and the financial media in an iPad™ optimised format. The app displays the latest share price information and corporate news. It also contains financial reports, presentations and videos. For more information visit marksandspencer.com/investors

INTRODUCTION

M&S IS ONE OF THE UK'S LEADING RETAILERS, WITH OVER 1,330 STORES WORLDWIDE.

WE ARE COMMITTED TO **DELIVERING SUSTAINABLE VALUE** FOR OUR SHAREHOLDERS AND **ENHANCING LIVES EVERY DAY** THROUGH THE HIGH QUALITY, OWN BRAND FOOD, CLOTHING AND HOME PRODUCTS WE OFFER IN OUR STORES AND ONLINE BOTH IN THE UK AND INTERNATIONALLY.

WHAT'S IN THIS REPORT?

OUR BUSINESS

- 02** Chairman's statement
- 04** Creating sustainable value
- 06** Chief Executive's strategic overview
- 08** Our plan in action

OUR PERFORMANCE

- 12** Key performance indicators
- 14** Financial review
- 18** Marketplace
- 20** People behind the plan
- 21** Risk management
- 22** Principal risks and uncertainties

GOVERNANCE

- 24** Chairman's Governance overview
- 26** Our Board
- 27** Remuneration summary

SUMMARY FINANCIALS

- 30** Consolidated income statement
- 31** Consolidated statement of financial position
- 32** Consolidated statement of cash flows

33 SHAREHOLDER INFORMATION

OUR BUSINESS

CHAIRMAN'S STATEMENT



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

ROBERT SWANNELL CHAIRMAN

INTERIM

FINAL

TOTAL DIVIDEND FOR 2014/2015

6.4p

11.6p

18.0p

PAID ON 9 JANUARY 2015

TO BE PAID ON 10 JULY 2015

OVERVIEW

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

PERFORMANCE

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

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

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

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

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

BOARD PRIORITIES

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

BOARD CHANGES

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

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

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

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

This year we reviewed our senior remuneration framework to align it more clearly with our strategic objectives. Further details are laid out in our Remuneration Summary on page 27.

OUR VALUES AND PLAN A

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

GOVERNANCE PROFILE

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

Senior Independent Director Our Senior Independent Director is Vindi Banga.

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

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

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

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

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

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

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

Auditor appointment We disclose our external auditor appointment policy.

Internal Audit Details on the internal audit function are provided with the Annual Report.

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

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

⊕ See Governance section p24-26

OUR GOVERNANCE PRINCIPLES

LEADERSHIP

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

EFFECTIVENESS

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

ACCOUNTABILITY

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

ENGAGEMENT

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.

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

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

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

STAKEHOLDER ENGAGEMENT

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

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

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

LOOKING AHEAD AND DIVIDEND

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

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

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



ROBERT SWANNELL CHAIRMAN

OUR BUSINESS

CREATING SUSTAINABLE VALUE

OUR BUSINESS MODEL

We create long-term value through the effective use of our resources and relationships. We manage these in line with our core values of Inspiration, Innovation, Integrity and In Touch.

These values influence how we behave and they run through everything we do – they make the M&S difference: **enhancing lives every day** through the products and services we offer our customers in the UK and internationally.

OUR RESOURCES & RELATIONSHIPS

£ FINANCIAL

Generating returns for our stakeholders through effective management of our financial resources

⌚ MANUFACTURED

Maintaining our channels and supply chain infrastructure to meet customer demand

💡 INTELLECTUAL

Strengthening our brand through creation and protection of our intellectual properties

LISTEN & UNDERSTAND

Understanding our customers informs everything we do. Our Customer Insight Unit (CIU) listens and talks to around 60,000 customers a month, analysing the results to build a comprehensive understanding of what our customers want and how this is changing. We also engage with over 2.6 million customers every day via our social media channels, giving a constant flow of information about how they are feeling about M&S and our products. By keeping closely in touch with our customers, we can ensure that we stay relevant and continue to offer the products and services they want to see at M&S.

STRATEGY & FINANCIAL PLANNING

A well run business relies on robust financial management and planning. We are committed to creating value for shareholders by making M&S a more profitable business through improved gross margin and strong cash generation, driven by rigorous control of costs and capex. In line with our strategy to build an infrastructure fit to support the future growth of the business, we continue to invest in our supply chain and technology. We fund future growth through existing cash flows, a policy which supports our commitment to maintaining an investment grade rating.

PRESERVING OUR TRUSTED BRAND

Our own brand model sits at the very heart of the M&S difference. Our unique products set us apart and our innovative culture means we are always improving them for the better. By providing high-quality products alongside an industry leading approach to provenance, ethics and environmental standards, we have built a brand that our customers trust – this is our competitive advantage. M&S occupies a very special place in Britain and we work hard to protect that position by always acting with the integrity our customers have come to know and expect.



FIND OUT MORE

+ Read about Our plan on p06-11

+ Read more on Risk on p21-23

+ Read more on KPIs on p12-13

OUR BUSINESS MODEL



OUR RESOURCES & RELATIONSHIPS

NATURAL

Sourcing responsibly and using natural resources efficiently

SOCIAL & RELATIONSHIP

Building and nurturing relationships with our customers and suppliers, and in the communities in which we operate

HUMAN

Developing people and their knowledge

THE M&S DIFFERENCE

BUILDING STRONG RELATIONSHIPS

We are committed to building and maintaining collaborative, sustainable relationships throughout our supply chain and in the communities where we operate. We encourage and support our suppliers to apply the same rigorous standards against which we measure ourselves. 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. We are longstanding members of the Ethical Trading Initiative and Global Social Compliance Programme. Our Global Sourcing Principles cover what we expect and require of our suppliers – we updated them this year to incorporate the UN's Guiding Principles on Business and Human Rights.

REACHING OUR CUSTOMERS

Our range of selling channels enables our customers to shop with us in the way which is most convenient for them. M&S.com offers our full range in a stylish, editorial-led format that aims to inspire and excite our customers. We have a strong presence on the UK high street and in retail parks with a combination of larger full line stores and smaller stores, all supported by our Shop Your Way service that delivers our products wherever and whenever our customers want them. Our expanding Simply Food format means we are well positioned to respond to changing consumer shopping habits. We have a strong presence in key convenience locations, including city centres, hospitals and travel hubs, such as petrol stations, train stations and airports.

MARKETING & SERVING OUR CUSTOMERS

For the first time, we have brought food and fashion together under one brand identity – Only M&S. This unified brand provides the ideal platform from which to share the many stories that make our products unique. It also clearly communicates what M&S stands for through a unified campaign. The refreshed brand delivers a simpler, more contemporary look and, importantly, 'Est. 1884' celebrates our 131-year history, reflecting the value our customers place on our heritage. We have always prided ourselves on our commitment to customer service – it is a key part of our heritage. Every product is built around our customer. Our employees, trained to the highest standard, are united in their dedication to giving our customers the best shopping experience.

OUR BUSINESS

CHIEF EXECUTIVE'S STRATEGIC OVERVIEW



We are transforming M&S into a stronger, more agile business – putting the right infrastructure, capabilities and talent in place to drive our strategic priorities.

MARC BOLLAND CHIEF EXECUTIVE

S
UK FOOD REVENUE

£5.2bn

+3.4%

S
GENERAL MERCHANDISE GROSS MARGIN

52.6%

+190bps

S
UK GENERAL MERCHANDISE REVENUE

£4.0bn

-2.5%

S
FREE CASH FLOW PRE DIVIDENDS

£524.2m

+22.5%

OVERVIEW

In 2014/15 we made further progress against our strategy to become a leading international, multi-channel retailer – as we enhanced our M&S.com infrastructure.

With our new infrastructure largely in place, we have been focused on execution. A number of key projects, for example improvements to our product allocation and replenishment systems, have been successfully implemented this year. We also built up our design capabilities and capitalised on our market leading food product development. Whilst we faced some difficulties during the bedding in period of the website and distribution centre, we have learned more about how to improve our online customer experience and how best to stabilise the complex operations at Castle Donington. Thanks to our strengthened in-house capabilities, these learnings have been effectively put into practice, enabling us to return M&S.com to growth in the final quarter of the year.

In 2014/15 we invested in our organisation and our people to get the very best from our new infrastructure and ensure we are truly fit for the future. We have brought in key skills and competencies that have historically been outsourced – helping us work more profitably and with greater pace. This has included strengthening our in-house clothing and home design capability and our software engineering team.

Our values underpin everything we do...

We developed four new core values of Inspiration, Innovation, Integrity and In Touch. By putting these values at the heart of everything we do, we are encouraging employees to do things differently and take a fresh look at how we can inspire our customers – with exquisite quality and styling in our clothing, and innovative, first to market, exceptional quality food. This consistency will help customers recognise the values of our brand and what makes M&S different.

PERFORMANCE OVERVIEW

We made good progress in three of our four key strategic priorities for the year. In driving Food growth we delivered an excellent performance with sales up 3.4% and growth ahead of the market. We significantly increased our GM gross margin by 190bps. GM sales, however, were challenging, particularly in the third quarter due to the impact of the disruption at Castle Donington and the unseasonal weather. Finally, we continued to control costs tightly and reduced capital expenditure. This, combined with a focus on working capital, has delivered free cash flow pre dividends of £524.2m up 22.5%.

FOOD

The strategy we set out in 2010 to be more of a specialist in Food is working very well and differentiates us from the competition.

We had an outstanding year in a difficult market. Sales increased despite deflation across the sector and our profitability rose as we streamlined our processes. Our Food division has now seen 22 consecutive quarters of like-for-like sales growth. Customers continued to turn to M&S for both everyday quality and special moments. They love our constant innovation: over the year we launched 1,700 new products. It is this newness and innovation that makes M&S food special.

GENERAL MERCHANDISE

Customers recognised the improvements in the style and quality of our clothing. Our collections over the year were a stylish, wearable interpretation of the key trends, meeting with approval from the fashion press and customers alike. By the fourth quarter, all GM departments were seeing growth. The rise in gross margin came about through better buying and sourcing. We also focused on full price sales and saw customers trade up to our better and best ranges.

CHANNELS

Despite a difficult start to the year, the performance of M&S.com steadily improved as we listened to customers' feedback and worked hard to improve the online shopping experience. The site made gains on three key metrics as the year progressed: traffic, conversion and customer satisfaction levels. We now offer

INSPIRATION

We aim to excite and inspire our customers

INNOVATION

We are restless in our aim to improve things for the better

LOOKING AHEAD

As we continue the work to transform our infrastructure, we will now focus on consolidating our position as a leading international, multi-channel retailer.

Using our strengthened capabilities, our priorities, both in the UK and International, will be to accelerate our Food growth, deliver an end-to-end GM operating model and to drive the experience on M&S.com. We will continue to develop a world class talent pool, further growing our skills in key strategic areas.

The UK food market will remain challenging but we are well positioned with a store format that caters for how shopping habits are changing. We opened 62 Simply Food stores this year, and we have a strong pipeline with the fastest Food store opening programme planned in M&S's history.

