

YOUR M&S

Preliminary Results

20 May 2008

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Stuart Rose

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Ian Dyson

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- 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

| | H1 | H2 | FY |
|------------------|--------|--------|--------|
| Sales | +5.9% | +2.7% | + 4.2% |
| LFL - GM | +2.3% | -3.2% | -0.5% |
| - Food | +0.5% | -1.1% | - 0.4% |
| Gross margin | Level | -70bps | -40bps |
| - GM | +80bps | -90bps | Level |
| - Food | -50bps | +20bps | -10bps |
| Operating costs* | +7.1% | +7.8% | +7.5% |

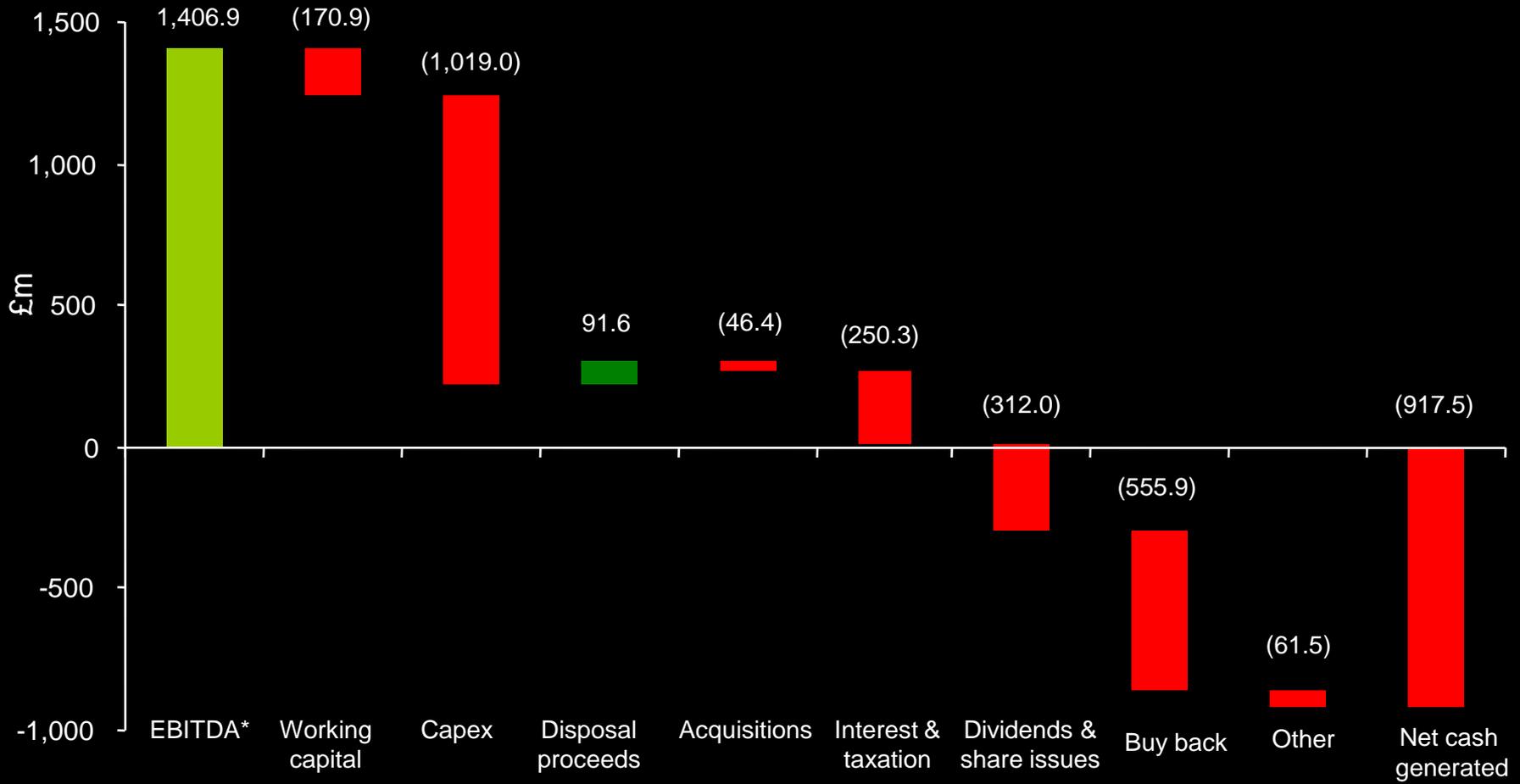
