

M&S

EST. 1884

ANNUAL REPORT &
FINANCIAL STATEMENTS
2016



FINANCIAL OVERVIEW

GROUP PERFORMANCE (52 WEEKS)

GROUP REVENUE

£10.4bn ^{+0.8%}

UNDERLYING PROFIT BEFORE TAX

£684.1m ^{+3.5%}

INTERIM AND FINAL DIVIDEND

6.8p + 11.9p¹ = 18.7p ^{+0.7p}

SPECIAL DIVIDEND

4.6p

UNDERLYING GROUP EARNINGS PER SHARE

34.8p ^{+5.1%}

GROUP PROFIT BEFORE TAX

£483.3m ^{-19.5%}

BASIC EARNINGS PER SHARE

24.6p ^{-17.2%}

STRATEGIC PRIORITIES FOR THE YEAR

UK FOOD REVENUE

£5.4bn ^{+3.6%}

CLOTHING & HOME GROSS MARGIN

55.1% ^{+245bps}

UK CLOTHING & HOME REVENUE

£3.9bn ^{-2.2%}

FREE CASH FLOW PRE SHAREHOLDER RETURNS

£539.3m ^{+2.9%}

1. Subject to shareholder approval.

ABOUT OUR REPORTING

53 WEEK YEAR This year we are reporting on the 53 weeks to 2nd April 2016, as every six years an additional week is included to ensure that the year-end date stays in line with the end of March. In order to provide a meaningful comparison with last year's 52 week period, all financial movements are reported on a 52 week basis, and excluding the 53rd week, unless otherwise noted. All balance sheet and cash flow information is reported as at the year-end date.

+ Full details of the 53 week results can be found in the Financial Review p23

INTEGRATED REPORTING We have set out to produce an Annual Report that meets the guiding principles of the Integrated Reporting Council framework by developing our reporting in several key areas. These include: improvements to our business model to better show the

effective use of the resources and relationships relevant to M&S; a new, more detailed look at our business model and how it drives value creation through the interdependencies within our business; mapping our principal risks against our business model to demonstrate the connectivity between the two; and the continued linkage between our KPIs and remuneration.

ONLINE INFORMATION We provide comprehensive company information for our shareholders on our website, including digital versions of all our Annual Reports. We encourage all our shareholders to receive information electronically as it enables us to keep them informed about company news and trading updates throughout the year.

+ Follow the 'Electronic Shareholder Communication' link at marksandspencer.com/investors

INVESTOR RELATIONS APP We have upgraded our Investor Relations app so that it is now optimised for use across all devices and on all operating systems, including iOS and Android. The app displays the latest share price information and corporate news and contains financial reports, presentations and videos.

NAVIGATING THE REPORT In this document you will see a series of icons that demonstrate how we've integrated information about our business model and performance with details of our principal risks, remuneration and Plan A. The icons also tell you where to look for further information, either in this report or in our 2016 Plan A Report.

+ Our Plan A Report can be viewed at marksandspencer.com/plana2016



INTRODUCTION

M&S IS ONE OF THE
UK'S LEADING RETAILERS, WITH
1,382 STORES WORLDWIDE.
WE ARE COMMITTED TO
DELIVERING SUSTAINABLE VALUE
FOR OUR STAKEHOLDERS AND
MAKING EVERY MOMENT SPECIAL
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?

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*Directors' report
Shareholder information forms part of the Directors' Report.

OUR BUSINESS

AT A GLANCE

FOOD

Quality, innovation and choice are the hallmarks of our Food business, which accounts for 58% of our turnover.

We have 914 UK stores, including 222 owned and 349 franchise Simply Food stores. Our customers turn to us for innovative, great value products, whether they are looking for the convenience of incredible food prepared for them, healthy cooking inspiration or for something different to celebrate a special occasion.

[+ Read more on p15](#)

FOOD REVENUE

£5.4bn **+3.6%**

NUMBER OF NEW LINES

1,700 **25% of range**

NUMBER OF CUSTOMERS

20.1m **+0.1m**



CLOTHING & HOME

As one of the UK's leading retailers, we sell **stylish, high-quality, own brand** Womenswear, Lingerie, Menswear, Kidswear, Beauty and Home products, serving customers through our 302 full-line stores and website, M&S.com. Our Clothing & Home business accounts for 42% of our turnover. We are the UK's largest clothing retailer by value and we have market-leading positions in Womenswear, Lingerie and Menswear.

[+ Read more on p15](#)

CLOTHING & HOME REVENUE

£3.9bn **-2.2%**

M&S.COM SALES

£791.5m¹ **+23.4%**

NUMBER OF CUSTOMERS

24.7m **+0.7m**



1. Total M&S.com sales including Food and International.

INTERNATIONAL

We have 468 stores across **Europe, Asia and the Middle East**. We operate through three different business models – owned, franchise and joint venture – to bring our quality Clothing & Home collections and Food ranges to our international customers. We also have a growing international online business delivered through localised owned and franchise websites and through partnerships with leading marketplaces.

+ Read more on p16

INTERNATIONAL REVENUE

£1.1bn ^{-2.0%}

INTERNATIONAL STORES

468 ^{-12 net new stores}

TERRITORIES

58 ⁻¹



PLAN A 2020

A

For 132 years, our customers have trusted M&S to behave in a responsible way. The commitments we make through Plan A ensure that we make a positive difference, whether it's sourcing responsibly, conserving energy, reducing waste or supporting the communities we serve. In a world facing rapidly growing environmental and social challenges, we believe we can make a difference by **leading the way on truly sustainable change**.

+ marksandspencer.com/plana2016

TOTAL PLAN A 2020 COMMITMENTS

104

COMMITMENTS ACHIEVED

57

COMMITMENTS NOT ACHIEVED

5

COMMITMENTS ON PLAN

40

COMMITMENTS BEHIND PLAN

1

COMMITMENTS CANCELLED

1



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

OUR BUSINESS

CHIEF EXECUTIVE'S STRATEGIC UPDATE



We are at our best when we are **completely focused on our customers**. My plan is to keep things simple by putting them at the heart of M&S – every decision starts with them.

STEVE ROWE CHIEF EXECUTIVE

OVERVIEW

I am really proud and privileged to be your new Chief Executive. The most important thing I've learnt in my 25 years at M&S is that we are at our best when we are completely focused on our customers. My plan is to keep things simple by putting our customers at the heart of this business.

I've worked in every part of M&S, from the shop floor to leading Retail and M&S.com, from Menswear merchandising to running our Food division and my most recent position as Executive Director of Clothing & Home. I care passionately about the company and its success.

Before I talk about the future, let me address our immediate past. Our performance over the last year was mixed. Whilst we continued our great performance in Food, the performance of our Clothing & Home business continued to be unsatisfactory. Our International business also had a challenging year and was affected by numerous issues, both internal and external. Overall Group profit was impacted by a number of non-underlying items, which this year include impairments in our International business, our UK store portfolio and a review of our Clothing & Home buying and merchandising system. There are further details on these in the Financial Review on page 24.

I want M&S to play a leading role in the future of UK and international retailing, and I want it to have a clear and sustainable path. When my appointment was

announced in January, I immediately set about gaining a deeper understanding of why parts of the business have been underperforming. I asked myself and the team a series of exam questions about M&S. How can we understand our customers better? Is our current structure right for the company's future? What are the growth opportunities in Food? How do we recover and grow our Clothing business? What do we need to do to respond to the rapidly changing consumer environment, both in the UK and internationally?

Answering some of these questions and tackling the issues will take time. But others are more easily answered. We have set out the first phase of our plan: we addressed how we can better understand our customers and what M&S means to them; we outlined our immediate plans to address recovery and growth in Clothing & Home; we talked about our Food growth opportunity; and we launched a review of our cost base. Details of these are below and we'll report back in the autumn on the other key areas we are still reviewing.

If I was asked to sum up what M&S means to me in one word, I'd say 'special'. M&S is a fantastic brand that has a history of serving our nation with fantastic products. That is why we believe in making every moment special for our customers.

OUR CUSTOMERS

Our customers are now at the heart of everything we do. This means that every

decision starts with them. Our actions are driven by listening to what customers tell us, not by what we think is right for them.

We know who our customers are and we value every one of them. M&S serves 32.2 million shoppers a year, equivalent to over half the UK population and two-thirds of its adults. 20.1 million of those customers buy our Food, which means we have an opportunity with the over 12 million who don't. 58% of our customers are female, and around half are over the age of 50. Our most loyal customers account for around 11% of spend. Looking at who our customers are and how they shop with M&S is crucial to our future. We need to make more of M&S more relevant to our customers more often. There remain great opportunities for growth.

[➤ Read more on p08](#)

CLOTHING & HOME

Our Clothing & Home division has many strengths: we have leading market shares in many categories, perceptions of our quality are high, and customers like many of our innovations. But as the UK clothing market has grown and changed in recent years, we have consistently underperformed.

Clothing & Home has been my focus since I took over running the division in September 2015 and turning around its performance is my number one priority.

We took immediate action in some key areas. We improved availability, sharpened

Our values underpin everything we do...

INSPIRATION

We aim to excite and inspire our customers

INNOVATION

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

← PRIORITIES TO ADDRESS

FOCUS ON PUTTING CUSTOMERS AT THE HEART OF M&S AND DRIVING SALES GROWTH

Implementing actions to recover and grow Clothing & Home:

- Re-establish style authority: focus on product, quality and fit;
- Restore price position: lowering prices and reduced promotional stance;
- Enhanced customer experience: sharper ranges, better availability and investment in store staffing.

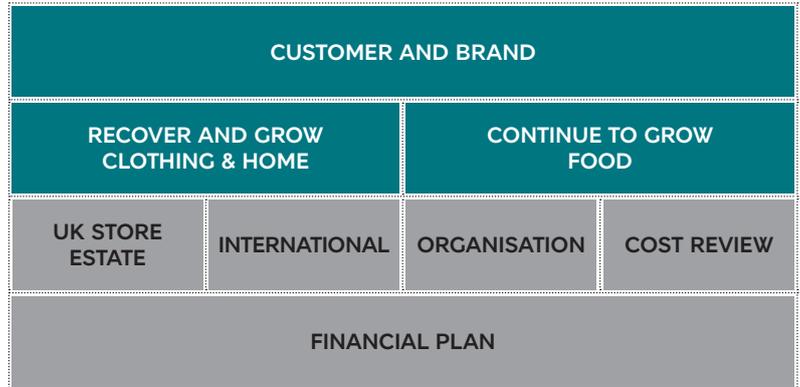
Continuing to grow Food business:

- Build on strengths: focus on quality, innovation and choice;
- Commitment to value credentials: competitive pricing while maintaining margin;
- Improved convenience: extended Simply Food store opening programme.

Driving profitability for shareholders:

- Continued tight control of costs and cash;
- Focus on shareholder returns.

Additional strategic questions, including International, UK store estate and organisation to be answered in the autumn.



our price points and reshaped the structure of our Womenswear team to better reflect the way our customers shop. This new structure means that garments are now bought by product category – such as skirts, shirts, or trousers – rather than by M&S Collection and the sub-brands, such as Autograph and Limited Edition. This way we reduce needless proliferation. We have also dropped 'General Merchandise' as the catch-all name for the non-Food half of our business: we should be using the same language as our customers to describe our business.

We have a lot more to do. We have been giving customers too many reasons not to shop with us. They tell us that we have not got the balance between fashion and style right and that we don't offer enough choice. They say that we are sometimes too expensive and that our stores are difficult to shop. In addition, we know that our internal structure has meant that we have not pursued areas of high growth quickly enough. Our plan this year is to address the root causes of these issues. We will continue to lower prices across the board and reduce the number of promotions. We will put increased emphasis on contemporary styling rather than slavishly following catwalk trends, and we will focus on innovations that are genuinely useful to our customers.