Whilst we expect the Clothing and Home market to remain highly competitive, we will deliver growth through a focus on stylish design, quality and newness, with better availability and more choice.

We anticipate that our International business will continue to be impacted by this year's weakening euro and macroeconomic factors will remain a challenge, particularly in our Middle East region. However, we will focus on delivering relevant ranges to our local customers, improving our like-for-like sales performance across our owned and franchised market and building our international supply chain.

Our strategic priorities for 2015/16 remain unchanged

FOOD SALES GROWTH

GM GROSS MARGIN IMPROVEMENT

IMPROVE GM PERFORMANCE

STRONG CASH GENERATION

our customers a much more engaging online experience. M&S.com is a superior shop window for our products and our customers appreciate its strong editorial point of view: 8.2m people visited its Style & Living editorial section over the year. Together, this has resulted in a steady improvement in sales and we finished the year with growth of 13.8% in Q4. Over 7m people have registered to use the site, surpassing registrations on our old site.

We continue to improve our stores to make them more inspiring places to shop. We invested in the quality of the store environment, with refreshed Womenswear departments and new look Menswear departments. We also improved Shop Your Way with extended delivery cut-off times, offering a more convenient and joined-up customer experience.

INTERNATIONAL

Our International business faced multiple macroeconomic challenges this year. These issues affected franchise partners, particularly in Russia, Ukraine and Turkey – our Middle East region – and resulted in reduced wholesale shipments, which led to lower profits. However, we were pleased by our performance in other priority markets, particularly India, and by the good growth in our Food business in Europe and Hong Kong.

BRAND

The new core values are aligned with our business and will drive the behaviours needed to achieve our customer promise of 'enhancing lives, every day'. Our brand was enhanced by imaginative marketing. We launched Only M&S, a unified campaign for Food and clothing – we are one brand with many stories to tell. In Food, 'Adventures in...' celebrated the creativity, craftsmanship and passion behind our food and was very well received by our customers. The clothing campaign marked a step change in approach and with renewed confidence we showcased our edit of the latest trend. 'The Two Fairies' Christmas campaign combined bold ideas with imaginative use of social media to position M&S as a relevant, lively brand.

PEOPLE

For M&S to thrive in the future, we have to be a modern, forward-looking and agile company today. Over the year, we continued to roll out the necessary systems and processes to ensure that – from top to bottom – we are in the right shape to meet future challenges. Our Fit for the Future programme saw us refine the way we do things. We streamlined our processes, clarified lines of command and introduced initiatives to encourage entrepreneurship. We also realigned our executive team's responsibilities. The changes ensure greater accountability and our new simplified team structures allow us to move with more speed and agility.

PLAN A

AOver the last 131 years, M&S has built a unique position and a significant part of that is down to customer trust. Maintaining this position of integrity is central to the Company's future. Our customers trust us to always do the right thing, which is why Plan A 2020 is absolutely crucial. Plan A has taught us that we can achieve more when we collaborate inside and outside of the business. We celebrated a decade of Marks & Start, our scheme which provides training and work experience within M&S and our supply chain for the long-term unemployed. Make Your Mark, our programme that focuses on supporting young people facing barriers to employment, is part of Movement to Work, a larger programme we helped to found in 2013. Almost 200 of the UK's biggest companies are now signed up. Engaging with our communities underpins Plan A and this year our employees and customers raised a total of £7.5m for our local and national charity partners. We have a clear plan to further engage our customers and communities in Plan A. In 2010, we set out our goal to be the world's most sustainable retailer and this continues to drive our ambition to improve things for the better.



MARC BOLLAND CHIEF EXECUTIVE

INTEGRITY

We always strive to do the right thing

IN TOUCH

We listen actively and act thoughtfully



OUR PLAN IN ACTION:

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FOOD SALES GROWTH

In a crowded marketplace, our position as a food specialist sets us apart from our rivals. Customers love our innovation: it's a strategy that makes us truly different. Last autumn, our Belgian Chocolate Jaffa Sphere became our fastest-selling dessert ever: we sold 170,000 in just six weeks. Such was the demand that our supplier went into 24-hour production.



We have improved levels of availability and choice. 112 stores now carry our full range of 6,300 Food products, increasing convenience for our customers. By offering our full range in a larger number of stores we are helping people cater for their busy lives; over 40% of our customers buy food for today or tonight.



Our Simply Food format continues to grow strongly. We opened 62 new stores in the UK this year, taking our total to 504. Our franchise partners play a key role in this growth. In March we opened our 200th Simply Food store through our partnership with BP.



OUR PLAN IN ACTION:

GM GROSS MARGIN IMPROVEMENT

As part of our strategy to improve our margins, we are bringing much of our design in-house. 35% of our clothing is now created, designed and sourced by our own teams, up from 20% at the end of last year, and our target is 60% by 2016/17. Our Direct Design strategy has led to greater collaboration between our buying teams, our design teams and our regional Sourcing Offices.

+ See more in **Financial review** on p14-17



A better buying process has helped increase our margins, for example through the way that we procure our fabric. We used to source our linen from 28 fabric mills. Now, we use eight. Consolidating the number of mills has allowed us to create efficiencies, save time and be smarter in how we buy.



Better availability is key to boosting our margins, but some of the behind-the-scenes systems and processes which regulate this are over 25 years old. Our GM4 Programme is changing this – we are overhauling everything from our merchandise planning systems to our allocation and replenishment systems. GM4 will make us more efficient and more profitable.



OUR PLAN IN ACTION:

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IMPROVE GM PERFORMANCE (WOMENSWEAR)

When we see a trend coming, we work quickly to interpret it for our customers. As the UK market leader in Womenswear denim, we knew that the recent denim catwalk trend would resonate with our shoppers. With strong editorial backing on M&S.com, a feature in Vogue, bold in-store visual merchandising and joined-up marketing, our range was a hit. We sold 4.3m pairs of women's jeans, up 7% on the year.



Customers love newness, so we've made sure that we send more to more stores, with new lines landing in store every 2-3 weeks. Our Limited Edition range is now in all stores and our Rosie for Autograph lingerie and sleepwear is in the majority of stores, giving more choice to more of our customers, no matter where they live.



Over 70% of our female customers deem the fit of a garment to be the number one determining factor of quality. Our Fit Development team, which is unique to M&S, undertook a major project to ensure a consistent, good fit across all our brands. It has resulted in a 20% reduction in customer complaints about fit. We want our customers to feel confident about finding stylish clothes that fit and flatter, whatever they buy.



OUR PLAN IN ACTION:

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STRONG CASH GENERATION

Prudent cost management has led to strong cash generation across the business. We run our stores more efficiently than in the past. This year we launched a new Resource Planning System to increase the effectiveness of our colleagues' work patterns. We also saw the benefits of a new payroll system which centralised administration. Our free cash flow before dividends was £524.2m this year, compared to £427.9m last year.

+ See more in **Financial review** on p14-17



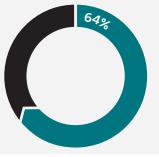
We have become a more agile and flexible organisation, resulting in improved working capital. Tactical supply chain initiatives such as our move to 'push allocation' – whereby stock is replenished automatically based on customer demand – have resulted in better, more efficient stocking, saving us time and money.



Capital expenditure this year fell to £527m, from £710m, following a period of major investment to bring our infrastructure up to date. We are now in a good position to maintain our existing assets while also having the headroom to invest in new ones as we fulfil our ambition to be an international, multi-channel retailer.

OUR PERFORMANCE

KEY PERFORMANCE INDICATORS

GROUP FINANCIAL OBJECTIVES				
OBJECTIVE	KPI	DEFINITION	2014/15 DATA	
Grow Group revenue	GROUP REVENUE ✓	Total Group sales including retail sales for owned business and wholesale sales to franchise partners. Group revenue was broadly flat year-on-year, with the growth in Food sales offset by the decline in CM and International.	£10.3bn Level	Group revenue £bn  11/12 12/13 13/14 14/15
Increase earnings and returns	UNDERLYING GROUP PROFIT BEFORE TAX ✓	Underlying profit provides additional useful information on the underlying performance of the business adjusting for income and significant one-off charges. Underlying PBT grew as a result of a significantly improved performance in the UK business.	£661.2m +6.1%	13/14 £622.9m 12/13 £648.1m 11/12 £705.9m¹
	RETURN ON CAPITAL EMPLOYED (ROCE) ✓	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 an increase in average net operating assets, partially offset by an increase in underlying earnings.	14.7% LY14.8%	13/14 14.8% 12/13 15.8% 11/12 16.4%¹
	UNDERLYING EARNINGS PER SHARE ✓	Earnings per Share (EPS) is the underlying profit divided by the average number of ordinary shares in issue. The weighted average number of shares in issue during the period was 1,635.6m (last year 1,615.0m).	33.1p +2.8%	13/14 32.2p 12/13 31.9p 11/12 34.9p¹
	DIVIDEND PER SHARE	Dividend per share declared in respect of the year. The Board is recommending a final dividend of 11.6p per share, resulting in a total dividend of 18.0p, 1.0p above last year.	18.0p +1.0p	13/14 17.0p 12/13 17.0p 11/12 17.0p
Strong cash generation	FREE CASH FLOW (PRE DIVIDEND) S	Free cash flow is the net cash generated by the business in the period before dividend payment. Improvement was driven by better working capital management and improvements in underlying EBITDA.	£524.2m +22.5%	13/14 £427.9m 12/13 £204.1m 11/12 £385.2m
NON-FINANCIAL MEASURES				
Improve product sustainability	PRODUCTS WITH A PLAN A QUALITY ✓ A	A quality or feature regarded as a characteristic or inherent part of a product which has a demonstrable positive or significantly lower environmental and/or social impact during its sourcing, production, supply, use and/or disposal.	64% +7%	M&S products 2013/14 57% 2020 target 100%  Plan A quality
Reduce impact	GROSS GREENHOUSE GAS EMISSIONS A	Total gross CO ₂ e emissions resulting from M&S operated activities worldwide. We continue to offset emissions to a net figure of zero (carbon neutrality).	592,000 CO₂e +4.4% ²	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).
	GROSS GREENHOUSE GAS EMISSIONS PER 1,000 SQ FT A	Total gross CO ₂ e emissions per 1,000 sq ft resulting from M&S operated activities worldwide.	30 tCO₂e/1,000sqft Level	