* Before bonus

International

| | TY £m | LY £m | Var % |
|--------------------------|--------------|--------------|--------------|
| Revenue | 712.9 | 610.6 | +16.8 |
| Owned | 426.7 | 369.5 | +15.5 |
| Franchised | 286.2 | 241.1 | +18.7 |
| Operating profit* | 116.4 | 87.5 | +33.0 |
| Owned | 44.5 | 45.4 | -2.0 |
| Franchised | 71.9 | 42.1 | +70.8 |

*From continuing operations before property disposals

Cash flow



* 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

2007/08 Operating costs before bonus £2,613.2m

Annualisation of 2007/08 activity +3%

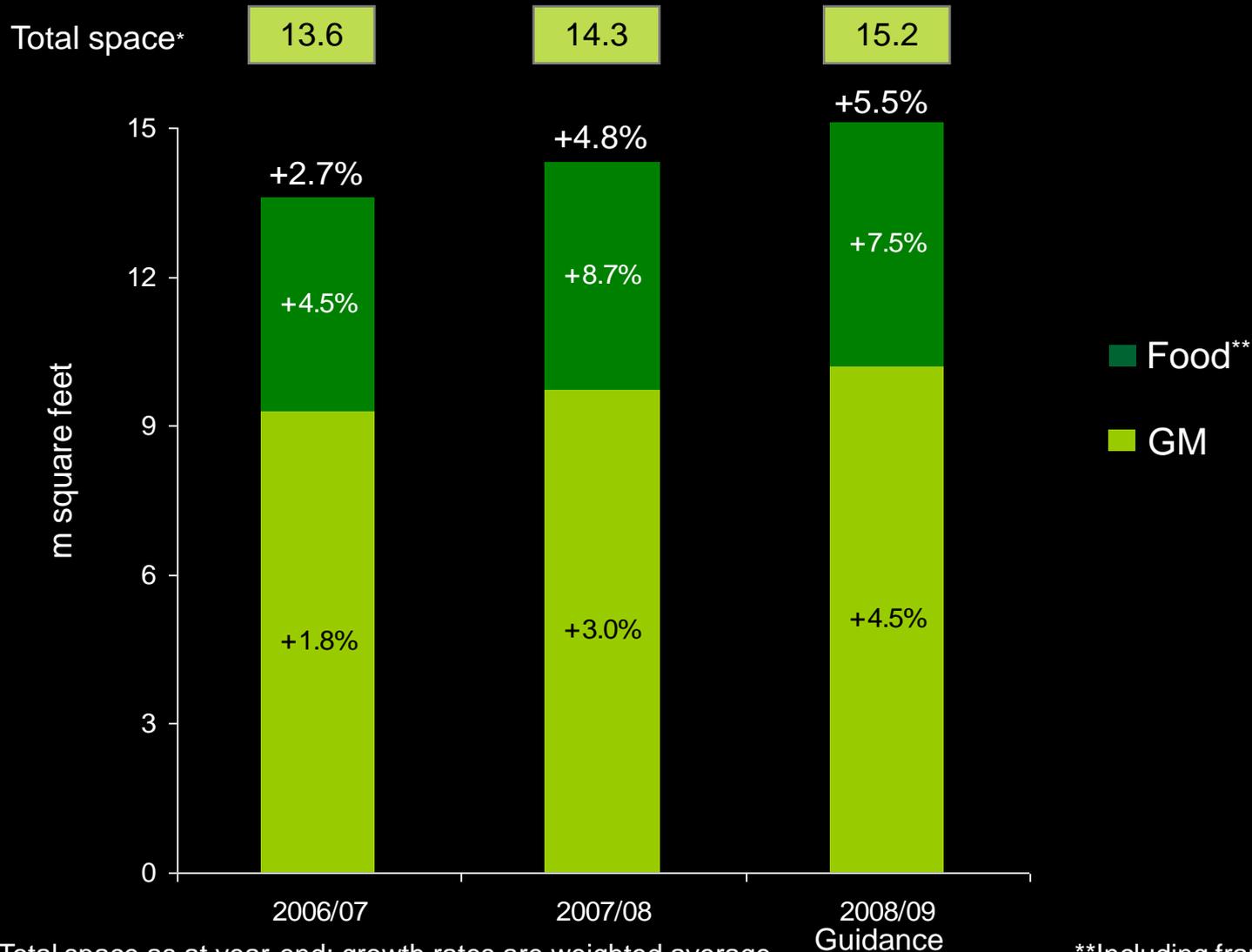
2008/09 new space and modernisations +4%