We know that our customers want to feel that they're getting great value every time they shop with us. It is for the customer – not us – to decide what constitutes value.

But I would say that the equation customers use when assessing value is satisfaction minus price. Did they enjoy their experience? How good is the product? Does it fit well or taste good? How was the service? These are the building blocks of satisfaction. Once the customer has assessed these, she can subtract the price and determine whether she's received value.

FOOD

In our Food division we have an engine for sustained, profitable growth. The opportunity remains for us to grow our Simply Food store network in the UK and internationally as we strive to make every food moment special for our customers around the world. We will continue to innovate, with an emphasis on health, convenience, special occasions and gifting. We will offer customers real choice by carefully tailoring our ranges to the location of the store and the mission of the shopper. Whether they want a pork pie or a superfood salad, a pint of milk or a chicken tikka prepared meal, we will strive to give them the best there is. In addition to the 250 Simply Food stores we have already committed to, we will open a further 200 by the end of 2018/19 to make our great food offer accessible to even more customers.

COSTS

We will continue to be prudent on costs. In some cases, our processes have become too complicated and we continue to review the way we work with a view to simplifying it.

We will use any cost savings to invest in more store colleagues. After all, they are the people who are closest to our customers.

OUR PEOPLE

Fairness and consistency are important to me. I believe in rewarding people for success, wherever they work in the company. We have reviewed how we reward our employees and have proposed a new approach to pay and pensions. The proposed pay changes, which would make us one of the best payers in UK retail, would reward our people in a fair and consistent way and include proposals for a significant base rate increase for our Customer Assistants. The proposed new approach to pensions would ensure we offer all employees the same Defined Contribution Scheme; a competitive pension scheme that is sustainable for the future. Members of the Defined Benefit Pension scheme would not lose any benefits they have previously earned and would be auto-enrolled into the Defined Contribution Scheme. We have started a period of consultation with National Business Involvement Group, the appropriate representatives within M&S's network of elected employee representatives, on both of these proposals and will listen carefully to their feedback. I believe that these changes would mean we can offer one of the best pay and benefit packages in UK retail, so we can keep retaining and attracting the best people to our business.

INTEGRITY

We always strive to do the right thing

IN TOUCH

We listen actively and act thoughtfully

CHIEF EXECUTIVE'S STRATEGIC UPDATE
CONTINUED

LOOKING AHEAD

There are many areas of our business that we are still reviewing. In the autumn we will report back on future growth channels. We will also give an update on the plans for our UK store portfolio, and the shape of our International business.

I wrote at the start of this section that I am proud to be your CEO. I'd like to tell you why.

Ever since I started working for this great company over a quarter of a century ago as a Saturday boy in the Croydon store, I have seen how it has improved the quality of people's lives through innovation and giving customers what they want. M&S is responsible for hundreds of high street firsts that are now part of everyday life, from fresh pasta and avocados to machine washable bras and Lycra. M&S has brought a better quality of life to the nation.

I have had a wonderful M&S career to date and am privileged to have worked in almost every department of the business. I've never had a job I didn't enjoy. And I've seen first-hand how M&S can be a force for good: we have led the way in sustainability and, through Plan A, this will continue.

The only time we have stumbled as a company is when we've become introverted, lost sight of the customer or failed to keep pace with modern living.

People who know me will tell you that I believe in simplicity, honesty, efficiency and teamwork. More than anything, I believe in our people throughout the company.

M&S is a special company. Our food is special. Our clothes are special. Our people are special. Plan A is special. I am proud of the role that M&S has played in people's lives. I want to be equally proud of the role it plays in the future.



STEVE ROWE CHIEF EXECUTIVE

UNDERSTANDING OUR CUSTOMERS

Analysing our customers reveals that we have three clear groups, defined by how frequently they shop with us and how much they spend, and we believe that tapping into these behaviours and reconnecting with our customers will help us to deliver

growth. We have been in listen mode and we have heard some common reasons for why customers are not always choosing M&S, and now understand how to use these to reignite their affection and become more relevant more often.

BY UNDERSTANDING OUR CUSTOMERS...

CUSTOMERS	CUSTOMER CHARACTERISTICS		
Total customers 32m	WOMEN	BOTH FOOD & CLOTHING SHOPPING	SHOP A SINGLE MISSION
	58%	30%	90%
	OVER 50	MEN	UNDER 35
	54%	42%	22%

...AND THEIR SHOPPING HABITS...

CUSTOMER by type	CLOTHING		FOOD	
	VISITS per year	SPEND per visit	VISITS per year	SPEND per visit
Occasional 22m	2	£14	4	£9
Core 7m	8	£28	11	£19
Top 3m	26	£25	75	£14

...WE WILL DELIVER WHAT OUR CUSTOMERS WANT...

IN CLOTHING:

- A focus on style rather than fashion
- Better fit that flatters
- Better availability
- Clearer pricing and value definition
- Inspiring and effortless experience

IN FOOD:

- Further ahead on trends
- Inspire with recipe ideas
- More adventurous mid-week
- More personal
- Inspiring and effortless experience



...INCREASING OUR CUSTOMER VISITS AND SPEND.

LEADERSHIP TEAM

We are committed to putting our 32 million customers at the heart of everything we do. Simplicity and teamwork are key to us achieving this.

We recently implemented a streamlined management structure that allows us to work as one team, in a simpler and more efficient way at pace and with vigour. This new structure, coupled with a new emphasis on fact-based decision-making, means that we are better able to focus on our customers' requirements.

As part of the changes, we reorganised the responsibilities of our executive directors. Patrick Bousquet-Chavanne has become Executive Director, Customer, Marketing & M&S.com and assumed new responsibilities for M&S.com and Plan A. Helen Weir, Chief Finance Officer, has assumed responsibility for Strategy Implementation. Consequently, our International business will now report

directly into me. We look forward to welcoming Laura Wade-Gery back from her maternity leave in September 2016 and we will update on her responsibilities on her return.

We are establishing a tighter Operating Committee of eleven to replace the former Management Committee. This team will be accountable for the day-to-day running of M&S and for the development and execution of our strategy.

Joining the Executive Directors on the Operating Committee are: Andy Adcock, Food Director; Jo Jenkins, Womenswear, Lingerie & Beauty Director; Sacha Berendji, Retail Director; Paul Friston, International Director; Dominic Fry, Communications & Investor Relations Director; Simmone Haywood, Acting HR Director; and Amanda Mellor, Group Secretary and Head of Corporate Governance.

We know that every decision we make must be for the benefit of our customers, our employees and our shareholders. Our first priorities are to turn around our Clothing & Home business and grow our Food offer. We will do this by using customer intelligence and data to drive our decision-making. By listening to what our customers tell us, we can give them more products that excite them and we can help to make every moment special. I believe that at M&S we know more about our customers than we've ever known before; by harnessing this information, we can make the right decisions and act with clarity on behalf of everyone who shops with us.

There is a new ethos of collective responsibility among the senior leadership team; from our unstinting attention to our customers' needs to the importance of acting as a team. We are totally aligned in our approach: to do everything in the best interests of our customers.

OPERATING COMMITTEE



Steve Rowe
Chief Executive



Helen Weir
Chief Finance Officer



Patrick Bousquet-Chavanne
Executive Director, Customer,
Marketing & M&S.com



Laura Wade-Gery
Executive Director,
Multi-channel



Andy Adcock
Food Director



Jo Jenkins
Womenswear, Lingerie &
Beauty Director



Sacha Berendji
Retail Director



Paul Friston
International Director



Dominic Fry
Communications & Investor
Relations Director



Simmone Haywood
Acting HR Director



Amanda Mellor
Group Secretary and Head
of Corporate Governance

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: **making every moment special** 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

🔄 OUR PRODUCT & CHANNELS

Maintaining our channels and supply chain infrastructure to meet customer demand

💡 OUR INTELLECTUAL CAPITAL

Strengthening our brand through creation and protection of our intellectual property

LISTEN & RESPOND

Activities: Our customers are our most important stakeholders. Through detailed understanding of their needs and changing behaviours, we can achieve our core purpose of making every moment special. Our Customer Insight Unit analyses feedback from over 60,000 customers a month. We also gather insights from our team of over 65,000 employees who serve customers in our stores. Furthermore, we engage with over 5 million followers daily on social media. By continually analysing what they tell us, we can equip our people with the insight to learn and adapt to meet our customers' needs.

Outcome: Knowing what our customers want helps us tailor our products, channels and services around them so that they have more reasons to shop with M&S.

STRATEGY & PLANNING

Activities: We create long-term sustainable value through the delivery of our strategy and prudent financial management. We will continue to invest in the business to support future growth whilst tightly controlling costs. It is not only financial resources that need efficient management – it is natural resources too. Through Plan A, we are evolving a more sustainable way of retailing. Plan A influences every stage of our planning, and infuses all that we do.

Outcome: By strengthening our financial position through the delivery of improved profits and strong cash flow, we are improving returns to shareholders.

DEVELOP & DESIGN

Activities: By cultivating talent and harnessing our people's ideas, we can continue to develop the delicious and stylish products that our customers love. 65% of our clothing ranges are now designed in-house and this will rise to 70% as we continue to create value from our intellectual capital. The skills in our Food team cover the breadth of the industry, from nutrition to marine biology, and our product developers are experts in scouring the world for the latest trends and flavours.

Outcome: Direct design gives us greater flexibility and control over how we source so we can better respond to the market and customer demand. The expertise in our Food team gives us the authority to deliver the new and exciting products that drive sales.

FIND OUT MORE

+ Read more about Risk on p27-29 + Read more about KPIs on p18-21

+ Read how our business model creates Financial, Non-financial and Strategic value on p12-13

OUR BUSINESS MODEL



OUR RESOURCES & RELATIONSHIPS

OUR PEOPLE

Developing our employees and their knowledge

OUR STAKEHOLDERS

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

NATURAL RESOURCES

Sourcing responsibly and using natural resources efficiently

THE M&S DIFFERENCE

SOURCE & BUY

Activities: A sustainable supply chain is key to creating sustainable value. Our team of 450 employees in nine regional sourcing offices in our key clothing sourcing markets, including Bangladesh and China, are responsible for sourcing our products efficiently and with integrity, working collaboratively with our buying and design teams. We have excellent relationships with our Food suppliers, and have worked with many of them for over 20 years, and some for over 75 years. All of our suppliers must adhere to our Global Sourcing Principles, which cover every element of workers' rights and working conditions.

Outcome: Our sourcing strategy is driving margin improvements and we are increasing the number of products with a Plan A quality.

BRAND & SELL

Activities: Our own brand model gives us a significant competitive advantage. Our products are developed by M&S for M&S. By selling our own unique products under our own brand, we forge lasting relationships with our customers. They know that we do the right thing: 73% of our products have a Plan A attribute. We sell our products through our own brand channels: M&S stores and M&S.com. The M&S brand is the thread that runs through everything we do.

Outcome: The value created by the M&S brand is our key point of difference and distinguishes us from our competitors.

SERVE & ENGAGE

Activities: We know that our customers want great value every time they shop at M&S. Value is about much more than price; it's also about experience. So offering great customer service is absolutely crucial to maintaining customer loyalty, and we put it at the heart of how we train and reward our store teams. Along with serving our customers well, forging strong links with the communities in which they live creates long-term value. By supporting causes close to our customers' and our people's hearts, we ensure that these key stakeholder groups work together for the good of their local neighbourhoods.

Outcome: We have an increasingly engaged workforce who live our values of Integrity and In Touch, and who are committed to our customers.