FIND OUT MORE

+ Read about Our Plan on p06-11

+ Read more on Remuneration on p27-29

STRATEGIC OBJECTIVES					
OBJECTIVE	KPI	FOOD	GENERAL MERCHANDISE	M&S.COM	INTERNATIONAL
Driving growth	SALES REVENUE S	UK REVENUE £5.2bn +3.4% 13/14 £5.1bn Definition UK Food sales including retail sales for owned business and wholesale sales to franchise partners. 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 REVENUE £4.0bn -2.5% 13/14 £4.1bn Definition UK GM sales including retail sales for owned business. Customers recognised the improvements in the style and quality of our clothing. Demonstrated improvements with positive GM sales growth in the last quarter.	TOTAL ONLINE SALES £636.5m ³ -2.0% Total online sales £m  Definition Total multi-channel revenue including web to home and Shop Your Way transactions. M&S.com sales returned to growth in the fourth quarter and we saw gradual improvement across all key metrics.	REVENUE £1.1bn -5.7% International revenue £bn  Definition Sales from the International business including retail sales for owned business and wholesale sales to franchise partners.
Reaching customers	SALES GROWTH/ SPACE GROWTH/ ONLINE VISITS S	UK LFL SALES GROWTH 0.6% Definition Sales growth from those stores which have been open for 12 months. The Food division has seen 22 quarters of positive like-for-like sales growth. UK SPACE GROWTH +2.9% Definition Year-on-year increase in weighted average selling space. We continued to grow our successful Simply Food store format.	UK LFL SALES GROWTH -3.1% Definition Sales growth from those stores which have been open for 12 months. Demonstrated improvements with positive GM sales growth in the last quarter.	WEEKLY SITE VISITS 6.1m +10.9% Definition Weekly visits to our UK desktop, tablet, mobile and app sites. Over 7 million customers have now registered on M&S.com.	INTERNATIONAL SPACE GROWTH 7.1% Definition Year-on-year increase in weighted average selling space. We opened 25 net new International stores this year.
Improve profitability	GROSS MARGIN/ PROFITS S	UK CROSS MARGIN 32.8% +30bps 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 as we eliminated inefficiencies by streamlining our processes.	UK CROSS MARGIN 52.6% +190bps 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. GM gross margin improvement was largely as a result of better buying and sourcing, resulting in an overall increase in profitability.	UNDERLYING OPERATING PROFIT £92.3m -24.8% Definition Year-on-year increase or decrease in operating profit generated by the International business. Profit was impacted by macroeconomic challenges in our Middle East region and the weakening euro.	
Our plans for the future	For 2015/16, the directors' remuneration targets will include cash flow, GM UK LFL sales, GM gross margin, M&S.com sales growth, and International sales and operating profit.	We see a material sales opportunity and a more modest gross margin opportunity. We will continue to exploit the opportunity in our Food business – maintaining our specialist strategy and growing our Food space.	We see a material gross margin improvement opportunity, with a more modest sales growth opportunity. In the year ahead we will continue to deliver gross margin benefits through a combination of a more direct approach to sourcing and improved trading capabilities.	Our website and distribution centre are powerful engines for growth. Our investment in them will help drive online sales growth and increase online profitability.	We see a long-term growth opportunity across a number of international markets. We anticipate that in the short term we will continue to be impacted by this year's weakening euro and challenging macroeconomic backdrop.

Linked to remuneration

- For the year ending 2011/12 no restatement for the revised IAS 19 'Employee Benefits' has been made.
- For the year ended 2013/14, we have made adjustments to exclude a warehouse that is no longer under our operational control and include five smaller international warehouse locations.
- M&S.com sales for the year ending 2014/15 are on a post store returns basis. M&S.com sales have been restated on a consistent basis for years 2011/12 to 2013/14.

OUR PERFORMANCE

FINANCIAL REVIEW



Strong financial disciplines are at the heart of how we run the business.

HELEN WEIR CHIEF FINANCE OFFICER

OVERVIEW

In 2014/15, we made progress in the delivery of our strategy, with sales of £10.3bn level on last year, and underlying profit of £661.2m, up 6.1%. Underlying earnings per share were 33.1p, up 2.8% on last year.

Strong financial management is at the heart of our strategic priorities. Focusing on margin and cash generation, we have finished the year in a stronger financial position and delivered improved returns for shareholders, with a total dividend of 18.0p and significant share price growth over the period.

FINANCIAL HIGHLIGHTS

UK Food revenue was up 3.4% and we outperformed the market by 3.5%. Food gross margin was up 30bps at 32.8% as we eliminated inefficiencies by streamlining our processes.

UK GM revenue was down 2.5% year-on-year. However, this decline was offset by the stronger gross margin. We delivered gross margin improvement of 190bps at 52.6%. 180bps of the increase was a result of improvement in the buying margin driven by the shift to direct design and sourcing which allow us to buy more effectively.

Whilst M&S.com delivered sales of £636.5m, down 2% on last year, we saw a steady improvement in performance, exiting the year with growth of 13.8% in Q4.

UK operating costs were up 1.5% against last year, to £3.2bn. However, 2.4% of this growth was accounted for by depreciation and asset impairments, meaning that the remaining costs were down, demonstrating our tight control of costs and the benefit of initiatives such as better resource allocation in stores and new contractual terms with our main Food logistics supplier.

Whilst some key owned international markets continued to perform well despite challenging trading conditions, macroeconomic issues significantly impacted International second half profit, particularly in our franchise business. Wholesale shipments to our franchise partners in our Middle East region slowed as a result of some destocking. A review of our International store estate, coupled with the adverse euro exchange rates and tough consumer environment, resulted in writedowns of £37.2m relating to certain underperforming stores in Western Europe, Ireland and China.

M&S Bank performed well with underlying profit contribution of £60.2m, up 5.3%, and there was good take up of the fee-free current account launched in May 2014.

STRONG CAPITAL MANAGEMENT

Improved performance and effective balance sheet management have resulted in strong cash generation. As a result, our net debt position has reduced by £240.4m to £2.2bn. Fixed charge cover was 3.6 times, broadly level with last year.

We performed well against the criteria we set out for capital allocation at the start of the year:

- Strong free cash flow pre dividends of £524.2m, up 22.5% on last year;
- Reduced capital expenditure of £526.6m down by £183.0m;
- Full year dividend at 18.0p, up 5.9% on last year, in line with our progressive policy;
- BBB minus rating, in line with our commitment to maintaining an investment grade rating;
- Net debt/EBITDA ratio of 1.7x, comfortably within our ratio range of 2.0x–1.5x.

After a period of significant investment, our ROCE has now stabilised. By ensuring we achieve the appropriate balance between investment for growth and investment to maintain the business, we expect our returns to improve going forward.

DELIVERING RETURNS TO SHAREHOLDERS

Following the recent programme of investment, we now have a stronger, more capable business. While there is still more to do, the reduction in capital investment and the improving business performance will lead to strong cash generation.

The Board is now setting out a clear capital allocation policy:

- Commitment to a strong balance sheet, including maintaining an investment grade credit rating;
- Continuing to invest in the business for growth, underpinned by strong investment disciplines;
- Progressive dividend policy, broadly twice covered by earnings; and
- Returning any surplus cash generated to shareholders on a regular basis.

Consistent with this approach, we have announced an ongoing programme of returns of capital to shareholders. In 2015/16, we expect to return £150m of cash to shareholders in the form of a share buyback programme. This is the first of what is expected to be an ongoing programme of returns, with the quantum and method determined by the Board each year based on the performance and needs of the business.

FIND OUT MORE

⊕ See our Key performance indicators on p12-13

⊕ See Our plan and Strategic priorities on p06-11

⊕ See how performance links to Remuneration on p28-29

INVESTING IN OUR INFRASTRUCTURE

Investment to make our supply chain fit for the future continued with a focus on our GM IT systems and logistics network. Upon completion, these two interdependent projects will deliver greater supply chain flexibility and better availability for our customers. In IT, we completed the Allocation & Replenishment element of our GM4 programme, implementing a new stock distribution system that allocates stock to stores based on demand, ensuring our customers can get the products they want in the location in which they want them. In logistics, we continue to reshape our GM warehouse network, and the next milestone will be the launch of our redeveloped Bradford National Distribution Centre in 2016.

MANAGING OUR PROPERTY PORTFOLIO

We added 1.5% of UK selling space, driven by our Simply Food growth programme. We opened 67 new stores this year, including 62 Simply Food stores. We closed 13 stores, of which five were relocations, as we continue to reshape our portfolio to ensure that our stores are in the most convenient locations. We expect Food space to increase by 4.5% in 2015/16, again driven by growth in Simply Food store numbers. Our strategy is for GM space to remain flat, although we will continue to manage our estate to improve the quality of stores for our customers.

SUSTAINABLE REPORTING

Our commitment to Plan A drives us to run our business efficiently. An effective, sustainable business plan ultimately

delivers value for shareholders. Investors recognise the long-term value of sourcing responsibly, cutting waste and using resources efficiently.

As members of the International Integrated Reporting Council and the Prince's Accounting for Sustainability project (A4S), we are committed to reporting the long-term value created by sustainable business. We have participated in projects supporting natural capital accounting, and we are taking part in the development of natural capital protocols led by the Natural Capital coalition, with the results due in 2016.

We are committed to managing and reporting our global tax affairs in keeping with our longstanding values and paying our fair share of tax. There is further detail on our tax contribution on page 16.

SUMMARY OF RESULTS

	52 weeks ended		
	28 Mar 15 £m	29 Mar 14 £m	% var
Group revenue¹	10,311.4	10,309.7	Level
UK	9,223.1	9,155.7	+0.7
International	1,088.3	1,154.0	-5.7
Underlying operating profit	762.5	741.9	+2.8
UK	670.2	619.2	+8.2
International	92.3	122.7	-24.8
Underlying profit before tax	661.2	622.9	+6.1
Non-underlying items	(61.2)	(42.5)	-44.0
Profit before tax	600.0	580.4	+3.4
Underlying basic earnings per share	33.1p	32.2p	+2.8
Basic earnings per share	29.7p	32.5p	-8.6
Dividend per share (declared)	18.0p	17.0p	

1. On reported currency basis.

OUR PERFORMANCE

FINANCIAL REVIEW CONTINUED

GROUP REVENUE

Group revenues were level (up 0.4% on a constant currency basis). UK revenues were up 0.7% in total with a like-for-like decrease of 1.0%. International revenues were down 5.7% (down 2.1% on a constant currency basis).

GROSS MARGIN

UK gross margin was up 75bps at 41.4% as a result of strong improvement in GM margin.

UK GM gross margin was up 190bps at 52.6% driven mainly by an improvement in buying margin as a result of sourcing initiatives. Despite a highly promotional marketplace, we remained focused on full price sales and we reduced the number of price promotions. However, clearance markdown was higher due to additional stock into sale as a result of unseasonal Autumn/Winter conditions.

Food gross margin was up 30bps at 32.8% due to ongoing operational efficiencies. The benefits realised through streamlining our operations have been reinvested in price and quality, and also shared with our suppliers to help them create further efficiencies.

OPERATING COSTS

	52 weeks ended		
	28 Mar 15 £m	29 Mar 14 £m	% var
Retail staffing	954.5	978.8	-2.5
Retail occupancy	1,116.4	1,054.4	+5.9
Distribution	408.7	445.5	-8.3
Marketing and related	167.6	147.7	+13.5
Support	560.2	533.2	+5.1
Total	3,207.4	3,159.6	+1.5

UK operating costs were up £47.8m (1.5%), with higher depreciation and asset impairments contributing £76.0m (2.4%) of the total increase.