Other non discretionary increases +2%

Underlying cost savings -2%

2008/09 Operating cost growth guidance $\leq +7\%$

UK space growth



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

**Including franchised stores

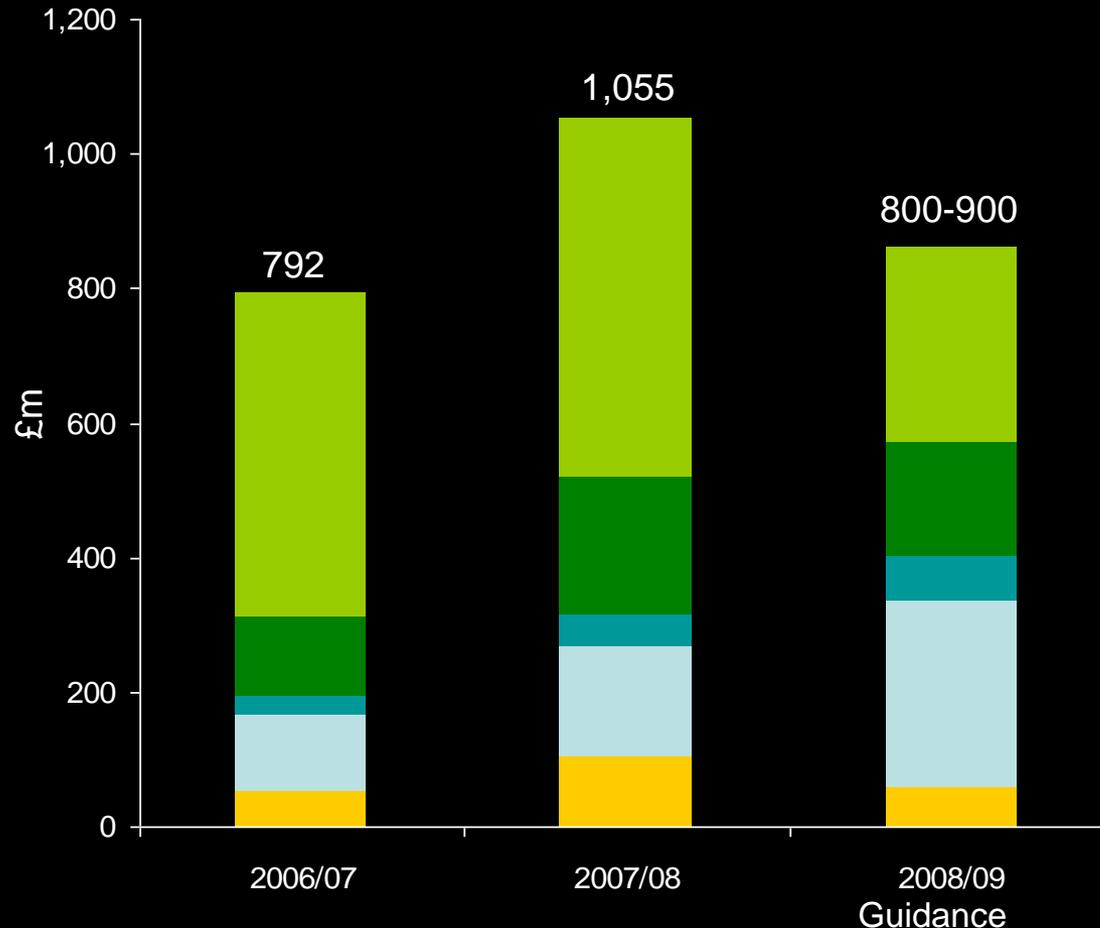
International

- Restated for impact of acquisitions:

| | Revenue | Operating profit |
|------------|--------------|------------------|
| Owned | £519m | £65m |
| Franchised | <u>£236m</u> | <u>£57m</u> |
| | £755m | £122m |