OUR BUSINESS

CONNECTED VALUE

We are committed to delivering sustainable value for stakeholders. Here, we summarise **how our business model drives value creation**, how the process is managed, and how we measure the value created.



[+ Read more about our Strategic Update on p06-08](#) [+ Read more about our Business model on p10-11](#)

[+ Read more about KPIs on p18-21](#) [+ Read more about Risk on p27-29](#)

RELATED RISK FACTORS	ACCOUNTABILITY	OUTPUTS	OUTCOMES
<p>Financial performance risks</p> <p>There are a number of risks related to how we deliver financial value:</p> <ol style="list-style-type: none"> 1. Clothing & Home transformation 2. Changing consumer behaviours 4. Clothing & Home supply chain and logistics network 5. IT integration 10. International <p>+ See Risk p28-29</p>	<p>Financial accountability</p> <p>BOARD ↑ OPERATING COMMITTEE ↑ SENIOR LEADERSHIP GROUP</p> <p>+ See Governance on p42-46 + See Remuneration p52-53</p>	<p>Key financial measures</p> <p>Group revenue Underlying Group PBT Underlying earnings per share Dividend per share Return on capital employed Free cash flow (pre dividend)</p> <p>+ See KPIs p18</p>	<p>Financial value created</p> <p>£ 👤 👤 👤</p> <p>Strong profits build strong cash position Returns to shareholders Taxes to government Increased investment opportunities Employee rewards</p>
<p>Non-financial performance risks</p> <p>There are a number of risks related to how we deliver non-financial value:</p> <ol style="list-style-type: none"> 1. Clothing & Home transformation 2. Changing consumer behaviours 3. Business transformation 7. Food safety and integrity 8. Clothing & Home ethical sourcing 9. Cyber/Information security <p>+ See Risk p28-29</p>	<p>Non-financial accountability</p> <p>BOARD ↑ OPERATING COMMITTEE ↑ SENIOR LEADERSHIP GROUP ADVISORY PLAN A COMMITTEE ↑ OPERATIONAL PLAN A COMMITTEE</p> <p>+ See Plan A Report p24-25</p>	<p>Key non-financial measures</p> <p>Total Food customers and average number of shops per customer Total Clothing & Home customers and average number of shops per customer Employee engagement score % of products with a Plan A quality ^A Greenhouse gas emissions (tonnes) Greenhouse gas emissions (psf)</p> <p>+ See KPIs p19</p>	<p>Non-financial value created</p> <p>💡 👤 👤 👤</p> <p>Culture where innovation and agility thrive Better trained and fully committed employees Stronger relationships with suppliers and communities Maintained and improved reputation with consumers</p>
<p>Strategic performance risks</p> <p>There are a number of risks related to how we deliver strategic value:</p> <ol style="list-style-type: none"> 1. Clothing & Home transformation 2. Changing consumer behaviours 3. Business transformation 4. Clothing & Home supply chain and logistics network 6. Food competition 10. International 11. M&S.com business resilience <p>+ See Risk p28-29</p>	<p>Strategic accountability</p> <p>BOARD ↑ OPERATING COMMITTEE ↑ SENIOR LEADERSHIP GROUP</p> <p>+ See Governance on p42-46 + See Remuneration p52-53</p>	<p>Key strategic measures</p> <p>Food UK revenue Food gross margin Food LFL sales growth UK space growth – Food Clothing & Home UK revenue Clothing & Home gross margin Clothing & Home UK LFL sales growth International sales International operating profit International space growth M&S.com sales M&S.com weekly site visits</p> <p>+ See KPIs p20-21</p>	<p>Strategic value created</p> <p>£ 🔄 💡 👤 👤</p> <p>Growth in sales, product range and presence Supply chain efficiency Increased customer base with broadening appeal A more dynamic, flexible and agile business, delivering stronger margins</p>

OUR PERFORMANCE

MARKETPLACE

We are operating in changing times, so it is crucial that **we listen to our customers and keep a close eye on global trends**. Our Customer Insight Unit (CIU) analyses responses from 60,000 customers per month. By combining their views with detailed market research and customer analytics, we can **identify what is influencing shopping behaviour** and ensure **we stay relevant to our customers**.

OVERVIEW

From a high earlier in the year, consumer confidence declined at the tail end of the year as competing factors played on people's minds. On the one hand, the building blocks of the UK economy have remained solid: house prices have risen, interest rates have remained low and unemployment has fallen. On the other hand, numerous macro factors have generated wariness. Uncertainty over the upcoming EU referendum has caused people to feel unsettled. Cracks in the global economy and fears over terrorism have also weighed on sentiment.

These differing perspectives were reflected in our CIU research. While customers told us they were feeling more optimistic about their personal financial situation, they were simultaneously feeling more cautious about the wider economic situation. This limited what they were prepared to spend.

UK FOOD

Growth in the UK food market has been sluggish this year due to the highly competitive market, and the discounters continued to grow market share. However, our Food division had another strong year, with sales continuing to grow ahead of the market. Our customers told us they love M&S food for being special and different, and our performance saw our market share strengthen from 4.1% to 4.3%.

Customers told us that newness is really important to them and we continued to innovate, introducing 1,700 lines over the year. In an increasingly homogenised market, our quality and uniqueness are crucial points of difference.

Events remained significant for us, from seasonal celebrations like Christmas, where we saw record sales in the week leading up to Christmas Day, and Mother's Day, where we had record sales, to special occasions like a family barbecue. Last summer's Tastes of the British Isles range celebrated our food's provenance. This resonated with customers – sales rose 26% compared to the equivalent range in the previous year.

UK CLOTHING & HOME

The UK clothing market grew slowly this year, up 1.4%. In an already competitive market, the high street faced additional pressures from intense promotional activity and difficult weather patterns – it was wet in the summer and warm in the autumn.

Our Clothing division was affected by both these factors, and sales fell by 2.2%. However, our customers also told us that many of the problems were self-inflicted. Too many shoppers found it hard to locate what they were looking for in our stores. They also said they could not rely on M&S for their core wardrobe pieces. We are listening to our customers and work is underway to set this right. Customers continued to be impressed by our service; our store employees were recognised for being helpful and polite, and the overall service measure in our customer satisfaction survey was the highest ever.

HOW OUR UK CUSTOMERS SHOP

How consumers shop continues to change. Britons are the biggest buyers of clothes online in Europe. Furthermore, they are shopping across different channels like never before. Today's shopper may browse on a tablet and buy on a desktop computer, or research on a mobile and purchase on a laptop. Dual-screening in the evening, where customers are watching television whilst shopping on their tablet, has become the norm.

As a connected retailer, we need to be as adaptable as our customers. Our research shows that tablets are particularly significant, with tablet ownership at 48% for 35-50 year olds.

Sales through tablets and mobiles grew by 28% and 85% respectively. Customers said they find our sites inspirational, with intuitive designs and great photography. 60% of M&S.com sales are delivered through our Shop Your Way service where customers collect their order in store. This has increased by 2% on last year, showing that convenience counts.

Customers also told us they want ranges tailored to their shopping needs and in convenient locations. Our diverse store portfolio is well set up to meet this need, whether customers are shopping for dinner that evening in a railway station Simply Food or visiting one of our town centre Food Halls in preparation for a special event.

Technology does not just increase convenience – it also allows personalisation. Our Sparks membership club allows us to tailor offers to our most loyal customers, rewarding them with points in the process. We continue to improve the personalisation of our approach to ensure that it offers members something distinct from traditional loyalty schemes.

INTERNATIONAL

A challenging global environment of unfavourable currency movements, falling commodity prices, geopolitical unrest and a faltering Chinese economy impacted our international profits. We are working on understanding more about our international customers. However, we do know recognition of the M&S brand is strong overseas and the international M&S London logo is viewed as representing a stylish Britishness that resonates well. Sales showed our food is celebrated overseas.

CONSUMER CONFIDENCE INDEX



OUR PERFORMANCE

OPERATING PERFORMANCE

OUR PRODUCTS – FOOD

Special. New. Different. These are the attributes that set our Food business apart, and were the reasons behind another strong performance this year. Sales rose by 3.6%, to £5.4bn, and we once again grew ahead of the market. Our aim of making every food moment special was achieved through the newness and quality of our products. In a challenging and deflationary market, our market share rose to 4.3%.

Our strategic focus this year was on offering real choice and greater convenience for our customers. We concentrated on ensuring that each store sold a range that was appropriate to its location and size. The proportion of our customers who bought food for today was 42%, almost four times higher than at our larger rivals, so we rolled out new formats with a strategic focus on convenience, including a new layout for some of our smaller Simply Food stores, which focuses more on our Food On The Move offer. In total, we opened 75 Simply Food stores in the UK and seven overseas.

Prioritising availability is key to ensuring our customers are able to buy what they want, when they want. Getting the balance right is a complex equation and this resulted in slightly higher levels of waste during the wet weather in the summer and in the run up to Christmas, when we stocked our stores in line with the trend of our customers shopping increasingly closer to Christmas itself. This put some pressure on margins but this was offset by our ongoing work to drive operational efficiencies.

We introduced 1,700 new products, equivalent to 25% of our entire range. Our unrivalled innovation means that only 10% of our products are directly comparable to our competitors'. This sets us apart from the supermarkets. Customers looking for the convenience of incredible prepared food loved our new products, whether we were introducing new cuisines or reformulating old favourites. Under our Taste umbrella, we launched new ranges which included Greek, Lebanese and Spanish prepared meals. We improved our Indian range and redeveloped our pizzas. Sales of our top-tier pizzas – now prepared in wood-fired stone ovens – rose 28% on

last year. We had a strong festive period, with sales up 17% in the Christmas week compared to the same week last year. Our scores on quality over this period were among the highest ever and we received more awards than any other retailer in Tried & Tested-style product press reviews.

Health is a primary concern for our customers, and a big growth area for us. The approach to healthy eating has moved beyond short-term dieting and consumers are now looking for ways to follow everyday healthier lifestyles. So our product development team has been working on enabling our customers to make healthier choices. All of our bread now has added fibre and vitamin D, and we removed confectionary from till points, replacing it with our new Healthy Snacking range, in which all items are 'Eat Well' in regards to fat, calories and salt.

R Maintaining our point of difference in a competitive market is central to the ongoing success of our Food business. Mitigating the impact of a changing competitor landscape runs through every element of our Food strategy, from our focus on product innovation and newness to a store expansion plan shaped around offering even more convenience for our customers.

A In October, we announced a nationwide unsold food redistribution scheme to connect stores with local charities. The scheme, now live in all our owned stores, will help us achieve our Plan A target of reducing like-for-like food waste by 20% by 2020. Separately, 48% of our product volume now comes from factories that meet our Silver or Gold sustainability benchmarking standard, while 73% of our food items have a Plan A quality, for example they are Fairtrade, organic or help our customers choose a healthier lifestyle.

OUR PRODUCTS – CLOTHING & HOME

Our priorities in Clothing & Home were to improve our gross margin and grow our sales. Whilst we achieved the former, with a 245bps increase, driven by improved sourcing capabilities, we did not deliver on the latter. Sales fell by 2.2%, which impacted our market share in key categories. This performance was unsatisfactory. The high

street clothing market had a difficult year, with heavy promotional cycles and unusual weather patterns. But our performance highlighted a number of challenges with our core clothing offer and these were compounded by failures in execution.

To address this, we have set up a number of cross-business unit workstreams to review everything we do, from our products to our prices to our processes. These projects are ongoing, but we have already implemented some changes. In order to further improve our styling, we decided that it was important to have one clear vision of our female customers. So we consolidated the Womenswear, Lingerie and Beauty businesses under one Director and appointed a Design Director for these divisions, with the aim of offering our female customers greater consistency. The new ranges will arrive in store later this summer, and we are confident that our customers will notice the difference.

