YOUR M&S

Preliminary Results

20 May 2008
Preliminary Results

Stuart Rose
Preliminary Results

Ian Dyson
Contents

- 2007/08 results
- 2008/09 positioning
- Investing in the business
Group financial highlights

- Sales £9.0bn, +5.1%
- Profit before tax* £1,007.1m, +4.3%
- Adjusted earnings per share* 43.6p, +7.9%
- Capital expenditure of £1.1bn
- £914m returned to shareholders
- Net debt £3.1bn

*From continuing operations before property disposals and exceptional items
## UK performance

<table>
<thead>
<tr>
<th></th>
<th>H1</th>
<th>H2</th>
<th>FY</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales</strong></td>
<td>+5.9%</td>
<td>+2.7%</td>
<td>+ 4.2%</td>
</tr>
<tr>
<td><strong>LFL - GM</strong></td>
<td>+2.3%</td>
<td>-3.2%</td>
<td>-0.5%</td>
</tr>
<tr>
<td></td>
<td>+0.5%</td>
<td>-1.1%</td>
<td>-0.4%</td>
</tr>
<tr>
<td><strong>Gross margin</strong></td>
<td>Level</td>
<td>-70bps</td>
<td>-40bps</td>
</tr>
<tr>
<td>- GM</td>
<td>+80bps</td>
<td>-90bps</td>
<td>Level</td>
</tr>
<tr>
<td>- Food</td>
<td>-50bps</td>
<td>+20bps</td>
<td>-10bps</td>
</tr>
<tr>
<td><strong>Operating costs</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>+7.1%</td>
<td>+7.8%</td>
<td>+7.5%</td>
</tr>
</tbody>
</table>

* Before bonus
## International

<table>
<thead>
<tr>
<th></th>
<th>TY £m</th>
<th>LY £m</th>
<th>Var %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>712.9</td>
<td>610.6</td>
<td>+16.8</td>
</tr>
<tr>
<td>Owned</td>
<td>426.7</td>
<td>369.5</td>
<td>+15.5</td>
</tr>
<tr>
<td>Franchised</td>
<td>286.2</td>
<td>241.1</td>
<td>+18.7</td>
</tr>
<tr>
<td><strong>Operating profit</strong>*</td>
<td>116.4</td>
<td>87.5</td>
<td>+33.0</td>
</tr>
<tr>
<td>Owned</td>
<td>44.5</td>
<td>45.4</td>
<td>-2.0</td>
</tr>
<tr>
<td>Franchised</td>
<td>71.9</td>
<td>42.1</td>
<td>+70.8</td>
</tr>
</tbody>
</table>

*From continuing operations before property disposals*
Cash flow

- **EBITDA**: £1,406.9m
- **Working capital**: £1,019.0m
- **Capex**: £91.6m
- **Disposal proceeds**: £(46.4)m
- **Acquisitions**: £(250.3)m
- **Interest & taxation**: £(312.0)m
- **Dividends & share issues**: £(555.9)m
- **Buy back**: £(61.5)m
- **Other**: £(917.5)m

* Before property disposals and exceptional items
Balance Sheet

- Strong balance sheet
- Raised £638m of new finance
- Extended pension fund property partnership
- Share buy back
2008/09 Positioning

- Gross margin
- UK operating costs
- UK space growth
- International
- Capital expenditure
- Interest
Gross margin

GM
- Input cost inflation
- Sourcing gains
- Price deflation / mix
- Control of markdown

Food
- Raw material cost inflation
- Franchise mix impact
- New supplier arrangements
- Control of waste

2008/09 guidance 0 to +50bps
# UK operating costs

<table>
<thead>
<tr>
<th>Description</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007/08 Operating costs before bonus</td>
<td>£2,613.2m</td>
</tr>
<tr>
<td>Annualisation of 2007/08 activity</td>
<td>+3%</td>
</tr>
<tr>
<td>2008/09 new space and modernisations</td>
<td>+4%</td>
</tr>
<tr>
<td>Other non discretionary increases</td>
<td>+2%</td>
</tr>
<tr>
<td><strong>Underlying cost savings</strong></td>
<td>-2%</td>
</tr>
<tr>
<td>2008/09 Operating cost growth guidance</td>
<td>+7%</td>
</tr>
</tbody>
</table>
UK space growth

Total space*  |  2006/07  |  2007/08  |  2008/09 Guidance
--- | --- | --- | ---
13.6  | +2.7%  | +4.8%  | +5.5%
14.3  | +4.5%  | +8.7%  | +7.5%
15.2  | +1.8%  | +3.0%  | +4.5%