- 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

Interest

- Major cash flow factors
 - Capital expenditure
 - Buy back
- Pension accounting
- Acquisition accounting
- Average interest rate

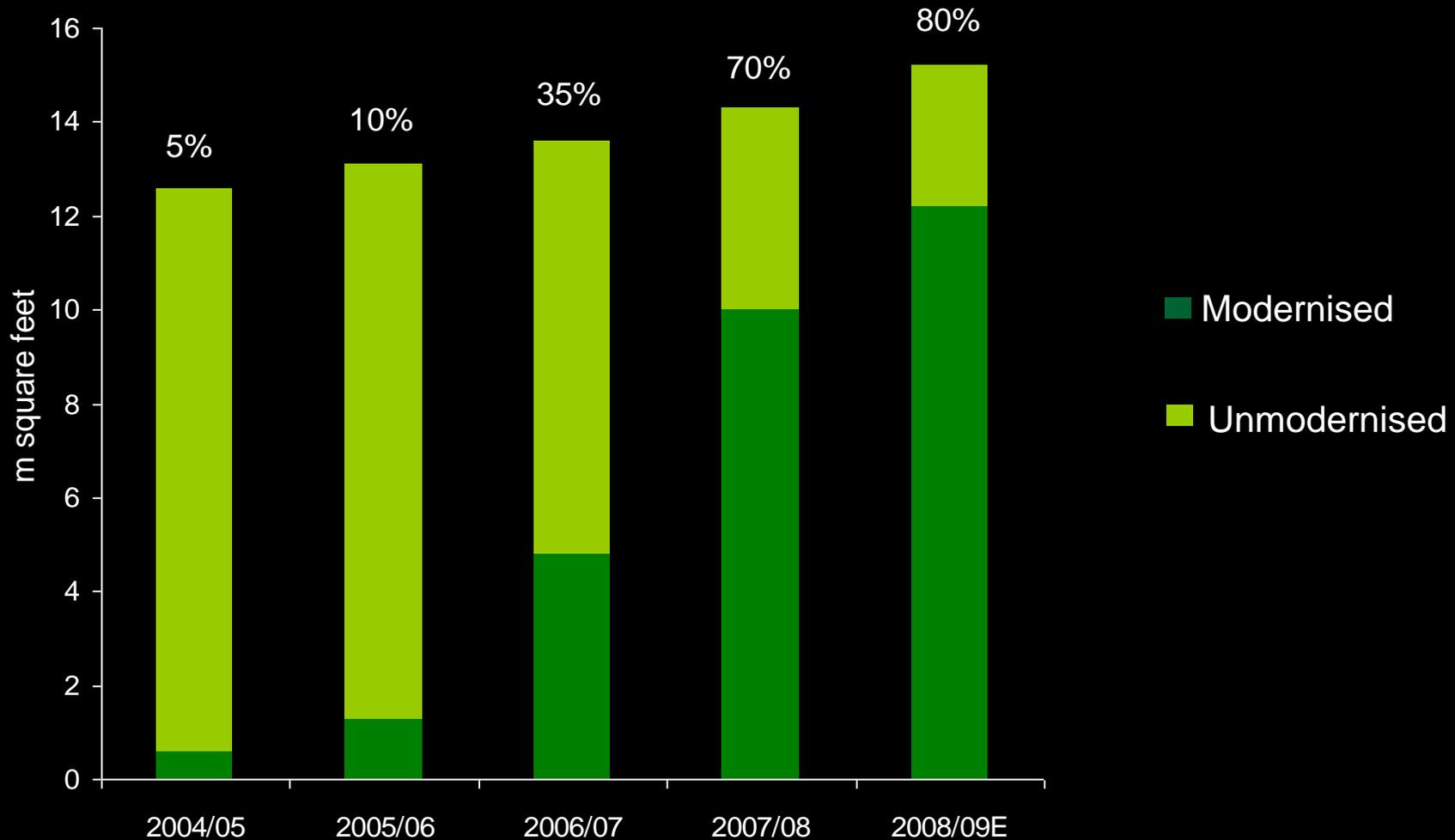
Investing in the business

- 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



UK property portfolio

| Store numbers | March 2009E | March 2006 | Change |
|---------------|-------------|------------|--------|
| Mainline | 338 | 307 | + 31 |
| Simply Food | | | |
| - Owned | 185 | 101 | + 84 |
| - Franchised | 189 | 43 | + 146 |
| Total | 712 | 451 | + 261 |

