

OUR BUSINESS

# CHAIRMAN'S STATEMENT



We are focused on strengthening  
our position as a modern, profitable business  
rooted in **fulfilling the needs of our customers.**

ROBERT SWANNELL CHAIRMAN

INTERIM	FINAL	TOTAL DIVIDEND FOR 2015/16
6.8p	11.9p	18.7p
PAID ON 8 JANUARY 2016	TO BE PAID ON 15 JULY 2016	EXCLUDING SPECIAL DIVIDEND

## OVERVIEW

At the end of the financial year Marc Bolland retired as Chief Executive. He was succeeded by Steve Rowe at the beginning of April. I would like to thank Marc for leading the company through a period of necessary modernisation over the past six years. Much essential work has been done during Marc's tenure to build our infrastructure and capabilities, particularly in support of the online and digital elements. We are a more capable company with significantly improved digital, design and sourcing skills in Clothing & Home and industry leading performance and outstanding innovation in Food. M&S is now better equipped to meet today's customer needs.

The start of Steve's tenure in April opened a new chapter which will see us continue to accelerate the pace and scale of change across the business. The focus will be on execution and implementing the actions required to complete the transformation of M&S's infrastructure and its business to compete effectively in a modern, digital age.

## A NEW CHAPTER

Steve has a deep understanding of M&S, having worked at the company for over 25 years. He has been a Board member since 2012 and has a proven track record of delivering results. He also understands the need for change. It is this insider knowledge coupled with an appetite for transformation that makes him uniquely qualified to lead our business forward.

Steve is straightforward, authentic and decisive. These are qualities that will carry our people with him. These qualities, together with his clear focus on our customer, simplicity and teamwork, are the reasons Steve was chosen to lead the business. Under his leadership, our aim is to again become as distinctive in Clothing & Home as we now are in Food.

## PERFORMANCE

Our performance during the year was mixed. We delivered a good performance in Food and a substantial improvement in our Clothing & Home margins, but Clothing & Home sales were not satisfactory. The overall result is that underlying profit before tax rose by 3.5% to £684.1m, although due to non-underlying items of £200.8m, statutory profits were down 19.5% to £483.3m.

In Food, we had another strong year, despite the market remaining extremely competitive. Customers continue to be drawn to our distinctive offer. They love our high levels of newness and innovation and our emphasis on convenience. As planned, we were able to grow the business profitably, including opening 75 new Simply Food stores, which are performing strongly.

Our Clothing & Home business underperformed. Although it delivered significant margin gains due to better design and sourcing skills, our sales performance was unsatisfactory. Steve's number one priority is to return Clothing & Home to sustainable, profitable growth. With his direct control of the division and his detailed understanding of the issues it faces, this underperformance is being addressed as a matter of urgency.

M&S.com outperformed the market and it continues to reap the benefits of the investment made over the last few years. Performance against all metrics improved during the year. Our Castle Donington automated distribution centre has significantly strengthened our infrastructure and its performance this year exceeded our plans. Over the year we saw sales through mobile and tablets grow strongly as customers' shopping behaviour continues to evolve.

Our International business faced significant headwinds due to currency fluctuations, the slowing global economy and geopolitical unrest alongside some operational challenges. Although we saw good growth in India, our business in Europe is not producing satisfactory returns. We are looking at every part of our International business to make sure our strategy remains relevant.

## VALUES AND PLAN A

Our values of Inspiration, Innovation, Integrity and In Touch are as important to us as ever. The work we do in communities and the steps we take to help disadvantaged people into work are daily proof that these values are authentic. This year, over 1,000 of our employees took part in Spark Something Good; a co-ordinated series of community and charity action days in cities across the UK. Among the many charities we were delighted to support this year was Style for Soldiers, an organisation that provides bespoke outfits for wounded servicemen. Nine years after its launch, Plan A continues to influence the decisions we make. Our work with our suppliers and other

## THIS YEAR'S REPORT – KEY FEATURES

We continue to keep the structure of our reporting suite under review, in line with our ambition to encourage more shareholders to use digital communications and to therefore reduce the number of documents we print.

In line with our simplified management structure and approach, we have updated how we report on our performance, with a new combined Operating Performance chapter that focuses on our products and how we serve and engage our customers.

The report focuses on ensuring key messages are easy to locate, and addressing the factors that have impacted the business during the year and the factors that are most important to the business's long-term prospects.