*Total space as at year-end; growth rates are weighted average

**Including franchised stores
International

- Restated for impact of acquisitions:
  - Owned Revenue £519m Operating profit £65m
  - Franchised Revenue £236m Operating profit £57m

- Owned space growth 15-20%
- Franchised space growth 15-20%
- c£5m loss in China and India
Capital expenditure

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

£m

- 2006/07: 792
- 2007/08: 1,055
- 2008/09: 800-900

Guidance
Interest

- Major cash flow factors
  - Capital expenditure
  - Buy back
- Pension accounting
- Acquisition accounting
- Average interest rate
Investing in the business

- UK property
- International
- Supply chain and technology
UK property strategy

- Extend and add major out of town stores
- Enhance major city centre stores
- Open more Retail Park stores
- Develop High St portfolio
- Accelerate Simply Food
Modernisation programme

- 2004/05: 5%
- 2005/06: 10%
- 2006/07: 35%
- 2007/08: 70%
- 2008/09E: 80%

Modernised
Unmodernised
## UK property portfolio

<table>
<thead>
<tr>
<th>Store numbers</th>
<th>March 2009E</th>
<th>March 2006</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mainline</td>
<td>338</td>
<td>307</td>
<td>+ 31</td>
</tr>
<tr>
<td>Simply Food</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Owned</td>
<td>185</td>
<td>101</td>
<td>+ 84</td>
</tr>
<tr>
<td>- Franchised</td>
<td>189</td>
<td>43</td>
<td>+ 146</td>
</tr>
<tr>
<td>Total</td>
<td>712</td>
<td>451</td>
<td>+ 261</td>
</tr>
</tbody>
</table>

- Out of town: 33
- City centre/High St: 8
- Closures (High St): (10)
- Net: 31
## Returns on new stores

### 2006/07 & 2007/08 store openings

<table>
<thead>
<tr>
<th></th>
<th>Mainline Stores</th>
<th>Simply Food</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stores</td>
<td>13</td>
<td>74</td>
</tr>
<tr>
<td>Sq Footage (‘000 sq ft)</td>
<td>552</td>
<td>497</td>
</tr>
<tr>
<td>Investment</td>
<td>£109m</td>
<td>£136m</td>
</tr>
<tr>
<td>Sales – Year 1</td>
<td>£283m</td>
<td>£412m</td>
</tr>
<tr>
<td>Incremental EBITDA – Year 1</td>
<td>£59m</td>
<td>£43m</td>
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<tr>
<td>ROI</td>
<td>54%</td>
<td>32%</td>
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</table>

*Excluding payments to acquire freeholds and leasehold premiums*
## International investment

<table>
<thead>
<tr>
<th>Category</th>
<th>Location</th>
<th>Guidance</th>
</tr>
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<tbody>
<tr>
<td>Owned</td>
<td>Eire, Hong Kong</td>
<td>£30-40m</td>
</tr>
<tr>
<td>Subsidiaries*</td>
<td>Greece, Czech</td>
<td>£10-15m</td>
</tr>
<tr>
<td>New markets*</td>
<td>China, India</td>
<td>£10-15m</td>
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</tbody>
</table>

**2008/09 Guidance**

* M&S share of investment only
Supply chain and technology

- Incremental supply chain investment in Food
- GM supply chain restructure underway
  - Bradford
  - E-commerce
  - International
- IT investment in line with plans
- Investment £150 - £200m p.a. for next 3 years
Summary

- £1bn PBT, EPS up 8%
- £1.1bn invested in the business
- £914m returned to shareholders
- Strong financial position
- 2008/09:
  - Managing the short term
  - Investing for the long term
Preliminary Results
Stuart Rose
Market overview

Monthly Confidence Index

SOURCE: GFK Consumer Confidence, April 08
Highlights

Group revenue £m

<table>
<thead>
<tr>
<th>Year</th>
<th>UK</th>
<th>International</th>
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<tbody>
<tr>
<td>2007/8</td>
<td>9,022.0</td>
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<tr>
<td>2006/7</td>
<td>8,588.1</td>
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<tr>
<td>2005/6</td>
<td>7,797.7</td>
<td></td>
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<tr>
<td>2004/5</td>
<td>7,490.5</td>
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</table>

SOURCE: Internal, Company reports

Group profit before tax £m

<table>
<thead>
<tr>
<th>Year</th>
<th>UK</th>
<th>International</th>
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<tr>
<td>2007/8</td>
<td>1,007.1</td>
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<tr>
<td>2006/7</td>
<td>965.2</td>
<td></td>
</tr>
<tr>
<td>2005/6</td>
<td>751.4</td>
<td></td>
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<tr>
<td>2004/5</td>
<td>556.1</td>
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SOURCE: Internal, Company reports