| | |
|---------------------|-------------|
| Out of town | 33 |
| City centre/High St | 8 |
| Closures (High St) | <u>(10)</u> |
| Net | 31 |

Returns on new stores

| 2006/07 & 2007/08 store openings | Mainline Stores | Simply Food |
|-------------------------------------|--------------------|----------------|
| Stores | 13 | 74 |
| Sq Footage ('000 sq ft) | 552 | 497 |
| Investment | £109m | £136m |
| Sales – Year 1 | £283m | £412m |
| Incremental EBITDA – Year 1 | £59m | £43m |
| ROI | 54% | 32% |

*Excluding payments to acquire freeholds and leasehold premiums

International investment

| | | 2008/09 Guidance |
|---------------|-----------------|---------------------|
| Owned | Eire, Hong Kong | £30-40m |
| Subsidiaries* | Greece, Czech | £10-15m |
| New markets* | China, India | £10-15m |
| | | £50-70m |

* 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

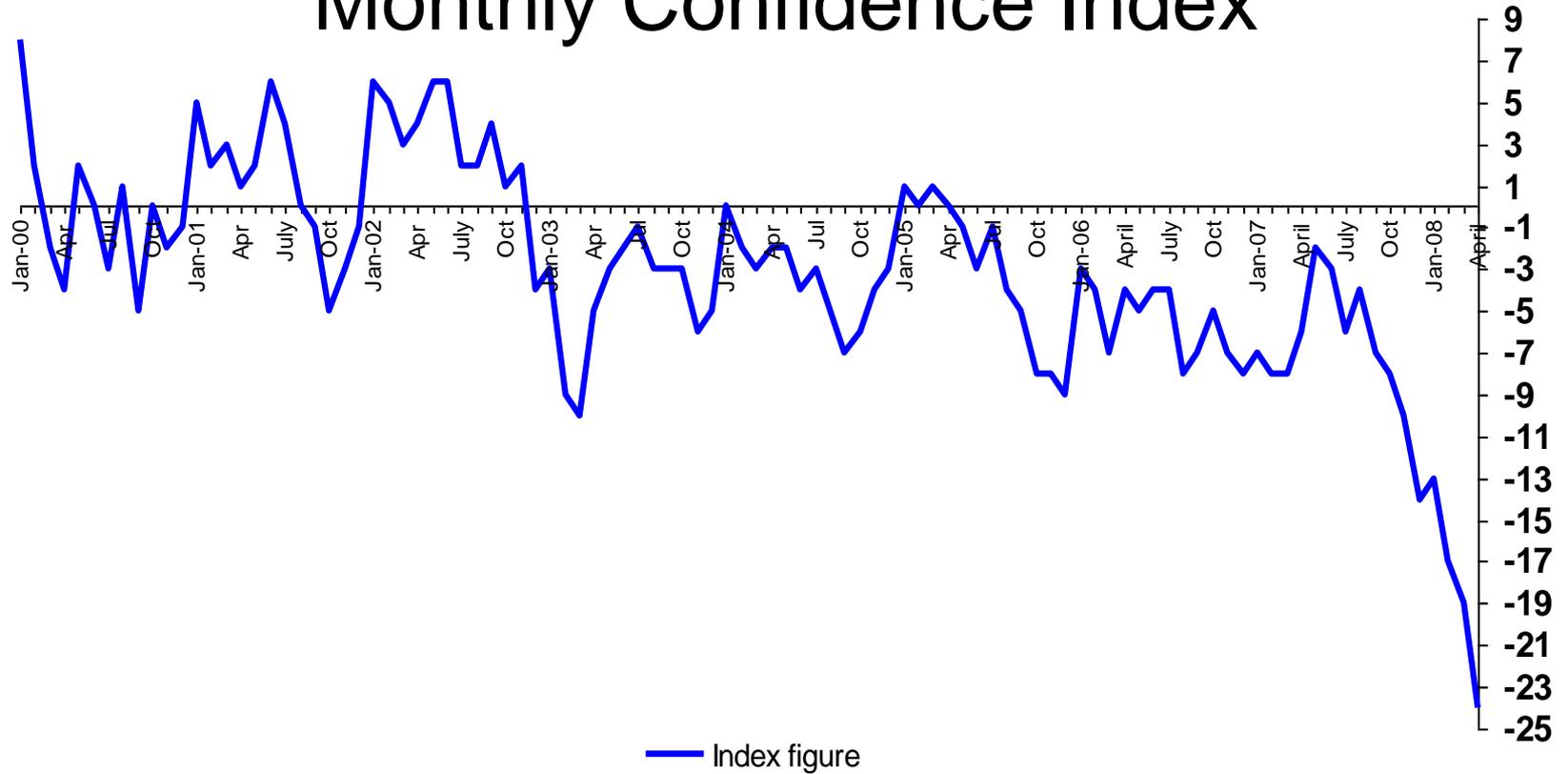
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Market overview