We consider this report to be fair, balanced and understandable. It is a reflection of how we operate as a business and how the Board has served its stakeholders.

We believe this practical approach is authentic, meaningful, will support our performance for the long-term and should protect the trust and integrity of our values, and the M&S brand.

The Governance report provides:

- A clear and honest review of the year;
- The outcome of our Board Evaluation;
- Greater disclosure around Board discussions and associated actions;
- Our approach to the assessment of the long-term viability of the business; and
- Our approach to risk and risk appetite.

As a Board we regularly discuss and debate:

- Strategy and Company performance
- Culture and behaviour
- Succession planning
- Ecommerce
- Cyber and IT
- The M&S brand
- International
- Supply chain
- Risk
- Property
- Plan A 2020

➤ See Governance Section p32-77

stakeholders lies at the heart of our ethical sourcing and provenance policies. These are pivotal elements in ensuring the trust our customers place in us is soundly based.

Doing the right thing is genuinely embedded in this business. Just as I believe that people should behave in the right way towards their neighbours, so I believe that businesses should do the right thing in their local communities and this focus on our customers and communities will continue under Steve's leadership. Plan A and our strong values guide how we behave.

### SUCCESSION

Since I became Chairman I have had a consistent commitment to focus on our people and succession planning. Our people are the backbone of our business and identifying talent and supporting development continues to be one of the Board's key priorities.

At several moments during the year our executive team succession planning and processes were tested and proven to be robust. This approach to succession has allowed us to replace and reallocate responsibilities quickly and seamlessly, reacting to both planned and unplanned changes. Steve's appointment as Chief Executive is an example of this in action. The appointment was the culmination of very careful discussion and preparation, with particular emphasis on both Steve's development and our top talent over a number of years. The Board is grateful to Marc for his planning, enabling the Nomination Committee to work carefully and systematically on his succession. The Committee assessed external and internal

candidates thoroughly and at the end of what was an exceptionally rigorous process, we were unanimously convinced Steve was the best candidate.

The shape and composition of your Board has changed significantly over the year. We now have fewer executive directors and a more streamlined reporting structure. We have strong, competent leaders running our Business Units and our new structure is simpler, more agile and reflects the trust we have in our teams to deliver.

### BOARD CHANGES

In July, John Dixon, Executive Director of General Merchandise, resigned and left the business to pursue career opportunities outside the Company. I would like to thank John for his service over many years and his many contributions to the success of the business in that time.

In December, Andrew Fisher, the Chairman of Shazam, one of the world's leading digital businesses, joined our Board as a non-executive director. Andrew brings strong digital, customer insight and international experience with him. He has joined our Nomination and Audit Committees, and I would like to extend him a warm welcome.

Martha Lane Fox, who has served as a non-executive director for nine years, stepped down from the Board in April. Martha brought the perspective and energy of an entrepreneur to the role and made a difference to our business well beyond her strong digital background. I would like to thank her for her major contribution.

## OUR GOVERNANCE PRINCIPLES

### LEADERSHIP

➤ See p34

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

### EFFECTIVENESS

➤ See p39

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

### ACCOUNTABILITY

➤ See p47

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

### ENGAGEMENT

➤ See p49

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.

## SHAREHOLDER RETURNS

Our dividend policy remains a progressive one, with dividends broadly covered twice by earnings. We intend to pay a final dividend of 11.9p, taking the total dividend to 18.7p, up 3.9% on last year. In addition, a special dividend of 4.6p will be paid at the same time as the final dividend.

## LOOKING AHEAD

People and succession planning will remain one of the Board's three priorities, alongside strategy and its execution, and values. Much of our focus will be on supporting Steve and his team as they implement their plan to improve our Clothing & Home performance and make us a more profitable and valuable business for our shareholders. M&S has evolved significantly since I joined as Chairman, and there will be further changes ahead as we strengthen our position as a modern, profitable business rooted in fulfilling the needs of our customers in a digital world.

Finally, I would like to thank all our employees for their hard work. I spend as much time as possible with employees at all levels in our offices and stores all over the country. I have always found our people to be professional, positive and dedicated to our customers. Wherever they work, they show huge pride in working for this unique business, and I would like to extend my gratitude to every one of them. They are what makes M&S genuinely special.



ROBERT SWANNELL CHAIRMAN