Our sourcing continues to improve, and over 65% of all our products are now created, designed and sourced in-house, with a target of 70%. This has led to greater collaboration between our design, buying and regional sourcing teams; a key factor in the gross margin improvement. At the same time, our customers told us our value perceptions were slipping so we have been sharpening prices across our core ranges to ensure we remain competitive with the market – for example, we lowered prices on over 300 products in our Spring Summer 2016 range. We are also working to improve our availability and ensure we are buying in the right mix of breadth and depth – our average launch availability for Spring Summer 2016 was 84% compared to 61% for Spring Summer 2015.

We did enjoy a number of successes this year. For example we achieved a record market share of 33% in bras and 26.8% in lingerie. We announced the launch of 'M&S &'; a series of unique collaborations with some of today's most exciting designers, brands and fashion icons. The first collaboration – Archive by Alexa Chung – saw 34,000 customers register their interest. And, despite the dips in market share, we remained the overall market leader in clothing and footwear.

OPERATING PERFORMANCE CONTINUED

R A We take a rigorous approach to maintaining strict ethical standards in our supply chain. The standards we expect from our suppliers are clearly defined and our regional teams in all the areas we source from regularly visit our suppliers' factories to ensure our standards are upheld. Since 2010 we have trained over 762,000 supply chain workers in subjects such as financial literacy, worker rights and healthcare. We understand that when people are treated with respect, work in decent conditions and earn fair rates of pay, they, their families and their companies benefit. Ultimately, our customers benefit too, as they can have the peace of mind knowing that we are sourcing our products in the right way.

INTERNATIONAL

Our International business had a challenging year. We now operate in 58 markets, with 468 international stores and an online presence in 21 markets. Like-for-like sales in our owned businesses rose by 1%. However, the combination of Euro devaluation, challenging macro-economic environments and operational infrastructure challenges impacted profits, which fell 39.6%. Chinese economic growth slowed, which affected the number of Chinese tourists visiting Hong Kong; geopolitical unrest hit our franchise stores in Russia, Turkey and Ukraine; and falling oil prices impacted franchise stores in the Middle East. Our European performance was hit by the adverse exchange rate as we absorbed the additional costs rather than pass them on to customers in higher prices. We closed our 12 stores in the Balkans, and a number of stores in Western Europe and China

underperformed. As a result, overall performance was behind our expectations and this resulted in an impairment charge of £102.4m, which significantly impacted statutory profit.

Whilst our Food sales grew by 23.4%, our international performance in Clothing & Home was not satisfactory. Our exposure to emerging markets and weaker consumer demand will remain into 2016/17. Some of the internal issues that affected our Clothing & Home business in the UK were also felt in our International operations. We are working hard to improve our international supply chain as we suffered from availability issues in some territories.

Despite these challenges, we remain committed to the long-term opportunities that exist internationally and we continue to develop the shopping experience. We introduced a boutique in-store format at our new Brussels flagship and rolled this out successfully to a handful of stores in Asia, including our first store in Beijing. Our Indian business continued to perform strongly and delivered double digit like-for-like growth. We opened eight new stores in India and it now has the largest number of M&S stores outside the UK.

We continued to expand our standalone Food presence internationally, targeting Hong Kong and Western Europe; with seven openings, more customers now have access to our high-quality, differentiated food offer.

As consumers the world over are increasingly choosing to shop online, we are embracing this channel shift and taking M&S into new markets in a capital-light,

low-risk way. Whilst still a relatively small part of our business, our international online business performed well. We launched owned websites in seven countries, including Australia, and our franchise partners also launched hybrid 'bricks and clicks' strategies. We experienced solid growth with the T-Mall marketplace in China and expanded on the leading marketplaces in India, Myntra and Flipkart, benefiting from their scale, infrastructure and local expertise.

R Testing global economic conditions pose a potential risk to our business. We benefit from the local knowledge provided by franchise and joint venture partnerships and ensure we have a sufficiently broad geographical spread. We are looking at every part of our International operations to make sure our strategy is fit for the future.

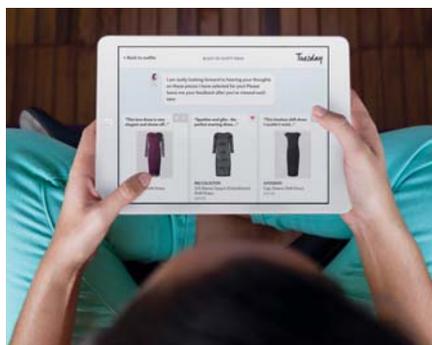
SERVING OUR CUSTOMERS

We constantly monitor and analyse how our customers shop to ensure we adapt to their changing behaviour. We want to give customers as simple and enjoyable a shopping experience as possible, whichever way they choose to shop with us. Some 7.4 million customers shopped through M&S.com this year, our highest ever number. The website saw record levels of customer satisfaction. Sales increased by 23.4%, ahead of the market, and we grew our online market share.

Two years after its launch, M&S.com is easier to navigate and richer in content. Customers like our strong editorial voice and find the site both aspirational and



A We launched a new campaign to raise £13m over the next five years in support of Breast Cancer Now. It featured seven women whose lives have been affected by the disease. In collaboration with Rosie Huntington-Whiteley, we launched a post-surgery bra; the first in the Rosie for Autograph range.



Our creative digital division, M&S Venture Lab, uses lean start-up techniques to experiment with ways to improve the shopping experience for our customers. Projects include TryTuesday.com, an online personal stylist service, and the Cook with M&S recipe app, which includes clever features like timers and a step-by-step cooking mode.



A We teamed up with Style for Soldiers as the charity's official tailoring partner, providing suits and shoes for injured servicemen trying to get back into work and embarking on new careers. David Gandy, designer of our successful David Gandy for Autograph swimwear and loungewear range, is also an ambassador to the charity.

inspirational – we saw a 33% increase in visits to our Style & Living editorial section as we doubled the number of editorial features, providing fashion, beauty, home and food inspiration for our customers. This benefits sales – the average order value from customers who read Style & Living is higher. Our teams behind the scenes – from online trading to digital marketing – are constantly looking at how we can make the site better and easier to shop. We have increased the site's speed and improved navigation resulting in improved customer satisfaction scores.

M&S is a connected retailer; people shop with us through a variety of channels, from tablets to phones to desktop computers to our stores. Often, their journey will start in one channel and end in another. Mobile is our fastest growing channel – sales through mobile phones grew by 85% this year – and we update our mobile site daily to ensure we are constantly improving the customer journey. Despite this growth, 60% of all online sales are still picked up in store through our Shop Your Way service. This tells us that our customers love the convenience of multi-channel shopping.

R As our online business grows, the smooth running of M&S.com is essential to our success. Our software engineers can update our site daily, and our command centres in the UK and Chennai run 24/7 to ensure M&S.com always meets our customers' expectations. We treat the security of our customers and their personal information very seriously. We constantly monitor the ongoing developments in cyber security and our

website is overseen by a dedicated security team who ensure we have the controls in place to protect our customers.

In our stores, we have focused on providing inspirational shopping environments. We have a total of 914 UK stores: 302 full line, 222 owned Simply Food, 349 franchise Simply Food, and 41 Outlet stores. Over the year, we opened seven new full line stores. We also continue to manage our estate to ensure that we are best-positioned in a local market and in the places that are convenient for our customers. As a result, we closed 20 stores, which included relocating four stores to better sites and consolidating our two separate Peterborough stores into one.

Service remains key. Last year, we introduced an employee bonus linked to service, and we are pleased that our till-based customer satisfaction survey scores were the highest ever. Our employees have continued to focus on PACK – Presentation, Availability, Cross-selling and service and Knowledge – to ensure that our stores and our service are the best they can be.

ENGAGING OUR CUSTOMERS

Our marketing activity continued to inspire our customers across our Food and Clothing & Home products by bringing them together under the 'Only M&S' master brand. Inspired by the success of our 'Adventures In' campaign, which was praised by our customers for the way it celebrated our quality, creativity and expertise in Food, we launched 'The Art of' to celebrate the craftsmanship in our Clothing & Home

ranges. Both campaigns continued to have a strong social element. We now reach over 5 million consumers through our various social media platforms, up from 2.6 million last year. The weekly readership for Style & Living has reached 200,000. Our expanding reach enables us to build positive sentiment and create an ongoing buzz around the M&S brand and our most popular products.

Our Sparks members' club is one of the most important customer engagement initiatives we've launched in years. Since its launch in October, Sparks has attracted 4 million members, ranging in age from 16 to 103. Through tailored offers and personalised content, we can reward our loyal customers. In the months prior to launch, we road tested and refined Sparks with the help of over 100,000 customers. We continue to look at how we can enhance the proposition by further improving the personalisation and tailoring it even more to our individual customers. Sparks has a compelling business rationale too. It helps us to increase members' frequency of purchase, encourages shopping between channels and incentivises cross-buying. Visits to the M&S website have increased from an average of 6.5 million per week when it launched to 11.5 million per week now.

A Sparks ties in with Plan A too: members earn 50 Sparks points each time they Shwop unwanted clothing items and we donate 1p to a charity of their choice every time they shop with M&S. Since it launched, we have donated £649,000 to our charity partners, including UNICEF and Macmillan Cancer Support.



We launched an organic whole drinking coconut complete with a unique patented ring-pull. Made from recycled coconut husk fibre and natural resin, the ring-pull is applied directly to the fruit, resulting in the only coconut water on the market that you can drink straight from the coconut.



We improved our Shop Your Way service to make it even more convenient for our customers. We increased the number of stores where customers can collect orders to include our stores in transport hubs, speeded up how long it takes to collect a parcel, and extended ordering times so customers can now place their order up to 8pm for free, next day store collection.



We continued to improve our store environments with the roll-out of our Kids and Baby concepts to an extra 16 stores. We also launched a new Lingerie scheme with a more modern intimate look, which we have put in 17 stores, including Marble Arch and the Pantheon.

OUR PERFORMANCE

KEY PERFORMANCE INDICATORS

GROUP FINANCIAL OBJECTIVES

OBJECTIVE	KPI	2015/16 PERFORMANCE (52 weeks to 26 March 2016)	
Increase earnings and returns	GROUP REVENUE Definition Total Group sales, including retail sales for owned businesses and wholesale sales to franchise partners.	£10.4bn +0.8% GROUP REVENUE £bn 12/13 10.0 13/14 10.3 14/15 10.3 15/16 10.4	Performance Group revenues were slightly up this year mainly driven by the strong performance in our Food business.
	UNDERLYING GROUP PROFIT BEFORE TAX Definition Underlying profit provides additional information on performance, adjusting for income and significant one-off charges.	£684.1m +3.5% UNDERLYING GROUP PROFIT BEFORE TAX £m 12/13 648.1 13/14 622.9 14/15 661.2 15/16 684.1	Performance Underlying PBT grew as a result of good growth in the UK business, from increases in both Food and Clothing & Home profit and tight cost control, although this was partly offset by a fall in profit in our International business.
	RETURN ON CAPITAL EMPLOYED (ROCE) Definition Return on capital employed is a relative profit measure of the returns from net operating assets.	15.0% RETURN ON CAPITAL EMPLOYED % 12/13 15.8 13/14 14.8 14/15 14.7 15/16 15.0	Performance The increase in ROCE from last year primarily reflects the increase in underlying earnings before interest and tax as well as a small decrease in the average net operating assets.
	UNDERLYING EARNINGS PER SHARE Definition Earnings per Share (EPS) is the underlying profit divided by the average number of ordinary shares in issue.	34.8p +5.1% UNDERLYING EARNINGS PER SHARE p 12/13 31.9 13/14 32.2 14/15 33.1 15/16 34.8	Performance The increase in underlying EPS is a result of the increase in underlying profit. The weighted average number of shares in issue during the period was broadly flat year-on-year, at 1635.9m (last year 1,635.6m).
	DIVIDEND PER SHARE Definition Dividend per share declared in respect of the year.	18.7p +0.7p DIVIDEND PER SHARE p 12/13 17.0 13/14 17.0 14/15 18.0 15/16 18.7	Performance The Board is recommending a final dividend of 11.9p per share, resulting in a total dividend of 18.7p, 0.7p above last year. In addition, a special dividend of 4.6p will be paid at the same time as the final dividend.
Strong cash generation	FREE CASH FLOW (PRE SHAREHOLDER RETURNS) (53 WEEKS) Definition Free cash flow is the net cash generated by the business in the period before returns to shareholders.	£539.3m +2.9% FREE CASH FLOW (PRE SHAREHOLDER RETURNS) £m 12/13 204.1 13/14 427.9 14/15 524.2 15/16 539.3	Performance We delivered strong free cash flow up 2.9% on last year due to the increase in EBITDA and reduced capital expenditure.