Earnings per share

<table>
<thead>
<tr>
<th>Year</th>
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<th>2005/6</th>
<th>2006/7</th>
<th>2007/8</th>
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<tbody>
<tr>
<td>£p</td>
<td>19.2p</td>
<td>31.4p</td>
<td>40.4p</td>
<td>43.6p</td>
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Mystery Shopping %

<table>
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<tr>
<th>Month</th>
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<th>2006/7</th>
<th>2007/8</th>
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<tr>
<td>May</td>
<td>84</td>
<td>85</td>
<td>85</td>
<td>87</td>
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<tr>
<td>June</td>
<td>84</td>
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<td>July</td>
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<td>Aug</td>
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<td>Mar</td>
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SOURCE: Internal, Company reports
<table>
<thead>
<tr>
<th></th>
<th>2004/5</th>
<th>2005/6</th>
<th>2006/7</th>
<th>2007/8</th>
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<tbody>
<tr>
<td><strong>Value Share</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Clothing and Footwear</td>
<td>10.6</td>
<td>10.4</td>
<td>11.1</td>
<td>11.0</td>
</tr>
<tr>
<td>Womenswear</td>
<td>10.6</td>
<td>10.5</td>
<td>11.3</td>
<td>11.1</td>
</tr>
<tr>
<td>Lingerie</td>
<td>25.6</td>
<td>24.3</td>
<td>26.1</td>
<td>24.8</td>
</tr>
<tr>
<td>Menswear</td>
<td>9.8</td>
<td>9.6</td>
<td>10.3</td>
<td>10.5</td>
</tr>
<tr>
<td>Kidswear</td>
<td>4.4</td>
<td>4.2</td>
<td>4.5</td>
<td>4.8</td>
</tr>
<tr>
<td>Food</td>
<td>3.9</td>
<td>4.1</td>
<td>4.2</td>
<td>4.3</td>
</tr>
<tr>
<td><strong>Volume Share</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Clothing and Footwear</td>
<td>10.1</td>
<td>10.1</td>
<td>10.7</td>
<td>11.2</td>
</tr>
<tr>
<td>Womenswear</td>
<td>8.8</td>
<td>8.8</td>
<td>10.0</td>
<td>10.0</td>
</tr>
<tr>
<td>Lingerie</td>
<td>16.7</td>
<td>16.7</td>
<td>18.3</td>
<td>17.9</td>
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<tr>
<td>Menswear</td>
<td>11.2</td>
<td>11.2</td>
<td>11.1</td>
<td>13.1</td>
</tr>
<tr>
<td>Kidswear</td>
<td>4.4</td>
<td>4.4</td>
<td>5.0</td>
<td>5.2</td>
</tr>
<tr>
<td>Food</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
</tbody>
</table>

SOURCE: Clothing - TNS Worldpanel Fashion - 52 we end March; Food - TNS Worldpanel - Food and Drink - 52 we end March
Highlights

SOURCE: Internal Analysis – 52 weeks to 29th March 2008
GM: Key Opportunities

- Price architecture
  - Maintain value at OPP
  - Stretch better and best
- Target areas of lower market share
- Buying and merchandising
  - Tighter option control
  - Range planning
  - Proportion and pace of new product
  - Improve fashionability
- Other channels
  - Home stand alone stores
  - Technology
  - Direct, International
Price architecture

- **Good** (Focus / Hold)
  - Hold value credentials
  - Increase newness and fashion on good product

- **Better** (Drive)
  - Truly differentiated product (M&S twist)

- **Best** (Grow / Broaden)
  - Autograph, Limited and per una
  - Flagship ranges

```
2004 | 2005 | 2006 | 2007 | now  
---   | ---  | ---  | ---  | ---  
65%  | 63%  | 54%  | 53%  | 53%  
12%  | 17%  | 28%  | 30%  | 28%  
23%  | 20%  | 18%  | 17%  | 19%  
```

SOURCE: Internal Analysis
Low market share: kids

- Good market share growth, now need to:
- Improve consistency between Girls & Boys
- Extend Ranges
- More regular newness
- Clearer segmentation / branding
  - Grow Autograph
  - Extend size ranges
  - Hold no. 1 Schoolwear
  - Improve Essentials
  - Drive Character
- Store environment
- Online/Multi-channel
- Promotions & events
- Gifting
Low market share: Home

- Good growth in all areas
- Strong performance in furniture
- Online support to growth
- Home stand alone
Buying and Merchandising

- Tighter option control
- Range planning
- Proportion and pace of new product
- Improve fashionability
Other channels

- Home stand alone stores
- New Technology
- Retail Parks
- Direct and International
Food

