Half year results
2008
Stuart Rose
Chairman
Half year results
2008

Ian Dyson
Group Finance
and Operations Director
Group financial highlights

- Sales £4.2bn, +0.8%
- Profit before tax* £297.8m, -34.1%
- Adjusted earnings per share* 13.7p, -28.3%
- Capital expenditure of £336.5m
- Net debt level at £3.1bn
- Dividend level at 8.3p.

*From continuing operations before property disposals and exceptional items
UK operating profit

- Sales: £435.5m
- Gross Margin: (52.4)
- Operating Costs: (48.1)
- M&S Money: 0.9
- H1 2008/09: £318.0m

H1 2007/08: £435.5m
Gross margin

<table>
<thead>
<tr>
<th>GM</th>
<th>Food</th>
</tr>
</thead>
<tbody>
<tr>
<td>• 53.3%, down 65 bps</td>
<td>• 32.1%, down 170 bps</td>
</tr>
<tr>
<td>• Growth in buying margin</td>
<td>• Cost price inflation</td>
</tr>
<tr>
<td>• Investment in markdowns and promotions</td>
<td>• Investment in price and promotions</td>
</tr>
<tr>
<td>• Markdown opportunities in H2</td>
<td>• Similar trend in H2</td>
</tr>
</tbody>
</table>

Full year guidance: c.-100 bps, subject to trading conditions
Gross margin 2009/10

• Pressures...
  – Currency
  – Cost prices
  – Price and promotional stance

• Mitigated by...
  – Supplier initiatives
  – Stock management
## UK operating costs

<table>
<thead>
<tr>
<th></th>
<th>TY</th>
<th>LY</th>
<th>Var</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m</td>
<td>£m</td>
<td>%</td>
</tr>
<tr>
<td>Retail staffing</td>
<td>400.1</td>
<td>400.1</td>
<td>-</td>
</tr>
<tr>
<td>Retail occupancy</td>
<td>449.2</td>
<td>402.9</td>
<td>+11.5</td>
</tr>
<tr>
<td>Distribution</td>
<td>199.9</td>
<td>174.8</td>
<td>+14.4</td>
</tr>
<tr>
<td>Marketing &amp; related</td>
<td>66.0</td>
<td>62.2</td>
<td>+6.1</td>
</tr>
<tr>
<td>Support</td>
<td>191.4</td>
<td>203.4</td>
<td>-5.9</td>
</tr>
<tr>
<td><strong>Total before bonus</strong></td>
<td>1,306.6</td>
<td>1,243.4</td>
<td>+5.1</td>
</tr>
<tr>
<td>Bonus</td>
<td>2.7</td>
<td>17.8</td>
<td>-84.8</td>
</tr>
<tr>
<td><strong>Total including bonus</strong></td>
<td>1,309.3</td>
<td>1,261.2</td>
<td>+3.8</td>
</tr>
</tbody>
</table>
UK operating costs 2009/10

- Space impact: c. 3 - 4%
- Inflation: c. 3 - 4%
- Target: savings to at least offset inflation
- Key focus areas
  - Distribution
  - Marketing
  - Support
## International

<table>
<thead>
<tr>
<th></th>
<th>TY £m</th>
<th>LY £m</th>
<th>Var %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>396.7</td>
<td>320.3</td>
<td>+23.9</td>
</tr>
<tr>
<td>- Owned stores</td>
<td>271.6</td>
<td>190.2</td>
<td>+42.8</td>
</tr>
<tr>
<td>- Franchised stores</td>
<td>125.1</td>
<td>130.1</td>
<td>-3.8</td>
</tr>
<tr>
<td>Operating profit</td>
<td>54.4</td>
<td>52.5</td>
<td>+3.6</td>
</tr>
<tr>
<td>- Owned stores</td>
<td>18.7</td>
<td>22.6</td>
<td>-17.3</td>
</tr>
<tr>
<td>- Franchised stores</td>
<td>35.7</td>
<td>29.9</td>
<td>+19.4</td>
</tr>
</tbody>
</table>
**Net cash flow**

- **EBITDA**: £571.8m
- **Working capital**: £150.2m
- **Capex**: (£415.4m)
- **Disposal proceeds**: £62.4m
- **Interest & taxation**: (£107.1m)
- **Dividends & share issues**: (£221.4m)
- **Buy back**: (£40.9m)
- **Other**: (£4.8m)
- **Net cash flow**: (£5.2m)