Retail staffing costs were down in part as a result of lower volumes, but also helped by better resource allocation following the implementation of a new labour planning system. Our store customer satisfaction scores were up on the year.

The increase in occupancy costs mainly reflects increased depreciation and asset impairments arising from investment made in our UK store environment as well as the addition of new space in Food.

Distribution costs were down, reflecting new contractual terms with a key Food logistics supplier, the benefits of the first stage of our single tier network and lower volumes in GM.

Marketing and related costs increased due to the re-launch of the M&S brand, including new TV advertising campaigns across both Food and GM.

Support costs were up largely due to higher depreciation on the new M&S.com web platform and additional staff incentive costs this year, partially offset by the release of employee benefit provisions.

NET FINANCE COSTS

Net underlying interest payable was down 15.9% to £94.8m due to a decrease in the average cost of funding to 5.0% (last year 5.4%) and a £240.4m reduction in net debt. This has resulted in a decrease in net finance costs of £12.8m.

UNDERLYING PROFIT BEFORE TAX

Underlying profit before tax grew by 6.1% to £661.2m (last year £622.9m) as a result of the significantly improved performance in the UK business and lower interest costs.

NON-UNDERLYING PROFIT ITEMS

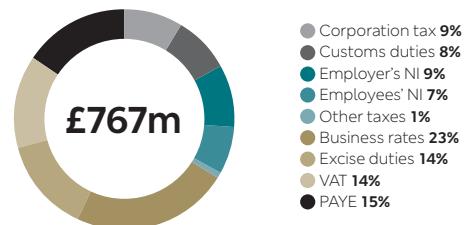
	52 weeks ended	
	28 Mar 15 £m	29 Mar 14 £m
Net M&S Bank charges incurred in relation to the insurance mis-selling provision	(13.8)	(50.8)
Restructuring costs	(4.6)	(77.3)
IAS 39 Fair value movement of embedded derivative	1.3	(3.5)
(Loss)/profit on disposal and impairment once commitment to closure	(6.9)	82.2
International store review	(37.2)	(21.9)
UK and Ireland one-off pension credits	—	27.5
Strategic programme costs	—	(2.0)
Fees incurred on tax repayment	—	(1.6)
Adjustment to operating profit	(61.2)	(47.4)
Interest income on tax repayment	—	4.9
Adjustment to profit before tax	(61.2)	(42.5)

Non-underlying adjustments to profit were £61.2m net charge (last year £42.5m net charge). The main element of these charges is a provision for impairment in underperforming stores in Western Europe, Ireland and China.

TAXATION

The full year underlying effective tax rate was 18.9% (last year 18.8%) and statutory effective tax rate was 19.7% (last year 12.8%).

TOTAL TAX CONTRIBUTION



In 2015 our total cash tax contribution to the UK Exchequer was £767m (2014: £803m¹); split between taxes ultimately borne by the Company of £388m (2014: £372m) (i.e. corporation tax, customs duties, employer's NIC, business rates and sundry taxes) and taxes attributable to the Company's economic activity which are collected on behalf of the government of £379m (2014: £431m¹) (i.e. PAYE, employees' NIC, value added tax, excise duties and sundry taxes).

1. The 2014 numbers have been restated to exclude PAYE in relation to pensioners paid by the M&S Pension Trust.

UNDERLYING EARNINGS PER SHARE

Underlying basic earnings per share increased by 2.8% to 33.1p per share. The weighted average number of shares in issue during the period was 1,635.6m (last year 1,615.0m).

DIVIDEND

We are pleased by the improvement in cash generation over the year. Following the increase in the interim dividend, the Board has proposed a 7.4% increase in the final dividend to 11.6p. This will result in a total dividend of 18.0p, up 5.9% on last year.

CAPITAL EXPENDITURE

	52 weeks ended	
	28 Mar 15 £m	29 Mar 14 £m
UK store environment	92.7	163.2
New UK stores	63.5	89.4
International	37.5	69.0
Supply chain and technology	273.8	346.2
Maintenance	94.5	67.2
Proceeds from property disposals	(35.4)	(25.0)
Total capital expenditure	526.6	710.0

Group capital expenditure was down £183.4m versus last year, as many of our large infrastructure projects have now been completed.

The largest proportion of spend continued to be on supply chain and technology as we developed our single tier distribution network and continued to roll out our CM4 commercial systems.

We also continued to invest in our UK store estate to create a more inspiring environment, including the launch of our new look and feel Menswear departments.

The proceeds from property disposals mainly relate to the deferred consideration from the sale of the White City warehouse, which is being received over three years.

CASH FLOW AND NET DEBT

	52 weeks ended	
	28 Mar 15 £m	29 Mar 14 £m
Underlying EBITDA	1,312.6	1,219.7
Working capital	179.5	47.9
Pension funding	(143.0)	(92.0)
Capex and disposals	(664.4)	(616.6)
Interest and taxation	(177.1)	(175.2)
Share transactions	16.6	44.1
Free cash flow pre dividends	524.2	427.9
Dividends paid	(280.7)	(273.6)
Free cash flow	243.5	154.3
Opening net debt	(2,463.6)	(2,614.3)
Exchange and other non-cash movements	(3.1)	(3.6)
Closing net debt	(2,223.2)	(2,463.6)

The business delivered strong free cash flow pre dividends of £524.2m which, after the payment of dividends, led to a reduction in net debt of £240.4m. The improved free cash flow reflects stronger business performance resulting in £1,312.6m of underlying EBITDA, an increase of £92.9m (7.6%) on last year. In addition, there was a £179.5m reduction in working capital, due to lower inventory levels and also higher creditor levels, in part due to the earlier timing of Easter this year. In addition, it includes an ex-gratia payment of £40.0m (last year nil) from HSBC following agreement reached over a number of issues in connection with the Relationship Agreement. These movements are partially offset by capital expenditure cash payments of £664.4m. These are higher than our actual capital expenditure as a result of high prior year end capex accruals which were paid in the first half of this year. Pension funding includes £56.0m of additional deficit reduction funding contributions paid into the UK defined benefit scheme during the year.

SUPPLIER INCOME

The Financial Reporting Council (FRC) has asked retailers "to provide investors with sufficient information on their accounting policies, judgements and estimates arising from their complex supplier arrangements". Due to our focus on own brand products, supplier income is a relatively small proportion of our value of stock expensed. As at the year end, accrued income in relation to supplier income was £13.5m (last year £9.3m).

PENSION

At 28 March 2015 the IAS 19 net retirement benefit surplus was £449.0m (last year £189.0m). The increase is due to movement in the UK defined benefit surplus, specifically an increase in the market value of scheme assets attributable to higher than expected returns. This is partly offset by an increase in the present value of scheme liabilities due to a decrease in the discount rate from 4.45% to 3.10% from the movement in corporate bond yields.

The Strategic Report, including the market context on pages 18 to 19 and risk management on pages 21 to 23, was approved by a duly authorised Committee of the Board of the Directors on 19 May 2015, and signed on its behalf by



Helen Weir Chief Finance Officer
19 May 2015

OUR PERFORMANCE

MARKETPLACE

In a fast-changing retail world, it is crucial that **we listen to our customers and understand their needs**. Our Customer Insight Unit (CIU) analyses **responses from 60,000 customers a month**. It combines this feedback with market research to monitor the consumer climate and understand how it is influencing shopping behaviour.

OVERVIEW

The UK economy continues to improve. Unemployment is falling and house prices are rising. Last summer, consumer confidence moved into positive territory for the first time since March 2005. As a result of the more optimistic outlook, there has been a gradual opening up of purses and wallets. Rather than increasing their everyday spending, people are looking to spend on the big purchases they put off in the downturn. This spending, however, is accompanied by a healthy dose of caution. Consumers still feel bruised by the credit crisis; they are looking to save, and spending remains careful and considered.

Feelings of stability among UK consumers have also been dented by a year of upheaval abroad. From the Middle East to Russia and Ukraine, the last 12 months have been tumultuous. This has tempered people's positivity. Domestically, the Scottish independence referendum and the recent general election had similar effects. People like certainty, and there is always uncertainty around the outcome of such events.

UK

We saw more confidence among our customers this year. They told us that they are feeling secure, stable and cautiously optimistic.

Although clothing sales were down year-on-year, customers were investing more in our 'better' and 'best' products. People told us they were excited to shop with us. They particularly loved the colours and vibrancy of our Spring/Summer 2015 collections. This renewed confidence was reflected in fewer promotions than last year. The shift towards convenience store shopping within the food market means there is intense competition for a limited number of sites. In order to help us address this challenge we have put in place a Simply Food surveying team to identify and secure the best located sites and we also benefit from our longstanding franchise partnerships with the likes of BP and SSP. Customers in our smaller stores told us they wanted greater choice when they shopped. We responded by increasing the ranges available in those stores. When

it came to our in-store environment, customers told us that our stores are now more exciting and enjoyable places to shop.

But we also benefited from the continuing undercurrent of caution among shoppers. With consumers' focus on clever spending, they want to buy once and buy well, and turn to brands they can trust and whose quality can be relied on, like M&S.

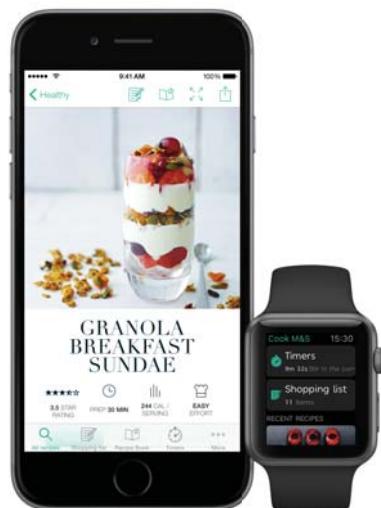
Consumers' emphasis on celebrating life and indulging their loved ones played to our Food division's strengths. Our mission in Food is to excite customers with the newness, quality and difference of our products, and we continued to distinguish ourselves with unrivalled innovation. Britain is fast becoming a nation of foodies and, in an intensely price focused market, we focused on offering high-quality, good value food to our customers. As a result, we outperformed the market once again. There is a sense of discovery in buying food at M&S, and our customers trust us when it comes to scouring the world for the best there is. We excelled during events such as Christmas and Valentine's Day. And we extended our events beyond dates in the calendar; our summer-long food campaign saw us promote our barbecue, grill and world food ranges throughout the season.

INTERNATIONAL

Convenience continues to drive growth in the European food market, with demand in France particularly strong. This presents good growth opportunities for our international Food offer and we opened six standalone Food stores in Paris this year in convenient city centre and transport locations. Following the popularity of our online stores on China's leading websites and in response to the expanding Chinese children's clothing market, we launched a dedicated Kidswear store on Tmall.com, which resulted in exceptional year-on-year growth. We continue to target the growth of the middle class and the expanding lingerie market in India with our Lingerie & Beauty stores. Our overseas shoppers see M&S as a respected brand and they like the fact that we are firmly grounded in our Britishness.