KEY TO RESOURCES & RELATIONSHIPS AFFECTED



NON-FINANCIAL OBJECTIVES

OBJECTIVE	KPI	2015/16 PERFORMANCE	
Engage, serve and retain our customers	FOOD Definition Total number of UK Food customers per year and average number of shops per customer resulting in a purchase across all UK shopping channels.	TOTAL CUSTOMERS 20.1m ^{+0.1m}	AVERAGE NUMBER OF SHOPS PER YEAR 22.5 ^{+1.9%}
	CLOTHING & HOME Definition Total number of UK Clothing & Home customers per year and average number of shops per customer resulting in a purchase across all UK shopping channels.	TOTAL CUSTOMERS 24.7m ^{-0.7m}	AVERAGE NUMBER OF SHOPS PER YEAR 7.6 ^{+0.8%}
Foster a skilled, motivated and engaged team	EMPLOYEE ENGAGEMENT Definition Engagement is a key driver of performance. Our Your Say Survey looks at the key drivers of employee engagement such as pride in M&S and our products, feelings about M&S as an employer and the role of line managers.	78% ^{+1%}	
Source products with integrity	PRODUCTS WITH A PLAN A QUALITY A <input checked="" type="checkbox"/> Definition 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.	73% ^{+9%}	
Efficient and responsible operations	GROSS GREENHOUSE GAS EMISSIONS A	566,000 ^{-4%} CO ₂ e	
	GROSS GREENHOUSE GAS EMISSIONS PER 1,000 SQ FT A	29 tCO₂e/ ^{-3%} 1,000sq ft	

KEY PERFORMANCE INDICATORS
CONTINUED

+ Read about our Strategic Update on p06-08 + Read more on Remuneration on p58

+ Read about our Resources & Relationships on p10-13

STRATEGIC OBJECTIVES

OBJECTIVE	KPI	FOOD (52 WEEKS)	CLOTHING & HOME (52 WEEKS)
Driving growth	SALES REVENUE ✓	<p>UK REVENUE</p> <p>£5.4bn +3.6%</p> <p>2014/15: £5.2bn</p> <p>Definition UK Food sales including our owned business and sales to our UK franchisees.</p> <p>Performance Our strategy to be special, new and different continued to set us apart in a very challenging and deflationary market.</p> <p>£ ↻ 📉</p>	<p>UK REVENUE</p> <p>£3.9bn -2.2%</p> <p>2014/15: £4.0bn</p> <p>Definition UK Clothing & Home sales for our owned business.</p> <p>Performance Trading conditions through the year remained challenging, with unseasonal weather resulting in high levels of promotional activity. Nevertheless, our performance highlighted a number of challenges with our products and execution, and we have announced our plan to recover and grow sales.</p> <p>£ ↻ 📉</p>
Reaching customers	SALES GROWTH/ SPACE GROWTH/ ONLINE VISITS ✓	<p>UK LFL SALES GROWTH</p> <p>+0.2%</p> <p>Definition Sales growth from those stores that have been open for 12 months.</p> <p>Performance We outperformed the market and grew our market share to 4.3%.</p> <p>UK FOOD SPACE GROWTH</p> <p>+3.9%</p> <p>Definition Increase in weighted average Food selling space.</p> <p>Performance We opened 25 owned Simply Food stores, 50 new franchise locations and seven new full line stores.</p> <p>£ ↻ 📉</p>	<p>UK LFL SALES GROWTH</p> <p>-2.9%</p> <p>Definition Sales growth from those stores that have been open for 12 months.</p> <p>Performance Although we lowered the sales decline in Clothing & Home in the last quarter, our sales performance was unsatisfactory.</p> <p>£ ↻ 📉</p>
Improving profitability	GROSS MARGIN/ OPERATING PROFIT ✓	<p>UK GROSS MARGIN</p> <p>32.8% ^{Obps}</p> <p>Definition Gross margin is the percentage of revenue retained after costs for producing and transporting goods.</p> <p>Performance Persistent deflation from price investment and an increase in waste costs put pressure on margin. However, these were mitigated through benefits realised from volume growth and ongoing operational efficiencies.</p> <p>£ ↻ 📉</p>	<p>UK GROSS MARGIN</p> <p>55.1% ^{+245bps}</p> <p>Definition Gross margin is the percentage of revenue retained after costs for producing and transporting goods.</p> <p>Performance Strong improvement in gross margin was driven by improvement in the buying margin as we continue to make progress in our sourcing initiatives and implement a more flexible and direct sourcing operation.</p> <p>£ ↻ 📉</p>


LOOKING AHEAD
M&S.COM (52 WEEKS)TOTAL ONLINE SALES¹**£791.5m** +23.4%

2014/15: £641.3m

Definition Total M&S.com revenue including web to home and Shop Your Way transactions.

Performance We grew sales as we continued to refine and develop the infrastructure we have put in place over the past few years. Our sales growth was ahead of the market and we are now the second largest online clothing retailer.

**INTERNATIONAL (52 WEEKS)**

REVENUE

£1.1bn -2.0%

2014/15: £1.1bn

Definition Sales from the International business including sales for owned business and sales to franchisees.

Performance Our International business had a challenging year, although key markets including Ireland and Greece returned to like-for-like growth and India performed well, delivering a double digit sales increase.



WEEKLY SITE VISITS

7.8m +28.5%

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

Performance 7.4 million customers shopped online with us this year, our highest number yet. Customer satisfaction scores improved as we constantly refined the customer experience, making the site quicker and easier to navigate.



SPACE GROWTH

1.4%

Definition Year-on-year increase in weighted average selling space.

Performance International space growth was lower than previous years, as there were fewer new store openings due to the challenging macro-economic environment. We also closed our 12 stores in the Balkans.



UNDERLYING OPERATING PROFIT

£55.8m -39.6%

Definition Underlying operating profit provides additional information on performance adjusting for income and significant one-off charges.

Performance Profit was impacted by a combination of Euro devaluation, challenging macro-economic environments and infrastructure challenges.



Food We believe that our core strategy on Food is clear and that our focus on quality, innovation and choice is right and will continue to deliver sustainable, profitable growth. We expect the roll-out of our standalone Food stores to continue to drive sales growth, with space forecast to grow by c. 5% in the year ahead. Given ongoing competitive pressure, we expect gross margin to remain level, as we continue to re-invest operational efficiencies into price, quality and innovation.

Clothing & Home We are confident the actions we're taking to address sales performance will deliver results, however it will take time for our customers to notice the improvements and change their shopping behaviour. Given current market conditions and our decision to invest in price and reduce promotional activity, we expect to see the same sales trend as last year. We will continue to realise margin gains from ongoing sourcing initiatives. However, currency remains a headwind and we expect this, combined with our decision to invest in price, to deliver an increase of c. 50-100bps.

International We expect the factors which impacted profits this year to persist through 2016/17. We see further pressure from the Euro exchange rate, as well as weak trading conditions in Western Europe. The macro-economic backdrop in most of our franchise markets is not improving, and we will continue to work with our franchise partners to support them through these challenging times. We are still reviewing the shape of our International business and will report back in the autumn.

Financial management Tight control of costs remains a priority and we will continue to focus on driving efficiencies. Operating costs are expected to increase by c. 3.5%. We will invest in store staffing to give our customers great service. In addition, we are facing higher costs as a result of new space and increased depreciation as well as volume growth and inflation. We are continuing with our focus on cash generation. Capital expenditure is expected to be lower at c. £450m.

1. M&S.com sales for the year ended 2014/15 have been restated to incorporate statutory adjustments and a change in allocation of furniture sales between channels. M&S.com sales for 2015/16 have been prepared on a consistent basis.

OUR PERFORMANCE

FINANCIAL REVIEW



We are committed to **delivering profit for our shareholders** by putting our customers at the heart of everything we do.

HELEN WEIR CHIEF FINANCE OFFICER

53 WEEK YEAR

This year we are reporting on the 53 weeks to 2nd April 2016. Profit metrics are provided on a 53 week basis in the Financial Statements. To provide a meaningful comparison with last year's 52 week period, all operating performance commentary in this section is stated on a 52 week basis, unless otherwise noted.

On a 53 week basis, Group underlying profit before tax was £689.6m, up 4.3%. Statutory profit before tax fell by 18.5% to £488.8m as a result of a number of one off items, details of which are set out below.

STRATEGIC PRIORITIES

We remained focused on delivering value for our shareholders through the four key priorities we set out at the start of the year:

- Food sales growth;
- Improve Clothing & Home performance;
- Clothing & Home gross margin improvement;
- Strong cash generation.

We performed well against three of the four priorities, however, our Clothing & Home sales performance is still not satisfactory.

In a tough grocery market, we continued to grow our Food business, with revenue up 3.6% at £5.4bn. Our store opening programme is driving sales growth – we opened 75 standalone Food stores in the year, as well as seven full line stores, and grew our market share to 4.3%.

UK Clothing & Home revenue was down 2.2%, at £3.9bn. Whilst the market is increasingly challenging with low growth and high levels of promotional activity, we've acknowledged that this sales performance was unsatisfactory. We know that we need to improve our products and execution and, as set out on pages 6-8, we have a clear plan in place to address these issues.

Clothing & Home gross margin increased by 245 bps to 55.1% driven mainly by gains in buying margin as a result of our continued progress on sourcing more products directly and the benefits of our dollar hedging approach.

We delivered strong free cash flow, pre-shareholder returns, of £539.3m, up 2.9% on last year due to tight control over costs and capital.

For the second year, we have increased the full year dividend to 18.7p, up 3.9% on last year, in line with profit growth. We also announced a special dividend of 4.6p per share (c.£75m) which will be paid to shareholders at the same time as the final dividend.

OPERATING PERFORMANCE

We continued to manage our costs tightly with UK operating costs up 1.8%. This increase was driven by growth in Food selling space, higher depreciation costs and additional employee incentive costs. These were partially offset by productivity improvements in a number of areas including store staffing and supply chain.

M&S Bank profits were slightly down 0.4% at £59.9m. Overall operating performance was strong, but this was offset by the reduction in interchange fees.

International operating profit was down 39.6% due to challenging trading conditions and ongoing Euro currency pressure in our owned markets and discounts for franchise partners operating in markets affected by difficult macro-economic conditions. Some internal availability challenges also impacted performance.