*Before property disposals and exceptional items*
## Balance sheet stock

<table>
<thead>
<tr>
<th></th>
<th>Sept 2007</th>
<th>Sept 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>£588.5m</td>
<td>£517.1m</td>
<td></td>
</tr>
<tr>
<td>Acquisitions &amp; International</td>
<td>+£20.6m</td>
<td></td>
</tr>
<tr>
<td>Direct</td>
<td>+£4.2m</td>
<td></td>
</tr>
<tr>
<td>GM</td>
<td>+£22.0m</td>
<td></td>
</tr>
<tr>
<td>Food</td>
<td>+£24.6m</td>
<td></td>
</tr>
</tbody>
</table>
Capital expenditure

- Modernisation programme
- New stores
- International
- Supply chain and technology
- Maintenance

£m

- 2007/08: £1,055m
- 2008/09 Revised: £700m
- 2009/10 Revised: £400m
Investment in supply chain & IT

- c. £200m plan for 2009/10
- 70% efficiency, 30% growth
- Supply chain focus on Direct and short term efficiency gains
- IT focus on stores, “Business Foundation” and HR
Balance sheet and financing

- Net debt level at £3.1bn
- Action taken to improve cash flow
  - Reduced capex
  - Working capital management
  - Asset disposals
- No short term refinancing required
  - £4.2bn debt and facilities in place, fixed debt average maturity 10 years
- Fixed charge cover covenant of 2.75x within bank facilities
Summary

- Sales impacted by economic environment
- Margin investment to improve values
- Tight control of costs
- Reduction in capex, working capital
- Strong financial position
Half year results
2008
Stuart Rose
Chairman
Our customer

Consumer Confidence Index
Key priorities:

- to retain our market leading position in GM
- to improve our performance in Food
- to drive our International business
- to optimise margins and tightly control costs
- to maintain a strong balance sheet
- to uphold high ethical standards
Our markets: GM

SOURCE: Broker Research/ TNS Fashiontrak 52 w/e 14 Sept 08
GM: everyone every time

- Broad customer base with authoritative product offer: strong core plus brands
- Broad & competitive price architecture
- Reinforce leading positions in key segments
- Grow areas of low market share
- Develop multi-channel offer with M&S Direct
- Continue brand stretch
- Maintain reputation for quality and innovation
GM: positioning

- Breadth
- Choice
- Newness

SOURCE: Exit Surveys Aug 08

Competitive pricing

- Styling
- Fashionability
- Excitement

SOURCE: Exit Surveys Aug 08

M&S
GM: reinforcing key market positions

- Enhancing offer for 45+ customer in womenswear
- New brand launching Spring ’09
- Fills gap in offer
- Elegant styling, co-ordinated ranges, everyday wear – smart and casual
GM: growing low market shares

SOURCE: TNS Fashiontrak 52 w/e 14 Sept 08, *GFK 52 w/e 28 June 08
GM: multi-channel & Direct

- Further development of multi-channel offering
- Reinforcing brand proposition
- Growth in customer numbers/conversion
- Enabling brand stretch:
  - M&S Energy
  - and in Foods - Wine club, Food online
Our markets: Food

- Market share
- Environment, Competition
- Market positioning
- Operational issues

Spend share of trade %

3.8 3.8 3.9 3.9 4.0 4.1 4.1 4.2 4.3 4.1

Simply Food Roll out extended

Food Market Share YoY Difference

-0.7 -0.6 -0.5 -0.4 -0.3 -0.2 -0.1 0

July August September October

SOURCE: TNS Worldpanel 4 w/e 5 Oct 08
Food: environment/competition
Food: M&S market positioning

- M&S trades on quality and value NOT price alone
- No 1 retailer of quality foods
- Leader in key product areas: over-index share by 3-10x
- M&S quality reputation strong - well ahead of competitors

SOURCE: M&S Brand Tracking Study
Foods: operational issues

- Pricing
- Promotions
- Quality and innovation
- Availability / waste
- Supplier relationships
Food: action on price

- Prices down on 560 products: c.10% of catalogue
- 3 key areas of action:
  - KVls
  - 99p items
  - Ready meals
- Labelled ‘Wise Buys’
- Positive customer feedback
- No compromise on quality