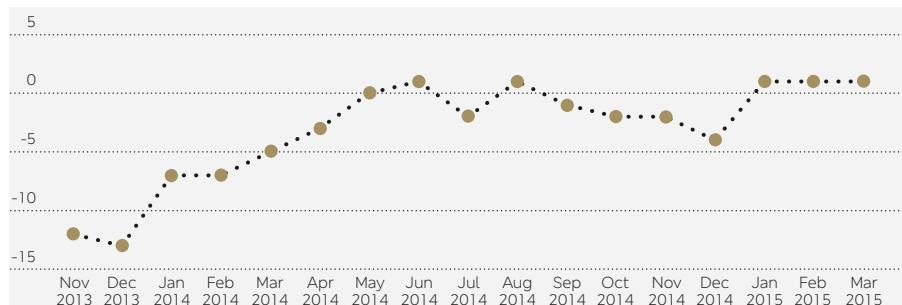
TECHNOLOGY

Technology continues to shape how customers shop. The proliferation of different channels – stores, online, tablet, mobile – is turning shopping into a seamless experience. Mobile is increasingly the first port of call for consumers' research and the number of shoppers using smartphones to search for clothing increased by more than half over the last year. Visits to M&S.com via mobile were also up 51%. We have adopted a mobile-first approach to digital development, ensuring the primary devices our customers use are at the heart of the design. The pace of change in technology continued – with the launch of some of the first wearable tech devices. Our Digital Labs team – made up of product design specialists and data scientists – ensure we stay at the forefront of technological developments. The team uses the agile techniques of the start-up world to help us test and validate new ideas and concepts and apply the learnings as quickly and efficiently as possible. For example, the team was able to develop our popular Cook with M&S app for the Apple Watch ahead of its UK launch.



CONSUMER CONFIDENCE INDEX

Last summer, consumer confidence moved into positive territory for the first time in almost a decade as people felt more secure about the macroeconomic environment. Although it has fluctuated since, confidence has remained consistently higher than in previous years. There remain regional differences throughout the UK. But wherever they are, consumers are looking for both value and quality.



Customer Insight Our customers tell us they want an inspiring shopping experience every time they enter an M&S store or visit our website. They also want to see ranges that are creative and exciting. We seek to inspire our customers with every product they buy from us, be it a prepared meal or a raincoat.

INSPIRATION

Products & Channels Our ranges were positively received by the fashion press this year. Customers' feedback about the quality and style of our clothing ranges has improved, and they have noticed the better fit of our clothing. With our Food ranges we want to delight our customers and we independently test all our products for taste and quality, ensuring our products are always a cut above the rest.

Brand & People Our new M&S logo emphasises the heritage and quality for which we are known. It is just one of the ways that we have inspired customers this year. At Christmas, we carried out random acts of kindness all across the UK. The strategy forged a warm connection between our people and our customers at a special time of year.

INNOVATION

Customer Insight We know our customers look to M&S for innovative ideas. In a crowded retail market, they want to know that when they shop with us they will get high-quality products that are only available at M&S and are better than ever before.



Products & Channels Over a quarter of our Food products were new this year. And our clothing ranges were constantly refreshed with wearable interpretations of the latest trends. As the UK market leader in lingerie, our bra fit service is popular with our customers, however one in four will not go into store for a bra fit. So our team of software engineers developed a digital solution. Our digital Bra Fit tool gives customers an accurate and convenient way of measuring themselves in the privacy of their own home.

Brand & People Store presentation is crucial; we have great products and we want to showcase them at their best. So this year around 5,000 colleagues trained in The M&S Way, supported by an innovative online learning tool to promote consistent visual merchandising standards across our GM ranges. Our marketing campaigns constantly break new ground. Our 'Adventures In...' Food ads used new photography techniques to showcase our food innovation with dancing fruit and bursting berries.

INTEGRITY

Customer Insight Our customers tell us that they trust us to do the right thing. At M&S, we pride ourselves on the high levels of integrity in our products and in our supply chain. In a competitive and challenging food market, customers know that we will not cut corners when it comes to the quality and provenance of the food that we sell.



Products & Channels Traceability is key. Due to our close relationship with our suppliers, we can pinpoint the very herd that produces any particular batch of our milk. This year, a third of our food products came from Gold and Silver sustainability standard producers, in line with our Plan A target. Today, 64% of our food and clothing products have a Plan A quality, up from 57% last year. The quality either relates to the materials that the products are made from or to the manufacturing process.

Brand & People Since we started our Shwopping initiative in 2012, customers have shwopped 10.6 million clothing garments for Oxfam, worth £7.3 million to the charity. Our Behind the Barcode initiative ensured that colleagues in our International stores were up to speed when it came to brand awareness and the service standards that make M&S a world-class retailer.

IN TOUCH

Customer Insight To stay relevant, our customers tell us we need to stay in touch with them, so we constantly talk to them and monitor their spending habits. As well as analysing responses from 60,000 customers a month, our CIU looks at 600 million unique customer transactions a year. We use the data to help us give our customers a great experience every time they shop with us.



Products & Channels It is crucial that we are in touch with our customers through every channel available. M&S.com uses bespoke content to communicate with our customers 24 hours a day and is regularly updated to take into account customer feedback. Social media is an increasingly important way of communicating and we have a social media 'audience' of over 2.6 million via platforms and websites such as Twitter, Instagram and Facebook.

Brand & People We pride ourselves on the connections we have with the communities in which we work – staying in touch with the communities where we operate is central to Plan A. Whether it's through the volunteer work of our store colleagues, through our partnerships with local charities, or via community-based initiatives like the Big Beach Clean-Up, we aim to be a force for good in the towns and cities where we have stores and operations.

OUR PERFORMANCE

PEOPLE BEHIND THE PLAN

OVERVIEW

Our people are at the very heart of M&S: bringing our values to life and putting our strategy into action. To create value for our shareholders we must engage employees across the business in our strategic plans and ensure we have the right people, with the right mix of skills to drive our growth ambitions.

ENHANCING LIVES, EVERY DAY

We have done a lot of work this year to ensure that we have the correct management structures in place to deliver on our promise of enhancing lives, every day. In the face of changing shopping habits, we have to make sure that our framework is fit for the future.

Last summer we realigned our executive team's responsibilities to ensure greater accountability across the business. We also streamlined our processes and introduced more collaborative ways of working throughout the Company to speed up decision-making.

Our four new core values underpin everything we do: Inspiration, Innovation, Integrity and In Touch.

OUR LEADERSHIP TEAM

The changes we made last June saw UK Retail and International represented at Board level for the first time. To reflect the increasingly 'channel neutral' outlook of our customers, Laura Wade-Gery assumed responsibility for UK Retail as well as Multi-channel.

Patrick Bousquet-Chavanne took on responsibility for International, as well as Marketing, to help bolster M&S's global brand position.

We were delighted to welcome Helen Weir onto our Board as Chief Finance Officer on 1 April 2015. Helen, who replaced Alan Stewart, brings with her a wealth of retail, consumer and financial experience. She was formerly Chief Finance Officer at the John Lewis Partnership. Prior to that she held senior positions at Lloyds Banking Group and Kingfisher.

Our Management Committee helps shape our annual business priorities and drives the delivery of our plan. To ensure that all areas of our business work as one team, it was extended to ensure it is fully representative of the entire business. The Management Committee is ably supported by the Senior Leadership Group, whose key objective is to drive a high performance culture and promote a wide understanding of our plans and priorities, so that every employee feels clear and confident about the direction of our business.

A NEW APPROACH

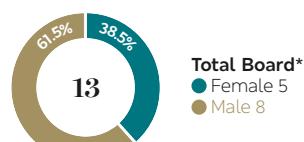
In order to support the organisational changes, we launched a new leadership programme – Fit to Lead The Future. Designed to equip our people with the insights and practical techniques to build and lead high performing teams, it will ensure our leaders understand what's required of an organisation to remain sustainable in a quickly changing world. We are also running engagement events for our 1,300 head office employees who have responsibility for directly managing individuals or teams to ensure they understand the important role that they play in driving high performance. Our new values are reflected in our employee policies, including the behaviours we look for when we recruit, the induction of new employees, in performance management and as part of our development programmes.

**MANAGEMENT COMMITTEE**

Marc Bolland
Chief Executive
Patrick Bousquet-Chavanne
Executive Director,
Marketing & International
John Dixon
Executive Director,
General Merchandise
Steve Rowe
Executive Director, Food
Laura Wade-Gery
Executive Director,
Multi-channel
Helen Weir
Chief Finance Officer

Hugo Adams
Director of Property
Development & Facilities
Management
Andy Adcock
Director of Food Trading
Costas Antimissaris
Director of International
Mike Barry
Director of Plan A
Sacha Berendji
Director of Retail
Carl Dawson
Director of IT
Florence De Boosere
Global Director of Store
Environment & Product
Presentation
Tanith Dodge
Director of HR

Belinda Earl
Style Director
Paul Friston
Executive Assistant & Business
Development Director
Dominic Fry
Director of Communications
& Investor Relations
Dirk Lembregts
Director of Supply Chain
Amanda Mellor
Group Secretary & Head of
Corporate Governance
Chris Taylor
Business Improvement Director
David Walmsley
Director of M&S.com
Rob Weston
Global Brand & Marketing
Director

EMPLOYEE DIVERSITY AS AT 31 MARCH 2015

* Includes Helen Weir and Richard Solomons, who both joined the Board in April 2015.

OUR PERFORMANCE

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.

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 to form a consolidated view of risk. 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 final review and approval by the Group Board.

To ensure that 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.

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. This year we have placed significant focus on developing our approach to risk appetite.

The objective of our risk management approach is to identify and assess all significant risks to the achievement of our strategic objectives. Risk appetite is an important consideration in strategic decisions made by the Board. It is an expression of the types and amount of risk we are willing to take or accept to achieve our plan and should support the definition of mitigating activities required to manage risk likelihood and impact to within acceptable levels. By defining our risk appetite we aim to support consistent, risk-informed decision-making across the Group.

This year we have taken steps to strengthen our approach to risk appetite, starting with the definition of draft, Group-level risk appetite statements. The purpose of these is to articulate the Board's desired risk-taking approach to the achievement of our strategic objectives, in the context of managing our principal risks. During the 2015/16 financial year we will further develop our approach to risk appetite, refining these statements and integrating them with our wider risk management processes.

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 uncertainties and the mitigating activities in place to address them. It is recognised that the Group is exposed to risks wider than those listed. However, we have disclosed those we believe are likely to have the greatest impact on our 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.