Overall, Group underlying profit before tax was £684.1m, up 3.5%. Group profit was £483.3m, down 19.5%, as a result of £200.8m of non-underlying items. £102.4m of these charges related to our International business. £50.3m related to further M&S Bank provisions for insurance mis-selling and the balance largely related to impairment of certain assets and UK stores as part of our UK store portfolio review. There are further details on page 24 and in Note 5 on page 97-98.

In February, we announced the outcome of the triennial actuarial valuation of our UK defined benefit (DB) pension scheme as at 31 March 2015. This resulted in a statutory surplus of £204m, an improvement on the previous deficit of £290m (as at 31st March 2012). This improved funding position reflects the additional contributions made since the 2012 valuation and strong investment returns from the Scheme's assets.

We have proposed changes to our UK DB pension scheme, which has been closed to new members since 2002, to close it for future accrual. Under these proposals, we would enrol current defined benefit members in our defined contribution savings plan from April 2017.

+ Further details in note 30 on p121

STRONG CAPITAL MANAGEMENT AND DELIVERING SHAREHOLDER RETURNS

Driving value for shareholders underpins our business strategy and we remain committed to delivering strong shareholder returns. We are making good progress against the clear capital allocation policy set out by the Board last year:

Commitment to a strong balance sheet, including maintaining an investment grade rating:

- Net debt/EBITDA ratio of 1.6x, comfortably within our ratio range of 2.0x-1.5x;
- BBB minus rating;

FIND OUT MORE

+ See our KPIs on p18-21 + See our Strategic Update on p06-08

+ Read about our operating performance on p15-17 + See how performance links to Remuneration on p58

Continuing to invest in the business growth, underpinned by strong investment disciplines:

- Reduced net capital expenditure excluding acquisitions of £468.9m, down by £57.7m;
- Ongoing investment in multi-year infrastructure projects in IT and logistics to make M&S a more flexible organisation that can move with speed and agility this year;
- Strong returns from new space openings.

Progressive dividend policy, broadly twice covered by earnings:

- Full year dividend at 18.7p, up 3.9% on last year in line with our progressive policy.

Returning any surplus cash generated to shareholders on a regular basis:

- Share buyback programme returned £150m to shareholders through purchasing 31.6m shares;
- Announced a special dividend amounting to 4.6p per share (c.£75m) for the first half of the 2016/17 financial year.

SUSTAINABLE REPORTING

This year, we have set out to produce an Annual Report that meets the guiding principles of integrated reporting by demonstrating the long-term sustainable value we create for our shareholders. This report therefore includes further clarity to our business model to better show the effective use of the resources and relationships relevant to our business and the new connected value spread on page 12. We have provided greater detail on the interdependencies in our business and how Plan A creates value. We have also mapped our principal risks against our business model to demonstrate the connectivity between the two.

We take our responsibility to pay our fair share of tax seriously and our approach is in keeping with our longstanding values and aligned to our shareholders' interests. There is detailed information on our tax contribution on page 24.

SUMMARY OF RESULTS

	53 weeks ended		52 weeks ended		
	2 Apr 16 £m	% var	26 Mar 16 £m	28 Mar 15 £m	% var
Group revenue¹	10,555.4	+2.4	10,391.0	10,311.4	+0.8
UK	9,470.8	+2.7	9,324.8	9,223.1	+1.1
International ¹	1,084.6	-0.3	1,066.2	1,088.3	-2.0
Underlying operating profit	784.9	+2.9	777.6	762.5	+2.0
UK	726.7	+8.4	721.8	670.2	+7.7
International	58.2	-36.9	55.8	92.3	-39.6
Underlying profit before tax	689.6	+4.3	684.1	661.2	+3.5
Non-underlying items	(200.8)	n/a	(200.8)	(61.2)	n/a
Profit before tax	488.8	-18.5	483.3	600.0	-19.5
Underlying basic earnings per share	35.0p	+5.7	34.8p	33.1p	+5.1
Basic earnings per share	24.9p	-16.2	24.6p	29.7p	-17.2
Dividend per share (declared)²	18.7p	+3.9	18.7p	18.0p	+3.9

1. On reported currency basis.
2. Excluding special dividend.

GROUP REVENUE

Group revenues were up 0.8% (up 1.1% on a constant currency basis). UK revenues were up 1.1% in total with a like-for-like decrease of 1.1%. International revenues were down 2.0% (up 1.3% on constant currency basis).

GROSS MARGIN

UK gross margin was up 75bps at 42.1% as a result of the strong improvement in Clothing & Home.

Clothing & Home gross margin was up 245bps at 55.1%, driven by improvement in the buying margin as we continue to make progress in our sourcing initiatives and implement a more flexible and direct sourcing operation, and our dollar hedging approach. This has unlocked further benefits including better buying leverage and migration. Some of the buying margin gains were eroded by higher markdown costs due to more stock into sale and higher promotional costs, resulting from sales underperformance.

Food gross margin was level on the year at 32.8%. Investment in price and an increase in waste costs put pressure on margin. However, these were mitigated through benefits realised from volume growth and ongoing operational efficiencies from streamlining our supply chain processes.

OPERATING COSTS

	52 weeks ended		
	26 Mar 16 £m	28 Mar 15 £m	% var
Retail staffing	974.0	954.5	+2.0
Other retail costs	1,088.5	1,116.4	-2.5
Distribution	419.0	408.7	+2.5
Marketing and related	169.4	167.6	+1.1
Central costs	615.2	560.2	+9.8
Total	3,266.1	3,207.4	+1.8

OUR PERFORMANCE

FINANCIAL REVIEW CONTINUED

UK operating costs were up £58.7m (1.8%), with higher depreciation contributing £32.4m. Retail staffing costs were up due to growth in selling space and the annual pay review, partly offset by efficiencies from improved resource allocation. The decrease in other retail costs reflects savings from lower interchange fees and the renegotiation of key utilities and facilities contracts which more than offset higher costs from new space and depreciation. Distribution costs were up due to higher volumes in Food and M&S.com, which were greater than the savings from lower retail volumes in Clothing & Home. Marketing costs increased slightly due to additional investment in digital marketing including the launch of Sparks. Central costs were up largely due to higher IT depreciation and additional staff incentive costs, partially as a result of the release of employee benefit provisions last year.

INTERNATIONAL PERFORMANCE

	2015/16	2014/15	Var %	Var % (cc) ²
Sales	1,066.2	1,088.3	-2.0	1.3
Owned	741.8	747.0	-0.7	4.0
Franchise	324.4	341.3	-4.9	-4.2
Operating Profit	55.8	92.3	-39.6	-40.0
Owned ¹	(31.5)	0.0	n/a	n/a
Franchise ¹	87.3	92.3	-5.3	-3.3

1. Prior year numbers have been restated for a revised allocation of overheads to more accurately reflect business drivers.
2. Constant currency.

International profit fell by 39.6% to £55.8m primarily due to the weaker Euro which meant that the cost of goods in our owned European businesses increased. Competition in these markets meant that we were not able to pass on these higher costs in the form of price increases. The macro-economic pressures in a number of our franchise markets, most notably Turkey, Russia and the Middle East, have continued, resulting in lower franchise sales and margins.

UNDERLYING OPERATING PROFIT

Underlying group operating profit was £777.6m (last year £762.5m). UK operating profit was £721.8m, up 7.7%, driven by an improvement in both Clothing & Home and Food profitability.

NET FINANCE COSTS

	52 weeks ended	
	26 Mar 16 £m	28 Mar 15 £m
Interest payable	(99.5)	(99.8)
Interest income	5.8	5.0
Net interest payable	(93.7)	(94.8)
Pension net finance income	15.3	10.5
Unwinding of discount on partnership liability	(14.7)	(16.1)
Unwinding of discounts on financial instruments and provisions	(0.8)	(0.9)
Net finance cost	(93.5)	(101.3)

Net finance costs were down 7.7% due to increased pension net finance income as result of the net retirement benefit asset increase.

NON-UNDERLYING PROFIT ITEMS

	52 weeks ended	
	26 Mar 16 £m	28 Mar 15 £m
Net M&S Bank charges incurred in relation to the insurance mis-selling provision	(50.3)	(13.8)
Restructuring credits/(costs)	9.2	(4.6)
UK store review	(26.7)	-
UK one-off impairment costs	(23.7)	-
International – store closure costs and impairments	(31.6)	(37.2)
International – impairment of goodwill	(19.1)	-
International – other impairments	(51.7)	-
IAS 39 fair value movement of embedded derivative	(2.0)	1.3
Net gain on acquisition of joint venture holding Bradford warehouse	5.4	-
Profit/(loss) on disposal and impairment once commitment to closure	(10.3)	(6.9)
Adjustment to operating profit and profit before tax	(200.8)	(61.2)

Non-underlying adjustments to profit were a net charge £200.8m (last year £61.2m). The Group continues to incur charges in relation to M&S Bank insurance mis-selling provision (£50.3m).

Following the announcement of a c.£90m multi-year programme to improve the quality of the UK store estate, a £26.7m charge has been recognised in relation to UK store closures. A further £23.7m of asset impairments were incurred as a result of the review of our Clothing & Home strategy which meant that certain buying and merchandising systems were no longer required.

In the current year, £102.4m of charges have been recognised in the International business for store closure costs and impairments of goodwill and other assets due to underperformance and an uncertain outlook in a number of markets including Western Europe and Asia.

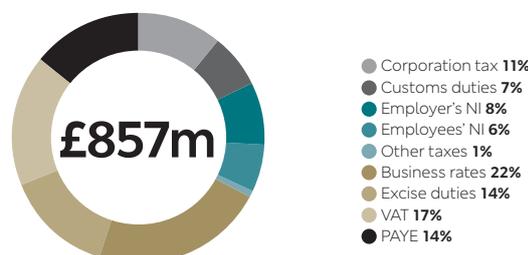
A net gain of £5.4m was recognised following the acquisition of the remaining 50% share of the joint venture holding the Bradford warehouse, representing a fair value gain of £27.1m on the revaluation of the existing investment partially offset by a loss of £21.7m on derecognition of the associated embedded derivative.

Full details are disclosed in note 5 on p97-98.

TAXATION

The full year underlying effective tax rate was 17.2% (last year 18.9%). Statutory effective tax rate was 17.3% (last year 19.7%). It was lower in part owing to a one-off credit due to the restatement of our deferred tax liability to reflect a lower future UK Corporation Tax rate.

TOTAL TAX CONTRIBUTION



In 2016 our total cash tax contribution to the UK Exchequer was £857m (2015: £767m); split between taxes ultimately borne by the company of £419m (2015: £388m) (i.e. corporation tax, customs duties, employer's NIC, business rates and sundry taxes) and taxes attributable to the Company's economic activity collected on behalf of the government of £438m (2015: £379m) (i.e. PAYE, employees' NIC, value added tax, excise duties and sundry taxes).

UNDERLYING EARNINGS PER SHARE

Underlying basic earnings per share increased by 5.1% to 34.8p per share (increased 5.7% to 35.0p on a 53 week basis). The weighted average number of shares in issue during the period was 1,635.9m (last year 1,635.6m).

CAPITAL EXPENDITURE

	53 weeks ended 2 Apr 16 £m	52 weeks ended 28 Mar 15 £m
UK store environment	36.9	92.7
New UK stores	106.4	63.5
International	26.4	37.5
Supply chain	89.1	117.6
IT	161.1	156.2
Maintenance	79.6	94.5
Proceeds from property disposals	(30.6)	(35.4)
Total capital expenditure excluding acquisition	468.9	526.6
Bradford warehouse	56.2	–
Total capital expenditure	525.1	526.6

Total capital expenditure was level versus last year, however this includes £56.2m relating to the acquisition of the remaining 50% of the JV which owned the freehold of our Bradford warehouse.