- Clear strategy; clear priorities
- Maintain reputation for outstanding quality
- Innovation - leading market trends
- Continued differentiation on ethics
- Continued focus on sourcing and provenance
- Anticipating customer needs – convenience and freshness
- Firm control of supply chain
- Grow market share to 5%
Food priorities

- Continued innovation
- Relevant pricing and promotional stance
- Introduce greater convenience
- Extend brand reach
- Improve operational execution
Innovation

- Salts, fats & sugars
- Additives
- Sustainability
- “In demand” – organics, fresh
- Healthy eating – Eat Well
- Diet – Count on Us
- Children’s food
- Nutrition labelling
- Enrichment – Omega 3, probiotics
Pricing & promotions

- Price investment - key lines
- Promotions - targeted, simple, motivating, relevant
- Point of sale messaging

% Growth by Basket Value

SOURCE: Retail Map Mar 2008
Introduce greater convenience
Introduce greater convenience

- 350 branded products
- Limited range: household, toiletries, dry grocery
- 19 store trial in Tyneside and Teeside June-August
## Driving convenience: cataloguing

<table>
<thead>
<tr>
<th>Convenience</th>
<th>Local Food Shop</th>
<th>Destination Food Hall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Travel (For Now)</td>
<td>High Street (Top Up/Treat)</td>
<td>• Marble Arch</td>
</tr>
<tr>
<td>Grab n Go (For Now, For Tonight)</td>
<td>Out of Town Suburbs (Main Shop)</td>
<td>• Camberley</td>
</tr>
<tr>
<td>Rail</td>
<td>• Mansfield</td>
<td>• Glasgow Argyll</td>
</tr>
<tr>
<td>Air</td>
<td>• Swindon</td>
<td></td>
</tr>
<tr>
<td>Moto</td>
<td>• Brighton</td>
<td></td>
</tr>
<tr>
<td>BP</td>
<td>• Green Park</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Finsbury Pavement</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Twickenham</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Coliseum</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Harbourne</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Rickmansworth</td>
<td></td>
</tr>
</tbody>
</table>
Extending brand reach

- Simply Foods
- Hospitality
- M&S Direct
- International
Simply Foods

- Footfall: +25%
- Frequency: +21%
- Market share:
  - 2000: 5.2%
  - 2007: 7.5%

Source: Internal Analysis of &MORE card
Hospitality

- 14m more transactions
- Customers trade up: spend +11%
- Strong sales growth

vs. non Café customers:
- Spend on average +10%
- Buy an additional item
- Higher level of cross shop
Food Online

Wine
Money back guarantee on all wine cases
To order by phone
call 0845 60 99 200
Sign up for Wine DIRECT news & offers

Wine Type
Champagne & Sparkling
Mixed Cases
Red
Rosé
White
Fine Wines

Country of Origin
Argentina
Australia
Chile
Eastern Europe
France
Germany

Wine
Rose Offer**
Spanish Offer**
Bin End Clearance
Wine DIRECT Brochure

Featured Categories
Champagne
Rosé
White
Food - International

- Eire
- Extending ranges
  - Ambient
  - Frozen
Improve operational execution

- Supplier terms
- Availability, waste, traceability & transparency
  - Plan to reduce waste over 2008/9 and 2009/10
  - Improve availability to 95%
- Supply chain optimisation
  - BP dedicated depot opens July
  - Depot mechanisation
  - Improved policing of supply base
  - Improve end-to-end warehouse labour productivity
M&S Direct

- Outperformed market (70% growth vs market 30%)
- Attracted 20m more customers to site
- Tempted more to buy through
  - Greater choice of product, innovation and online exclusives
  - Better service: shorter delivery times, penalties for late delivery
  - Environment: more stable website, improved product presentation, better product imagery & styling

SOURCE: Internal Analysis - 52 w/e  SOURCE: Brc vs Internal
International

- Continue to grow existing business
- Investing in key territories and key franchise partners:
  - Ireland
  - Central and Eastern Europe
- Developing major emerging markets
  - China
  - India
Plan A: achievements & goals

- Launched UK’s largest clothing recycling scheme with Oxfam
- 30ºc Wash label roll out completed
- World first Carbon Neutral factory - May 08
- 100 million hangers recycled: 34% more than last year
- Packaging reduced by 7%
- Largest range of Eco textiles in the UK
- Introduced carrier bag charging in Food
In summary

- A good year against a tough market
- Clear about strategy and execution
- Investing for growth: 5 key priorities
  - UK – product, service, environment
  - Property:
    - growing and improving space
    - Target 15-20% more space in 3-4 years
  - M&S Direct: target £500m revenues by 2010
- International:
  - target 15-20% of Group revenues
- Delivering Plan A objectives
YOUR M&S

Preliminary Results

20 May 2008