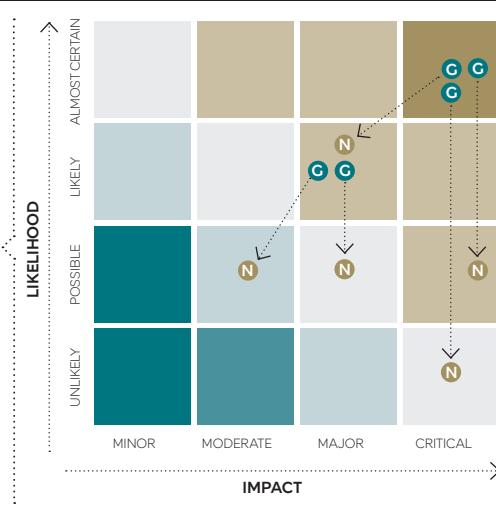
The 'risk radar' below maps our principal risks against these categories. This tool is also used to facilitate wider Executive and Board level discussions on risk.

RISK LIKELIHOOD AND IMPACT

Identification
Risks highlighted and documented in a centrally managed Risk Register

Assessment
Risks assessed in terms of likelihood of occurrence and potential impact on the Group

Mitigation
Required actions are agreed and assigned, with target deadlines and quarterly status updates



G GROSS RISK LEVEL BEFORE MITIGATION

N NET RISK LEVEL AFTER MITIGATION

RISK RADAR



OUR PERFORMANCE

PRINCIPAL RISKS AND UNCERTAINTIES

RISK	DESCRIPTION	MITIGATING ACTIVITIES
BRAND AND REPUTATION		
1	GM CUSTOMER ENGAGEMENT Continued loss of engagement with our customer	<p>As we strengthen our brand recognition and reassert our GM quality and style credentials, it is important that we understand and address our customers' needs in an increasingly competitive market.</p> <ul style="list-style-type: none"> → Regular engagement with customers through data gathered by our Customer Insight Unit and focus groups. → Updated brand positioning and marketing approach with greater emphasis on product. → Continued focus on product quality and style, including adherence to our Clothing Quality Charter.
2	FOOD SAFETY AND INTEGRITY A food safety or integrity related incident occurs or is not effectively managed	<p>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 as we grow our global food business and given 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 product quality. → Proactive horizon scanning, including focus on fraud and adulteration.
3	FOOD COMPETITION Loss of market share, due to changes in the competitive landscape or customer behaviours	<p>With the current upheaval amongst the supermarkets and the polarisation between value and premium, it is important that we continue to provide a point of difference through product quality, value and innovation, as well as convenience.</p> <ul style="list-style-type: none"> → Significant focus on product innovation to retain point of difference and drive customer loyalty. → Continued focus on product availability to customers.
DAY-TO-DAY OPERATION		
We are a customer-centric business and strive to deliver an efficient and effective operation		
4	GM MARGIN Failure to improve margin whilst maintaining our quality and Plan A standards	<p>As we drive increased GM margin through improved design and sourcing capability it is essential that we maintain our ethical sourcing standards and continue to drive improvements to product quality.</p> <ul style="list-style-type: none"> → Margin targets defined and regularly monitored. → Robust and established supplier ethical audit programme in place.
5	INFORMATION SECURITY We experience a major breach in cyber, system or information security	<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 including policies, procedures and security technologies.
6	IT CHANGE Unforeseen impact of IT changes to new and existing systems disrupts business operations	<p>As we undertake a number of significant change programmes, the rate and scale of IT change is substantial, with potential to significantly impact our complex and interdependent systems.</p> <ul style="list-style-type: none"> → Clear decision-making process for system changes, including established Change Approval Board process and change freezes during critical trading periods.

RISK	DESCRIPTION	MITIGATING ACTIVITIES
SELLING CHANNELS		
7	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	As our online traffic grows and our network infrastructure and operating model evolve, it is increasingly important to ensure that the M&S.com business and key dependencies are resilient. → Dual site M&S.com command centre operates 24/7 to monitor website availability and performance. → Social media monitored to observe and respond to trends in customer experience.
8	INTERNATIONAL EXPANSION Our plan to grow our International business is limited by global volatility, the start up profitability of new markets or substandard infrastructure	As we continue to increase our international presence and build a leadership 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. It is also critical that we have systems in place to ensure that we can respond proactively to any geo-political issues, and to local regulatory matters, including taxation. → Geographic spread mitigates against localised geo-political or economic risks. → Local market knowledge provided by franchise and joint venture partnerships. → Performance monitoring by region, country and store, including focus on like-for-like performance and action planning for poor performing stores.
PEOPLE AND CHANGE		
9	OUR PEOPLE Our organisational culture and structure limit our ability to adapt to market changes with pace	As our evolution to a truly international, multi-channel retailer continues, it is essential that our organisational set-up allows us to respond to market changes and competition with pace. → Robust employee engagement process. → Alignment of employee development programmes with business strategy.
10	STAFF RETENTION Failure to retain key people due to offers from competitors or loss of confidence in the business	From our expert food technologists and product developers to our recently strengthened GM design teams, our people are in demand from our competitors. → Succession planning in place for key roles and senior leaders. → Performance management process and bonus scheme structure focused on rewarding high performers.
11	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. → Our Strategic Programme Office provides central governance for major Group initiatives, including cross-programme inter-dependencies, supported by robust project management discipline.
12	GM SUPPLY CHAIN AND LOGISTICS NETWORK We fail to evolve our supply chain and logistics network to maximise availability to customers and speed up delivery times	As we stabilise and leverage the capability of our Castle Donington distribution centre, we must continue to focus on the implementation of our single-tier network, to provide a modern and flexible infrastructure for our business. → Ongoing simplification and stabilisation of Castle Donington distribution centre ahead of peak 2015. → Phased approach to distribution centre transformation.

Notes: The Group Risk Profile will evolve as mitigating activities reduce net risk over time, or as new risks emerge. Two new risks have been added to the Group Risk Profile since the prior year (Food competition and Staff retention); the remaining risks have essentially remained the same. No risks have been removed from the Group Risk Profile since the prior year.

The risks listed do not comprise all those associated with Marks & Spencer and **the numerical referencing does not denote an 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.

GOVERNANCE

CHAIRMAN'S GOVERNANCE OVERVIEW



We have built a team with **the skills and experience to support our strategy and integrity** underpins all of our discussions.

ROBERT SWANNELL CHAIRMAN

OVERVIEW

As I mentioned earlier in this report, this has been another year of mixed progress for the Company. Our Food business delivered another very strong year in a difficult market. In Food we continue to pursue a clear strategy with a distinct and differentiated position, remaining true to our values and with a well articulated plan for future growth.

We are encouraged by the improved performance across the business in the final quarter 2014/15, particularly in GM and M&S.com. However, our full year performance was constrained by a number of issues associated with the necessary and significant transformation of our infrastructure, implemented in the last few years, and macroeconomic and performance issues impacting delivery in a number of key international markets.

The launch of our new website and our distribution centre at Castle Donington represented the completion of two significant investments, essential for the long-term growth of our business. This has been a key area of focus for the Board over the last two years. Yet, and despite rigorous planning and mitigation of potential risks, both experienced initial execution issues beyond those that we expected. We believe these issues are now resolved, or that plans are in place to resolve them, and both projects continue to be areas of focus for the Board.

As a Board we have taken away a number of learnings, particularly about our management of and approach to risk. The Board, supported by the Audit Committee, spent time discussing risk appetite across the business as well as our investment criteria. Whilst defining our approach to risk appetite remains a work in progress, we believe this will improve the quality of our investment process, the mitigation of associated risks and will deliver improved project implementation going forward. A greater understanding of risk appetite and its management will also support our ambition to become a more agile, innovative and entrepreneurial organisation, as embodied by 'Fit for the Future' and our updated values.

CULTURE AND VALUES

The scale of investment and transformation of the business over the last few years has necessitated this shift in our culture and behaviours. It will enable us to respond to the changing consumer landscape, the constant evolution in technologies, and our aim to be a leading international, multi-channel business. But while we adapt and move forward, we are clear that staying true to the M&S tenet of integrity is non-negotiable.

Integrity underpins all of our Board discussions, from debate on the management of our teams, to the safety and integrity of our food supply chain. It affects the way we implement the changes

required in our GM supply base to deliver our ambitious gross margin targets, while staying true to our high sourcing standards. It shapes how we operate in our international markets, and the management of our property assets. Integrity has protected the M&S brand and supported its reputation for over 130 years and the Board is focused on ensuring it continues to do so for the long term.

Having Integrity as a value also means being honest in how we judge our own performance as a Board and where we can do things better. We are disappointed not to have made more progress against our Board Action Plan this year. We are clear about how we can be more effective, and what information we need to monitor and challenge our progress and ensure proper debate.

I have highlighted before the importance of the Board as being critical friends. We have a strong team and we have had a number of robust discussions throughout the year on our execution issues at Castle Donington, the performance of the website and our International business, the results of unsatisfactory audits, our financial performance and progress against our targets. We have reflected, and will continue to debate openly the results of our Board evaluation and how we ensure we have the highest quality of debate, coupled with the right planning, information and environment to support this. We must do this to drive our effectiveness as a Board and to be fit for the future.

AS A BOARD WE REGULARLY DISCUSS AND DEBATE:
→ Strategy and Company performance
→ Culture and behaviour
→ Succession planning
→ E-commerce
→ The M&S brand
→ International
→ Supply chain
→ Risk
→ Property
→ Plan A 2020

UK CORPORATE GOVERNANCE CODE
The UK Corporate Governance Code 2012 (the 'Code') is the standard against which we were required to measure ourselves in 2014/15.
We are pleased to confirm that we complied with all of the provisions set out in the Code for the period under review.
A summary of our governance profile, outlining our compliance with key areas of the Code, has been set out on page 03 of the Strategic Report.
To keep this report interesting and engaging we continue to focus on the key insights from the business; however, further detail on how we comply with the Code can be found in our Corporate Governance Statement, available at marksandspencer.com/thecompany .

FIT FOR THE FUTURE

The introduction of 'Fit for the Future' brings greater focus on high performance, our teams, development and succession planning, all of which remain a key part of our Board and Committee agendas. Our Action Plan for the 2015/16 year is stretching and sets out specific objectives to improve our performance. The plan aims to support and enable greater debate and reflection, and enhance the quality of our decisions. Through the Action Plan, we aim to ensure that our values underpin the manner in which we operate as a Board at all times.

UK CORPORATE GOVERNANCE CODE

Our governance framework is reviewed and benchmarked against best practice every year. It sets out the roles, accountabilities and expectations for our directors and our structures. This format has been adopted widely across the business and can be viewed at marksandspencer.com/thecompany.

Governance at M&S is seen as an important element of our Board environment, which feeds into how we do business and is reflected in our Board effectiveness review. Our governance helps us test whether we are doing the right things in the right way, with the right safeguards, checks and balances, and whether the right considerations underpin every decision we take.

We continue to drive the agenda of diversity in its broadest sense across gender, experience, ethnicity and age.

MONITORING RISK

The Audit Committee has played a key role in ensuring that the appropriate governance and challenge around risk and assurance is embedded throughout the business. It is closely monitoring the management of the problems generated by M&S.com and Castle Donington.

APPOINTMENTS AND SUCCESSION

2014/15 saw significant changes to the Board. Following the resignation of Alan Stewart in July 2014 we undertook a thorough search process resulting in the appointment of Helen Weir, who joined the business as Chief Finance Officer on 1 April 2015. Helen brings considerable retail and finance experience and we are delighted to welcome her to the Board.