Excluding this, capital expenditure was down, reflecting a trend towards a lower level of capex going forward.

Spend on the UK store environment has reduced due to the completion of many of our in-store initiatives to create a more inspiring environment for our customers. Key projects this year include the new Lingerie and Kidswear schemes and investment in Food, including our hospitality offer.

As at the year end, we traded from 17.0m square feet of selling space, an increase of c.1.6% (on a weighted average basis) as we opened 82 new stores and closed 20 stores. Within this, Food space grew by 3.9%, with 25 new owned Simply Food stores, 50 franchise and seven full line stores. Of the 20 closures, four were relocations to better sites as we improved the quality of the store estate for our customers. Clothing & Home space increased by 0.4% as the full line store openings more than offset the closures. International space increased by c. 1.4%, a reduction on previous years.

We continued to invest in supply chain and technology. In April 2016, we completed another milestone in the development of the strategic warehouse network with the opening of our repurposed Bradford warehouse as an automated store NDC for our Clothing & Home business. Completion of the strategic network remains on track and is expected to be fully implemented by the end of 2017/18.

In IT, we continued to make progress on our GM4 Clothing & Home buying and merchandising systems with three of the four systems now operational within the business. As highlighted above, following a review of the Clothing & Home business, we will not

implement the final component, Assortment Planning. 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 until 2016/17.

The Group purchased the remaining 50% share of the Lima (Bradford) S.à r.l. joint venture for cash consideration of £56.2m. The company owned the automated distribution centre in Bradford which was previously leased to the Group. As a result, the Bradford automated distribution centre is now completely owned and controlled by the Group.

CASH FLOW AND NET DEBT

	53 weeks ended 2 Apr 16 £m	52 weeks ended 28 Mar 15 £m
Underlying Profit Before Tax	689.6	661.2
Finance costs	116.4	116.8
Finance income	(21.1)	(15.5)
Depreciation and amortisation	576.8	550.1
Underlying EBITDA	1,361.7	1,312.6
Non cash pension and share charges	118.0	84.3
Non underlying items	(63.2)	(25.1)
Working capital	13.2	120.3
Pension funding	(118.4)	(143.0)
Capex and disposals	(519.5)	(664.4)
Acquisition of subsidiary	(56.2)	–
Interest and taxation	(206.0)	(177.1)
Share transactions	9.7	16.6
Free cash flow pre shareholder returns	539.3	524.2
Dividends paid	(301.7)	(280.7)
Share buyback	(150.7)	–
Free cash flow	86.9	243.5
Opening net debt	(2,223.2)	(2,463.6)
Exchange and other non-cash movements	(2.0)	(3.1)
Closing net debt	(2,138.3)	(2,223.2)

The business delivered strong free cash flow pre shareholder returns of £539.3m. After the completion of the share buyback programme and payment of dividends to shareholders, the overall net debt was down by £84.9m. The improved free cash flow reflects stronger business performance, with underlying EBITDA of £1,361.7m, an increase of £49.1m (3.7%) on last year. Working capital was broadly flat in the year. These movements are partially offset by pension funding of £118.4m and capital expenditure cash payments of £519.5m which include the payment of prior year capital accruals.

The Strategic Report, including pages 26 to 29, was approved by a duly authorised Committee of the Board of the Directors on 24 May 2016, and signed on its behalf by



Helen Weir Chief Finance Officer
24 May 2016

OUR PERFORMANCE

OUR PEOPLE

Our people bring our values to life. Their **talent, commitment to our customers and pride in M&S** are key to our long-term growth.

LIVING OUR VALUES

We have built on last year's Fit For The Future programme with a series of training initiatives designed to help employees live our values of Inspiration, Innovation, Integrity and In Touch. Last summer, our top 160 managers took part in a leadership development programme called Fit to Lead. The initiative looked at how we can be more collaborative, agile and entrepreneurial as an organisation. We also ran events for 750 line managers and 3,500 store managers in which they examined how our values can drive high performance. The feedback from all the events was extremely positive. We received 50,000 comments specific to living the values in our annual Your Say survey – they really resonate with our employees.

ENGAGED AND ENTREPRENEURIAL

Our Your Say survey showed that employee engagement levels remain high at 78%. We want to develop and celebrate the talent within M&S, and it's only right that good ideas are given a platform. Give Me Five, our initiative where employees pitch ideas to senior managers, has given employees a sense of ownership and a number of the pitched ideas have been implemented. The idea of Give Me Five itself came from some of our store and office colleagues keen to support our Fit for the Future drive to bring a more entrepreneurial spirit to M&S.

DIVERSITY AND WELLBEING

People are increasingly looking to work for organisations that give them the freedom to be themselves. We have developed an approach to Be Yourself in our induction process, encouraging employees to recognise people's differences while not being afraid to express their own. Our employees' wellbeing is also crucial to us and we continue to invest in programmes such as Dare to Care, an internal campaign focused around raising awareness of mental health.

TRANSFORMING OUR BUSINESS

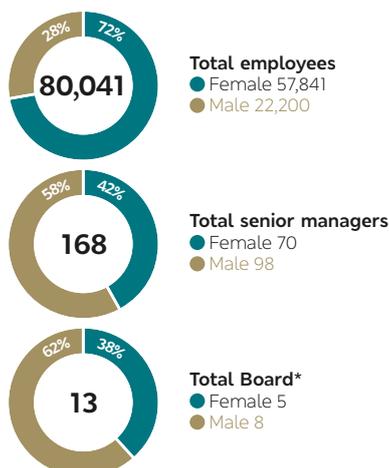
As we continue to transform our business, we must ensure that the changes we make are implemented and communicated to employees effectively. The robust processes we have in place around succession planning, change management and our dedicated Employee Communications team help us mitigate such risks from a people perspective. Our Business Involvement Group (BIG), M&S's network of elected employee representatives, enables us to inform, involve and consult with colleagues across our business on our future plans. BIG gives colleagues the chance to voice their opinions and ideas, get answers and have their views represented.

PLAN A

This year we extended our Make Your Mark youth employment scheme to our head office and Castle Donington distribution centre, increasing the options available to young people. Across the business, 1,400 people took their first steps into work thanks to the programme. Meanwhile, our Marks & Start scheme for people who face barriers getting into work helped an additional 1,400 people through work placements in our stores and distribution centres. We introduced Spark Something Good to encourage our people to make a difference in their local communities. The scheme allowed employees to coordinate their annual volunteer day in a collaborative way. By taking part in a series of community projects in individual cities on the same day, employees mobilised as teams for good causes. In London, we transformed 24 community projects over 24 hours. The scheme will be rolled out to 24 cities across the UK and Ireland over two years – we have already completed five cities; London, Manchester, Swansea, Edinburgh and Dublin.



EMPLOYEE DIVERSITY AS AT 2 APRIL 2016



M&S Inspiring Women

1. Our Inspiring Women Network events have seen a raft of high-profile visitors deliver motivating speeches to our employees. Guests this year have included Ruby Wax and Baroness Karren Brady.



2. All our people can influence change through BIG, which has 3,500 representatives from every store and business area who gather feedback and represent colleagues on the topics that are most important to them. BIG's agenda this year included the national living wage and Sparks.



3. Our awards this year include The Times Top 50 Employers for Women, Training Journal's Best Operational Programme for our store induction programme and, for the second year running, the Prince's Trust Young Achiever Award, which went to Stacey Fox from our Swansea store.

* Includes Marc Bolland and Martha Lane Fox who retired from the Board on 2 April 2016. Refer to p33 for current Board diversity information.

OUR PERFORMANCE

RISK MANAGEMENT

As with any business, we face risks and uncertainties on a daily basis. **Effective risk management** places us in a better position to be able to achieve our strategic objectives.

APPROACH TO RISK MANAGEMENT

The Board is accountable for carrying out a robust assessment of the principal risks facing the Company, including those threatening its business model, future performance, solvency and liquidity. On behalf of the Board, the Audit Committee reviews the effectiveness of the Group risk management processes.

Each business area is responsible for formally identifying and assessing their risks half-yearly, measuring them against a defined set of criteria, and considering likelihood of occurrence and potential impact to the Group. The Group Risk function facilitates a similar exercise with Executive Board members, combining information to provide a consolidated view. The top risks (based on likelihood and impact as illustrated below) 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. These principal risks are then subject to Board discussion during the course of the year, as appropriate.

To drive continuous improvement across the business, the Executive Board monitors the ongoing status of action plans against key risks quarterly.

KEY AREAS OF FOCUS

This year the Group Board has placed significant focus on defining our risk appetite. At the highest level, this is an expression of the types and amount of risk we are willing to take or accept to achieve our strategic and operational objectives. It is a key consideration in decision-making across the Group and helps us define the mitigating activities required to manage our risks.

Following on from last year's progress, we have taken our risk appetite work a step further and the Board has agreed a set of Group-level appetite statements. The purpose of these is to articulate the Board's desired risk-taking approach, and to support the business in its management of a number of principal risks. The current statements summarise normal risk parameters within which the Group already operates; as our business evolves we will continue to refine our risk appetite statements and approach. Further detail can be found on page 48.

During 2015/16, the directors also assessed the long-term viability of the Company in the context of its principal risks. The inclusion of a Viability Statement in Annual Reports from 2016 is a new requirement

under the UK Corporate Governance Code. The statement is designed to strengthen stewardship and to encourage directors to focus on the longer term. Further detail on this can be found on page 47.

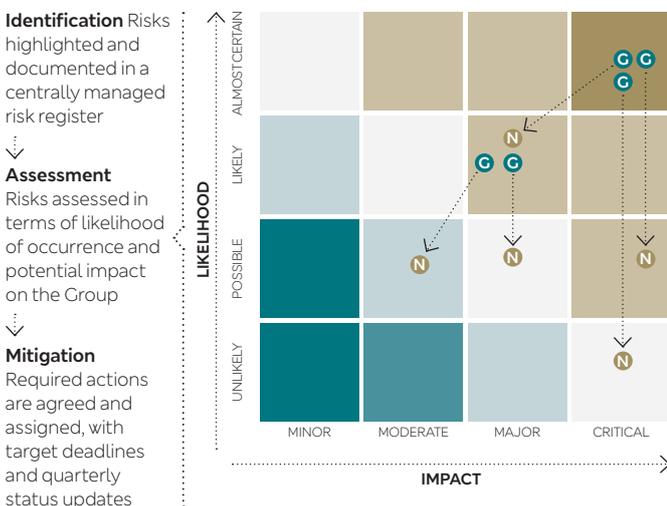
PRINCIPAL RISKS AND UNCERTAINTIES

Overleaf are details of our principal risks and uncertainties and the key mitigating activities in place to address them. It is recognised that the Group is exposed to risks wider than those listed. We disclose those we believe are likely to have the greatest impact on our business at this moment in time and which have been the subject of debate at recent Board or Audit Committee meetings.

To achieve a holistic view of the risks facing our business, 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.

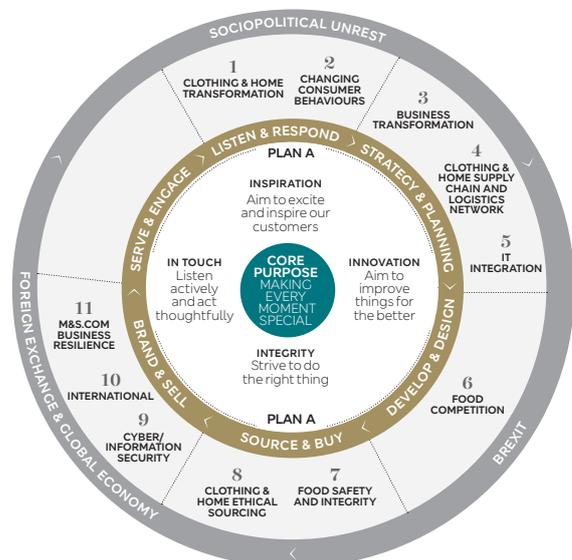
The diagram below maps our principal risks to our business model. This mapping helps us assess and manage risk, and provides a greater understanding of our principal risks in the context of our business operations, including their broader influence on viability, as discussed above.