Increased awareness of Wise Buys
Perceptions +40%
Food: action on promotions

• Fewer, larger, sharper focus
• Dine in for £10.
  – Restaurant quality food at home
  – Driving return from more occasional customers
• Weekend specials – ½ price deals
• First price – right price.
  – More ‘money offs’ : ‘less multi-buys’
Food: action on innovation

- Pace, differentiation, upgrade all key categories
- Clear product development strategy
- 1,200 new lines over next 12 months
- Product upgrade programme
Food: action on availability/waste

- IT investment to support future growth
- Restructured entire merchandising function
- Dedicated team focusing on:
  - Improved on-shelf availability
  - Focus on top 400 lines and top 100 stores: over 1/3 of total sales
  - Banker lines: 25% of total sales
  - Reducing sell outs by 30%
  - Minimising waste: 10% improvement

Stores

<table>
<thead>
<tr>
<th>350</th>
<th>660+</th>
</tr>
</thead>
</table>

Catalogue

| 2,800 | 5,500 |

+100%
International

- Investing: key territories, key franchise partners
- Developing new markets
- Continued growth of franchise
- Driving operating improvements
- Growing Foods
Margins and costs

- Working with suppliers
- Working to mitigate higher input costs:
  - Raw materials
  - Wage inflation
  - Currency
- Managing stock levels and commitments
- Reducing markdown risk
- Targets on costs
Balance sheet

• Capital expenditure
• Investments in IT and supply chain
  – drive cost benefits
  – improve efficiency
• Improving quality of property portfolio
• Managing working capital
Summary

Key priorities:

• to retain our market leading position in GM
• to improve our performance in Food
• to build our International business
• to optimise margins and tightly control costs
• to maintain a strong balance sheet
• to uphold our Plan A ethical standards
Appendix
## Appendix 1 - UK sales

<table>
<thead>
<tr>
<th>Category</th>
<th>TY £m</th>
<th>LY £m</th>
<th>Var %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clothing</td>
<td>1,624.1</td>
<td>1,681.3</td>
<td>-3.4</td>
</tr>
<tr>
<td>Home</td>
<td>194.1</td>
<td>186.6</td>
<td>+4.0</td>
</tr>
<tr>
<td>General Merchandise</td>
<td>1,818.2</td>
<td>1,867.9</td>
<td>-2.7</td>
</tr>
<tr>
<td></td>
<td></td>
<td>LFL</td>
<td>-6.2</td>
</tr>
<tr>
<td>Food</td>
<td>2,004.7</td>
<td>1,996.1</td>
<td>+0.4</td>
</tr>
<tr>
<td></td>
<td></td>
<td>LFL</td>
<td>-5.3</td>
</tr>
<tr>
<td>Total</td>
<td>3,822.9</td>
<td>3,864.0</td>
<td>-1.1</td>
</tr>
<tr>
<td></td>
<td></td>
<td>LFL</td>
<td>-5.7</td>
</tr>
</tbody>
</table>
Appendix 2 - UK Gross margin

GM: 53.3% (2008/09) vs. 54.0% (2007/08)
Food: 32.1% (2008/09) vs. 33.8% (2007/08)
Total: 42.2% (2008/09) vs. 43.6% (2007/08)
### Appendix 3 - Stores and space

<table>
<thead>
<tr>
<th></th>
<th>September 2008</th>
<th>September 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premier</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Major</td>
<td>41</td>
<td>39</td>
</tr>
<tr>
<td>High Street</td>
<td>241</td>
<td>237</td>
</tr>
<tr>
<td>Simply Food Owned</td>
<td>174</td>
<td>156</td>
</tr>
<tr>
<td>Simply Food Franchised</td>
<td>163</td>
<td>111</td>
</tr>
<tr>
<td>Outlets</td>
<td>36</td>
<td>34</td>
</tr>
<tr>
<td>UK stores</td>
<td>665</td>
<td>587</td>
</tr>
</tbody>
</table>

**Selling space (m sq ft)**

<table>
<thead>
<tr>
<th></th>
<th>September 2008</th>
<th>September 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owned</td>
<td>86</td>
<td>64</td>
</tr>
<tr>
<td>Franchised</td>
<td>205</td>
<td>152</td>
</tr>
<tr>
<td>International</td>
<td>291</td>
<td>216</td>
</tr>
</tbody>
</table>

**Selling space (m sq ft)**