In March 2015, Jan du Plessis retired after six years on the Board. Jan has been succeeded in his role of Senior Independent Director by Vindi Banga, who maintains his existing role as Chairman of the Remuneration Committee. Subsequently, I have joined the Remuneration Committee and Miranda Curtis has joined the Audit Committee.

As a result of Jan's retirement, and in order to provide the necessary balance, Richard Solomons was appointed to the Board on 13 April 2015. We had a clear specification for this appointment and are delighted that he has joined our Board, bringing his experience as a serving CEO with great knowledge of operating an international, multi-channel consumer business. Both directors are undertaking a comprehensive induction programme.

These appointments bring new challenge and oversight to the Board. Their skills and experience build on our existing talent, standing us in good stead for the year ahead.

We are a more capable business following a sustained period of investment in our infrastructure and people. Our focus will continue to be on delivery of our strategy and improvement in shareholder returns.



ROBERT SWANNELL CHAIRMAN

GOVERNANCE
OUR BOARD

CHAIRMAN



- 1 **Robert Swannell**
Chairman
- 2 **Marc Bolland**
Chief Executive
- 3 **Helen Weir**
Chief Finance Officer
- 4 **Patrick Bousquet-Chavanne**
Executive Director,
Marketing & International
- 5 **John Dixon**
Executive Director,
General Merchandise
- 6 **Steve Rowe**
Executive Director,
Food
- 7 **Laura Wade-Gery**
Executive Director,
Multi-channel
- 8 **Vindi Banga**
Senior Independent Director
- 9 **Alison Brittain**
Non-Executive Director
- 10 **Miranda Curtis**
Non-Executive Director
- 11 **Martha Lane Fox**
Non-Executive Director
- 12 **Andy Halford**
Non-Executive Director
- 13 **Richard Solomons**
Non-Executive Director
- 14 **Amanda Mellor**
Group Secretary
and Head of Corporate
Governance

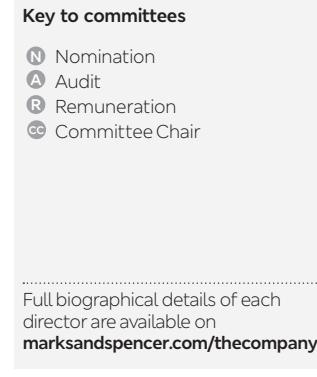
EXECUTIVE DIRECTORS



INDEPENDENT NON-EXECUTIVE DIRECTORS



GROUP SECRETARY



BOARD DIVERSITY

The Board diversity policy was launched in 2012 with the intention of ensuring that diversity, in its broadest sense, remains a central feature of the Board.

The Board continues to take positive steps towards broadening the diversity of both the Board and our senior management. Our Board Diversity policy on page 43 of the Annual Report sets out our ambitions with regard to diversity and what this means for our business, customers and stakeholders, as well as the progress we continue to make against those ambitions.

The tables and graphics opposite provide a visual outline of our Board diversity in terms of gender, range of experience and length of tenure.

GENDER DIVERSITY



EXECUTIVE
Male **67%**
Female **33%**



NON-EXECUTIVE
Male **57%**
Female **43%**



GROUP BOARD
Male **62%**
Female **38%**

BOARD EXPERIENCE



RETAIL
100%



CONSUMER
100%



FINANCE
39%



E-COMMERCE & TECHNOLOGY
46%

INTERNATIONAL EXPERIENCE



NON-EXECUTIVE TENURE



GOVERNANCE

REMUNERATION SUMMARY



Our remuneration framework is designed to ensure M&S is run with the **skills and expertise necessary to deliver our long-term priorities.**

VINDI BANGA CHAIRMAN OF THE REMUNERATION COMMITTEE

FIGURE 1: TOTAL SINGLE FIGURE REMUNERATION

	Year	Salary £000	Benefits ³ £000	Total Bonus ⁴ £000	Total PSP vested ⁵ £000	Pension benefits ⁶ £000	Total £000
Marc Bolland	2014/15	975	19	596	193	293	2,076
	2013/14	975	41	0	259	293	1,568
Patrick Bousquet-Chavanne¹	2014/15	525	36	222	59	131	973
	2013/14	380	29	0	–	95	504
John Dixon	2014/15	600	25	217	111	150	1,103
	2013/14	600	46	0	143	150	939
Steve Rowe	2014/15	525	42	653	60	131	1,411
	2013/14	525	53	0	77	131	786
Alan Stewart²	2014/15	162	6	0	0	40	208
	2013/14	579	34	0	146	145	904
Laura Wade-Gery	2014/15	552	21	219	107	138	1,037
	2013/14	552	26	0	167	138	883

1. The amounts shown for 2013/14 reflect that Patrick Bousquet-Chavanne joined the Board on 10 July 2013.

2. The amounts shown for 2014/15 reflect that Alan Stewart resigned from the Board on 10 July 2014.

3. Benefits include the value of car allowance and intrinsic value of SAYE in addition to the taxable value of car, driver and life assurance, as applicable to each director.

4. Half of any award will be deferred into Company shares for a period of three years. Further details of the 2014/15 Annual Bonus Scheme are shown on page 28.

5. The value of awards vesting in 2013/14 has been restated to reflect the actual value of dividend equivalents and share price at the time of vesting. The value of awards vesting in 2014/15 has been estimated based on the three-month average share price from 2 January 2015 – 27 March 2015 as these awards do not vest until after the end of the financial year. This value also includes the anticipated value of dividend equivalents which will be payable in July 2015 (and January 2016 for Patrick Bousquet-Chavanne). These estimated figures will be restated in next year's report.

6. Pension benefits comprise the value of cash provided in lieu of participation in the Your M&S Pension Saving Plan.

SALARY

When reviewing salary levels, the Committee takes into account a number of internal and external factors, including Company performance during the year, external market data and the salary review principles applied to the rest of the organisation to ensure a consistent approach.

No increases were awarded during the year. The next salary review date for the executive directors will be July 2015. Marc Bolland will not receive a salary increase in July; he has again, at his own request, proposed not to receive an increase. He has not had a salary increase since his appointment in 2010.

BENEFITS

Each executive director receives a car or cash allowance and is offered the benefit of a driver. The Company also provides each director with life assurance. Executive directors receive employee product discount and are eligible to participate in salary sacrifice schemes such as Cycle2Work in line with all other employees.

PENSION BENEFITS

With the exception of the Chief Executive Officer (CEO), executive directors receive a 25% salary supplement in lieu of membership of the Your M&S Pension Saving Plan. The CEO receives a supplement of 30% of salary.

GOVERNANCE

REMUNERATION SUMMARY CONTINUED

ANNUAL BONUS SCHEME FOR 2014/15

For 2014/15, directors had the opportunity to earn an award of up to 200% of salary, with half of any award being payable in deferred shares. Performance measures used to determine the entitlement to any payment were set against challenging profitability targets and individual objectives. Profitability targets formed 60% of any bonus award. For those executive directors with business unit responsibility, profitability measures were equally split between Group PBT and profit measures for their business unit. As a result of his additional International responsibilities, from July 2014 Patrick Bousquet-Chavanne's corporate element was calibrated to include

International operating profit from this time. For Marc Bolland, profitability was wholly measured against Group achievement. Each director also had three individual objectives, together accounting for 40% of the total bonus. These objectives were set against their key areas of focus and accountability which reflect the primary drivers of short and medium-term strategic success of the Company.

Plan A (our environmental and ethical plan) is an integral driver of the way we do business; success against Plan A targets underpinned the entire 2014/15 bonus scheme. The Committee assessed performance against all corporate and

individual measures. The Committee was also satisfied that each director continued to ensure that Plan A remained a major focus of the ways of working at M&S and that the subsequent performance supported this.

See Plan A Report for more detail.

Figure 2 below illustrates each director's achievement against corporate profitability and individual targets for the 2014/15 Scheme. PBT outturn for the financial year was £661.2m which was above the target set to trigger payments under both elements of the Scheme. As a result of performance, directors' payments were between 18% and 62% of maximum bonus opportunity.

FIGURE 2: ANNUAL BONUS SCHEME 2014/15

DIRECTOR	PROFITABILITY TARGETS						INDIVIDUAL OBJECTIVES			TOTAL PAYMENT		
	GROUP PBT			BUSINESS UNIT PROFIT			Performance		Achievement		% salary	
	Target & performance	Achievement	Performance	Achievement	Performance	Achievement	% bonus	% salary	% bonus	% salary	£000	
Min	Max	Actual	% bonus	% salary								
Marc Bolland	£650m	£732m	£661m	12.4%	24.8%	–	–	–		18.2%	36.3%	61.1% 596
Patrick Bousquet-Chavanne	£650m	£732m	£661m	7.7%	15.4%		0.0%	0.0%		13.4%	26.9%	42.3% 222
John Dixon	£650m	£732m	£661m	6.2%	12.4%		1.9%	3.8%		10.0%	20.0%	36.2% 217
Steve Rowe	£650m	£732m	£661m	6.2%	12.4%		30.0%	60.0%		26.0%	52.0%	124.4% 653
Laura Wade-Gery	£650m	£732m	£661m	6.2%	12.4%		0.0%	0.0%		13.6%	27.3%	39.7% 219

Plan A underpin targeted objectives

Performance assessment key

-  Below Threshold
-  Threshold > Target
-  Target > Stretch
-  Stretch or above

PERFORMANCE SHARE PLAN

The Performance Share Plan (PSP) is the primary long-term incentive for executive directors and senior managers.

The Committee believes that long-term share awards help retain and reward executives for the delivery of long-term business goals.

PSP AWARDS VESTING IN 2014/15

For directors in receipt of PSP awards granted in 2012, the awards will vest on 1 June 2015, (5 December 2015 for Patrick Bousquet-Chavanne) based on three-year performance over the period

to 28 March 2015. Performance has been assessed and it has been determined that 4.7% of the award will vest.

Details of performance against the specific targets set are set out in the table below.

FIGURE 3: PSP AWARDS VESTING IN 2014/15

	Performance target					Total vesting⁶	
	Cumulative EPS ²	ROCE (%)	Revenue (£ 2014/15)				
			UK ³	Multi-channel ⁴	International ⁵		
50% of award	20% of award	10% of award	10% of award	10% of award	10% of award		
Threshold performance targets¹	110p	15.0%	£8,900m	£800m	£1,300m		
Maximum performance targets¹	130p	18.5%	£9,600m	£1,000m	£1,700m		
Actual performance achieved	99.7p	15.2%	£8,470m	£776m	£1,065m		
Percentage of maximum achieved	0.0%	4.7%	0.0%	0.0%	0.0%	4.7%	

1. 20% of an award vests for threshold performance with full vesting for achieving or exceeding maximum performance. Vesting is a straight line between these two points.
2. Actual performance achieved has been re-stated to Pre-IAS 19 values, to allow a like-for-like measurement against targets.
3. Excluding Multi-channel.
4. Net of VAT/gross of returns.
5. Excluding Multi-channel/including Republic of Ireland.
6. As described above, 4.7% of these awards made in 2012 will vest. The estimated value of these awards, including the dividend equivalents, are set out in the single figure table on page 27.