RISK LIKELIHOOD AND IMPACT



G GROSS RISK LEVEL BEFORE MITIGATION N NET RISK LEVEL AFTER MITIGATION

RISK AND OUR BUSINESS MODEL



OUR PERFORMANCE RISK MANAGEMENT

EXTERNAL RISKS

In the table below we disclose 11 principal risks that may impact our business and are strategic or operational in nature. In addition to these a number of inter-dependent external risks are also the subject of discussion at Group Board and Audit Committee meetings, as appropriate.

Whilst these risks are beyond our direct control, we recognise the importance of operating a business model that has the potential to flex and adapt to a changing external environment. The first external risk is **Sociopolitical Unrest**, where ongoing geopolitical uncertainty, social unrest or the threat

of terrorism have the potential to impact consumer confidence and retail spending on a global scale. Deterioration in **Foreign Exchange & Global Economy** would not only affect consumer confidence in terms of the global economy, but the performance of our International business is also

significantly influenced by fluctuations in foreign exchange rates. As part of these broader risk factors we have specifically considered the implications of **Brexit** in terms of the significant economic uncertainty that exists in advance of the upcoming referendum on Britain's EU membership.

PRINCIPAL RISKS AND UNCERTAINTIES

Key to change in risk level  Higher  Level  Lower  New risk

RISK	DESCRIPTION	CHANGE IN 2015/16	MITIGATING ACTIVITIES
<p>1</p> <p>CLOTHING & HOME TRANSFORMATION</p> <p>Our future performance is impacted by a lack of improvement in product relevance, execution or brand momentum</p> <p></p>	<p>As we reassert our Clothing & Home quality and style credentials and work to improve availability, it is important that we understand and address our customers' needs in order to strengthen brand recognition in an increasingly competitive market.</p>	<p>Whilst significant focus has been placed on improving product style and quality, the benefit has yet to be seen in our sales performance. Transforming our Clothing & Home business to improve performance remains a key priority for the business.</p>	<ul style="list-style-type: none"> → Workstreams in place addressing product, price and process. → Ongoing engagement with customers through data gathered by our Customer Insight Unit and focus groups, regularly shared with key areas of the business. → Ongoing dashboard monitoring of brand momentum. → Continued focus on product quality and style, including adherence to our Clothing Quality Charter.
<p>2</p> <p>CHANGING CONSUMER BEHAVIOURS</p> <p>Our business performance will be impacted if we fail to keep pace with changing consumer behaviours</p> <p></p>	<p>Consumer behaviours continue to evolve at pace; the proliferation of different purchasing channels has been unprecedented in recent years. We need to anticipate changes in the way our customers shop, including advances in digital technology. To leverage performance and keep pace with our competitors, we must proactively manage our property portfolio and operate a flexible business model.</p>	<p>Changing consumer behaviours is a newly added risk in recognition of the need to remain flexible in a highly competitive market. If we fail to meet the expectations of our customers in terms of digital advances or the accessibility of our store network this could have a significant impact on our future performance.</p>	<ul style="list-style-type: none"> → M&S Venture Lab in place to keep us at the forefront of technological developments. → Customer Insight Unit and focus groups monitor changes in consumer behaviours on an ongoing basis. → Channel strategy regularly reviewed at Board level. → Financial modelling of projected channel performance to facilitate proactive management of the store portfolio.
<p>3</p> <p>BUSINESS TRANSFORMATION</p> <p>As we strive to transform our business, we must ensure that the changes we make are implemented effectively</p> <p></p>	<p>Our business is in a period of significant transformation, driven by a variety of internal and external factors. Effective management and implementation of associated people and process changes will be critical, whilst ensuring that our day-to-day operations are not adversely impacted.</p>	<p>The addition of Business transformation recognises the importance of ensuring that our business remains organisationally and operationally efficient in an increasingly competitive retail market, as we continue to address ongoing performance challenges and enter a new chapter in our history under the leadership of a new CEO.</p>	<ul style="list-style-type: none"> → Business transformation regularly discussed by the Group Board. → Employee Communications team engaged to manage associated employee messaging. → Robust programme management practices in place. → Consultation with Business Involvement Group on changes related to our people.
<p>4</p> <p>CLOTHING & HOME SUPPLY CHAIN AND LOGISTICS NETWORK</p> <p>We fail to evolve our supply chain and logistics network to maximise availability for our customers and speed up delivery times</p> <p></p>	<p>The growth of our business and achievement of strategic objectives is highly contingent on the successful execution of our Clothing & Home supply chain and logistics network strategy, the most recent stage of which was the launch of our redeveloped Bradford distribution centre.</p>	<p>2015/16 saw significant progress towards achieving our Clothing & Home supply chain and logistics strategy. Our Castle Donington distribution centre stabilised and we continued to progress with the redevelopment of our Bradford distribution centre. We also redefined Supply Chain & Logistics accountabilities.</p>	<ul style="list-style-type: none"> → Ongoing simplification and stabilisation of Castle Donington distribution centre. → Phased approach to distribution centre transformation. → Supply Chain Leadership Group created, supported by changes to Supply Chain & Logistics accountabilities. → Robust programme governance in place, including interdependencies with other Group initiatives. → Ongoing review of progress against agreed operational and financial objectives.
<p>5</p> <p>IT INTEGRATION</p> <p>Business processes are not adequately supported as a result of poorly integrated IT systems</p> <p></p>	<p>Our business operates using a large number of complex and interdependent systems. The effective integration of these is reliant on us having access to and leveraging the right skillset, coupled with a culture of operational precision.</p>	<p>IT integration is a newly added risk. Following a period of investment in technology, there is scope to improve the integration between systems to leverage associated benefits, drive our business forward and maximise operational efficiency.</p>	<ul style="list-style-type: none"> → Proactive simplification of IT infrastructure and application landscape through: <ul style="list-style-type: none"> – Clearly defined technology roadmaps for all business areas; and – Decommissioning of legacy systems. → Clear decision-making process for system changes, including established IT Change Approval Board.

FIND OUT MORE

+ See our Audit Committee Report on p42-46 + Read Risk in action on p47-48

RISK	DESCRIPTION	CHANGE IN 2015/16	MITIGATING ACTIVITIES
<p>6</p> <p>FOOD COMPETITION</p> <p>Loss of market share, due to market price deflation or changes in the competitive landscape</p> <p>⊖</p>	<p>The food market continues to evolve in response to changing customer behaviours and the increasing influence of the continental discounters. The ongoing polarisation between value and premium means it is important that we continue to provide a point of difference through newness, product quality and innovation, as well as convenience.</p>	<p>The food market has remained challenging in 2015/16. In response to this we continue to monitor our price positioning and to leverage our strengths.</p>	<ul style="list-style-type: none"> → Significant focus on product newness and innovation to retain point of difference and drive customer loyalty. → Continued focus on product availability for our customers. → Regular review of price positioning. → Simply Food expansion to provide convenience for our customers. → Review of key lines to improve comparability with competitors.
<p>7</p> <p>FOOD SAFETY AND INTEGRITY</p> <p>A food safety or integrity related incident occurs or is not effectively managed</p> <p>⊖</p>	<p>As a leading retailer of quality fresh food, it is of paramount importance that we effectively manage safety and integrity, especially as we grow our global food business and given the risk of fraudulent behaviour in the supply chain.</p>	<p>The external pressures facing the food industry continued to evolve in 2015/16. Fraudulent behaviour in the supply chain remains a significant risk, whilst regulatory requirements are becoming increasingly stringent. However, in response, our strong control environment has kept pace.</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. → Robust store, supplier and depot auditing programme in place. → Crisis management plan in place.
<p>8</p> <p>CLOTHING & HOME ETHICAL SOURCING</p> <p>Our ethical standards continue to be of high importance as we make changes to our sourcing strategy</p> <p>Nr</p>	<p>The promotional nature of the retail environment, coupled with inherent cost base pressures, make achievement of margin targets a key objective for the business. Against this background, it is critically important that we maintain our high ethical standards and the strong control environment under which we operate.</p>	<p>The Clothing & Home margin risk included in last year's report has been replaced by this Clothing & Home ethical sourcing risk. This recognises the importance of our strong ethical behaviours and the role they play in achieving our business objectives as we continue to improve our margin performance.</p>	<ul style="list-style-type: none"> → Clearly defined sourcing policies and procedures. → Mature supplier ethical auditing programme in place, involving independent third party auditors. → Regional compliance teams providing ongoing in-country support. → Factory listening groups in place. → Member of the Ethical Trading Initiative.
<p>9</p> <p>CYBER/ INFORMATION SECURITY</p> <p>We experience a major breach in cyber, system or information security</p> <p>⬆</p>	<p>The business is subject to external threats from hackers or viruses, or sensitive data is accessed without authorisation.</p>	<p>2015/16 saw a number of major organisations subjected to cyber-attacks. The external threat profile is ever changing, and the regulatory environment supporting data protection is also becoming more stringent.</p>	<ul style="list-style-type: none"> → Security controls in place including policies, procedures and security technologies. → Ongoing monitoring of developments in cyber security threats, engaging with third party specialists where appropriate. → Control of sensitive data through limited and monitored access and the roll-out of systems possessing enhanced security. → Established team dedicated to managing security requirements for M&S.com.
<p>10</p> <p>INTERNATIONAL</p> <p>The performance of our International business and fulfilment of our strategy is affected by a lack of brand momentum or substandard infrastructure</p> <p>⊖</p>	<p>To drive profitable growth, we need to ensure that our infrastructure and underlying processes and systems are sufficiently robust, and that our brand resonates across international markets.</p>	<p>International performance has remained challenging in 2015/16. We are working to improve all aspects of our International business including our business model, supply chain, systems and the skillset of our people.</p>	<ul style="list-style-type: none"> → 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. → International representation in key Group initiatives.
<p>11</p> <p>M&S.COM BUSINESS RESILIENCE</p> <p>A major failure of our M&S.com platform or at our Castle Donington distribution centre impacts our ability to trade online</p> <p>⬇</p>	<p>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.</p>	<p>Whilst this risk continues to be important especially as online traffic grows, the resilience and performance of our M&S.com platform and Castle Donington distribution centre have improved significantly in 2015/16.</p>	<ul style="list-style-type: none"> → Dual site M&S.com command centre operates 24/7 to monitor website availability and performance. → Social media monitored to observe and respond to trends in customer experience. → Business continuity plans, incident reporting and management procedures are well established and tested, with regular monitoring including quarterly Business Continuity Committee meetings. → Proven resilience plans in place for the M&S.com platform.

Notes: The Group Risk Profile will evolve as mitigating activities reduce net risk over time, or as new risks emerge. Three new risks have been added to the Group Risk Profile since the prior year (IT integration, Changing consumer behaviours and Business transformation); the remaining risks have essentially remained the same, with the exception of one risk where the emphasis has changed from Clothing & Home margin to Clothing & Home ethical sourcing. Four risks have been removed from the Group Risk Profile since the prior year (Our people, staff retention, IT change and Programme and workstream management).

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. These less material risks are kept in view in case their likelihood or impact should show signs of increasing. Further information on the financial risks we face and how they are managed is provided on pages 113-116.