FIGURE 4: NON-EXECUTIVE DIRECTORS TOTAL SINGLE FIGURE REMUNERATION

	Year	Basic fees	Additional fees	Benefits	Total
		£000	£000	£000	£000
Robert Swannell	2014/15	70	380	18	468
	2013/14	70	380	21	471
Vindi Banga¹	2014/15	70	12	0	82
	2013/14	70	0	0	70
Alison Brittain²	2014/15	70	0	0	70
	2013/14	18	0	0	18
Miranda Curtis	2014/15	70	0	0	70
	2013/14	70	0	0	70
Martha Lane Fox	2014/15	70	0	0	70
	2013/14	70	0	0	70
Andy Halford³	2014/15	70	15	0	85
	2013/14	70	11	0	81
Steven Holliday⁴	2014/15	19	4	0	23
	2013/14	70	15	0	85
Jan du Plessis⁵	2014/15	64	28	0	92
	2013/14	70	30	0	100

1. The amounts shown reflect that Vindi Banga was appointed as Remuneration Committee Chair on 8 July 2014 and Senior Independent Director from 4 March 2015.

2. The amounts shown for 2013/14 reflect that Alison Brittain joined the Board on 1 January 2014.

3. The amounts shown for 2013/14 reflect that Andy Halford was appointed as Audit Committee Chair on 1 July 2013.

4. The amounts shown for 2014/15 reflect that Steven Holliday retired from the Board on 8 July 2014.

5. The amounts shown for 2014/15 reflect that Jan du Plessis retired from the Board on 4 March 2015.

FINANCIAL STATEMENTS
SUMMARY FINANCIALS

CONSOLIDATED INCOME STATEMENT

	52 weeks ended 28 March 2015			52 weeks ended 29 March 2014		
	Underlying £m	Non-underlying £m	Total £m	Underlying £m	Non-underlying £m	Total £m
Revenue	10,311.4	–	10,311.4	10,309.7	–	10,309.7
Operating profit	762.5	(61.2)	701.3	741.9	(47.4)	694.5
Finance income	15.5	–	15.5	20.1	4.9	25.0
Finance costs	(116.8)	–	(116.8)	(139.1)	–	(139.1)
Profit before tax	661.2	(61.2)	600.0	622.9	(42.5)	580.4
Income tax expense	(124.8)	6.5	(118.3)	(117.1)	42.7	(74.4)
Profit for the year	536.4	(54.7)	481.7	505.8	0.2	506.0
Attributable to:						
Owners of the parent	541.2	(54.7)	486.5	520.0	4.8	524.8
Non-controlling interests	(4.8)	–	(4.8)	(14.2)	(4.6)	(18.8)
	536.4	(54.7)	481.7	505.8	0.2	506.0
Basic earnings per share	33.1p	(3.4p)	29.7p	32.2p	0.3p	32.5p
Diluted earnings per share	32.9p	(3.4p)	29.5p	31.9p	0.3p	32.2p

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 28 March 2015 £m	As at 29 March 2014 £m
Assets		
Non-current assets		
Intangible assets	858.2	808.4
Property, plant and equipment	5,031.1	5,139.9
Investment property	15.6	15.7
Investment in joint ventures	12.2	12.7
Other financial assets	3.0	3.0
Retirement benefit asset	460.7	200.7
Trade and other receivables	283.3	313.5
Derivative financial instruments	75.8	40.6
Deferred tax assets	1.2	–
	6,741.1	6,534.5
Current assets		
Inventories	797.8	845.5
Other financial assets	11.6	17.7
Trade and other receivables	321.8	309.5
Derivative financial instruments	117.9	13.7
Cash and cash equivalents	205.9	182.1
	1,455.0	1,368.5
Total assets	8,196.1	7,903.0
Liabilities		
Current liabilities		
Trade and other payables	1,642.4	1,692.8
Partnership liability to the Marks & Spencer UK Pension Scheme	71.9	71.9
Borrowings and other financial liabilities	279.4	448.7
Derivative financial instruments	7.7	51.5
Provisions	46.2	44.8
Current tax liabilities	64.0	39.6
	2,111.6	2,349.3
Non-current liabilities		
Retirement benefit deficit	11.7	11.7
Trade and other payables	319.7	334.0
Partnership liability to the Marks & Spencer UK Pension Scheme	441.0	496.8
Borrowings and other financial liabilities	1,745.9	1,655.1
Derivative financial instruments	20.0	75.4
Provisions	32.1	31.4
Deferred tax liabilities	315.3	242.6
	2,885.7	2,847.0
Total liabilities	4,997.3	5,196.3
Net assets	3,198.8	2,706.7
Equity		
Issued share capital	412.0	408.1
Share premium account	392.4	355.5
Capital redemption reserve	2,202.6	2,202.6
Hedging reserve	64.3	(41.8)
Other reserve	(6,542.2)	(6,542.2)
Retained earnings	6,670.5	6,325.1
Total shareholders' equity	3,199.6	2,707.3
Non-controlling interests in equity	(0.8)	(0.6)
Total equity	3,198.8	2,706.7

The financial statements were approved by the Board and authorised for issue on 19 May 2015.

Marc Bolland Chief Executive Officer

Helen Weir Chief Finance Officer

CONSOLIDATED STATEMENT OF CASH FLOWS

	52 weeks ended 28 March 2015 £m	52 weeks ended 29 March 2014 £m
Cash flows from operating activities		
Cash generated from operations	1,349.1	1,175.5
Income tax paid	(71.1)	(45.9)
Net cash inflow from operating activities	1,278.0	1,129.6
Cash flows from investing activities		
Proceeds on property disposals	35.4	25.0
Purchase of property, plant and equipment	(521.8)	(440.1)
Purchase of intangible assets	(178.0)	(201.5)
Reduction/(purchase) of current financial assets	6.0	(1.7)
Interest received	9.3	3.4
Net cash used in investing activities	(649.1)	(614.9)
Cash flows from financing activities		
Interest paid ¹	(115.3)	(132.7)
Cash (outflow)/inflow from borrowings	(165.7)	167.5
(Repayment)/drawdown of syndicated loan notes	(10.2)	154.1
Redemption of medium-term notes	–	(400.0)
Decrease in obligations under finance leases	(4.8)	(7.3)
Payment of liability to the Marks & Spencer UK Pension Scheme	(54.4)	(50.3)
Equity dividends paid	(280.7)	(273.6)
Shares issued on exercise of employee share options	40.8	44.2
Purchase of own shares by employee trust	(24.2)	–
Net cash used in financing activities	(614.5)	(498.1)
Net cash inflow from activities	14.4	16.6
Effects of exchange rate changes	(2.3)	(1.6)
Opening net cash	175.7	160.7
Closing net cash	187.8	175.7

1. Includes interest on the partnership liability to the Marks & Spencer UK Pension Scheme.

	52 weeks ended 28 March 2015 £m	52 weeks ended 29 March 2014 £m
Reconciliation of net cash flow to movement in net debt		
Opening net debt	(2,463.6)	(2,614.3)
Net cash inflow from activities	14.4	16.6
(Decrease)/increase in current financial assets	(6.0)	1.7
Decrease in debt financing	235.1	136.0
Exchange and other non-cash movements	(3.1)	(3.6)
Movement in net debt	240.4	150.7
Closing net debt	(2,223.2)	(2,463.6)

SHAREHOLDER INFORMATION

2015/16 financial calendar and key dates

28 May 2015	Ex-dividend date – Final dividend
29 May 2015	Record date to be eligible for the final dividend
07 July 2015	Results – Quarter 1 Interim Management Statement [†]
07 July 2015	Annual General Meeting (11am)
10 July 2015	Final dividend payment date for the year to 28 March 2015
04 November 2015*	Results – Half Year [†]
12 November 2015*	Ex-dividend date – Interim dividend
13 November 2015*	Record date to be eligible for the interim dividend
January 2016*	Results – Quarter 3 Interim Management Statement [†]
08 January 2016*	Interim dividend payment date

[†] Those who have registered for electronic communication or news alerts at marksandspencer.com/thecompany will receive notification by email when this is available.

* Provisional dates.

MANAGING YOUR SHARES ONLINE

Shareholders can manage their holdings online by registering with Shareview, the internet based platform provided by Equiniti. Registration is a straightforward process and allows shareholders to:

- Sign up for electronic shareholder communication;
- Receive trading updates by email;
- View all of their shareholdings in one place;
- Update their records following a change of address;
- Have dividends paid into their bank account; and
- Vote in advance of company general meetings.

M&S encourages shareholders to sign up for electronic communication as the reduction in printing costs and paper usage makes a valuable contribution to our Plan A commitments. It is also beneficial to shareholders, who can be notified by email whenever we release trading updates to the London Stock Exchange, which are not mailed to shareholders.

To find out more information about the services offered by Shareview and to register, please visit shareview.co.uk.

DIVIDENDS

Paid in January and July each year. We encourage shareholders to have their dividends paid directly into their bank account to ensure efficient payment and that cleared funds are received on the payment date. Shareholders

SHAREHOLDER SECURITY

An increasing number of shareholders have been contacting us to report unsolicited and suspicious phone calls received from purported 'brokers' who offer to buy their shares at a price far in excess of their market value. It is unlikely that firms authorised by the Financial Conduct Authority (FCA) will contact you with offers like this. As such, we believe these calls are part of a scam, commonly referred to as a 'boiler room'. The callers obtain your details from publicly available sources of information, including the Company's share register, and can be extremely persistent and persuasive.

Shareholders are cautioned to be very wary of any unsolicited advice, offers to buy shares at a discount, sell your shares at a premium or requests to complete confidentiality agreements with the callers. **Remember, if it sounds too good to be true, it probably is!**

More detailed information and guidance is available on our corporate website. An overview of current common scams is available on the Action Fraud website actionfraud.police.uk.

who receive their dividend payments in this way receive a single, consolidated tax voucher annually in January, covering both dividend payments made during the tax year. We are able to send separate tax vouchers if preferred.

Shareholders can change their preferred dividend payment method online at shareview.co.uk or by contacting Equiniti.

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Online: help.shareview.co.uk (from here, you will be able to securely email Equiniti with your enquiry).

Group Secretary and Head of Corporate Governance

Amanda Mellor

Additional documents

An interactive version of our Annual Report is available online at marksandspencer.com/annualreport2015.

Additionally, both the Annual Report and Strategic Report are available for download in pdf format at marksandspencer.com/thecompany.

Alternatively, call 0800 591 697.

Students

Please note, students are advised to source information from our website.

General queries

Customer queries: 0845 302 1234
Shareholder queries: 0845 609 0810
Alternatively, email us at chairman@marks-and-spencer.com.

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