Monthly Confidence Index



SOURCE: GFK Consumer Confidence, April 08

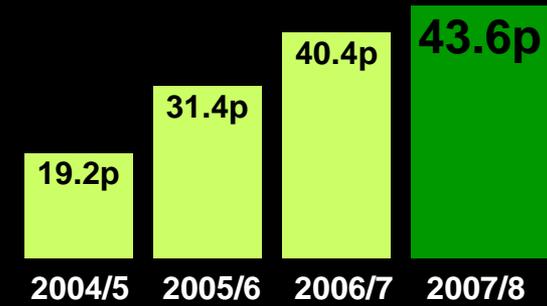
Highlights

Group revenue £m

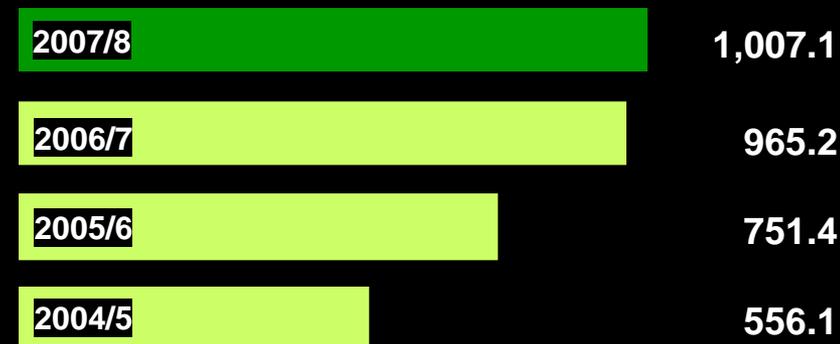


■ UK ■ International

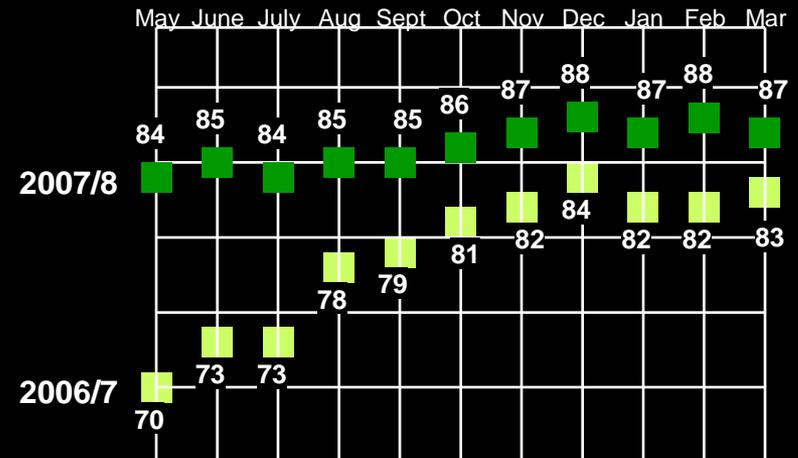
Earnings per share



Group profit before tax £m



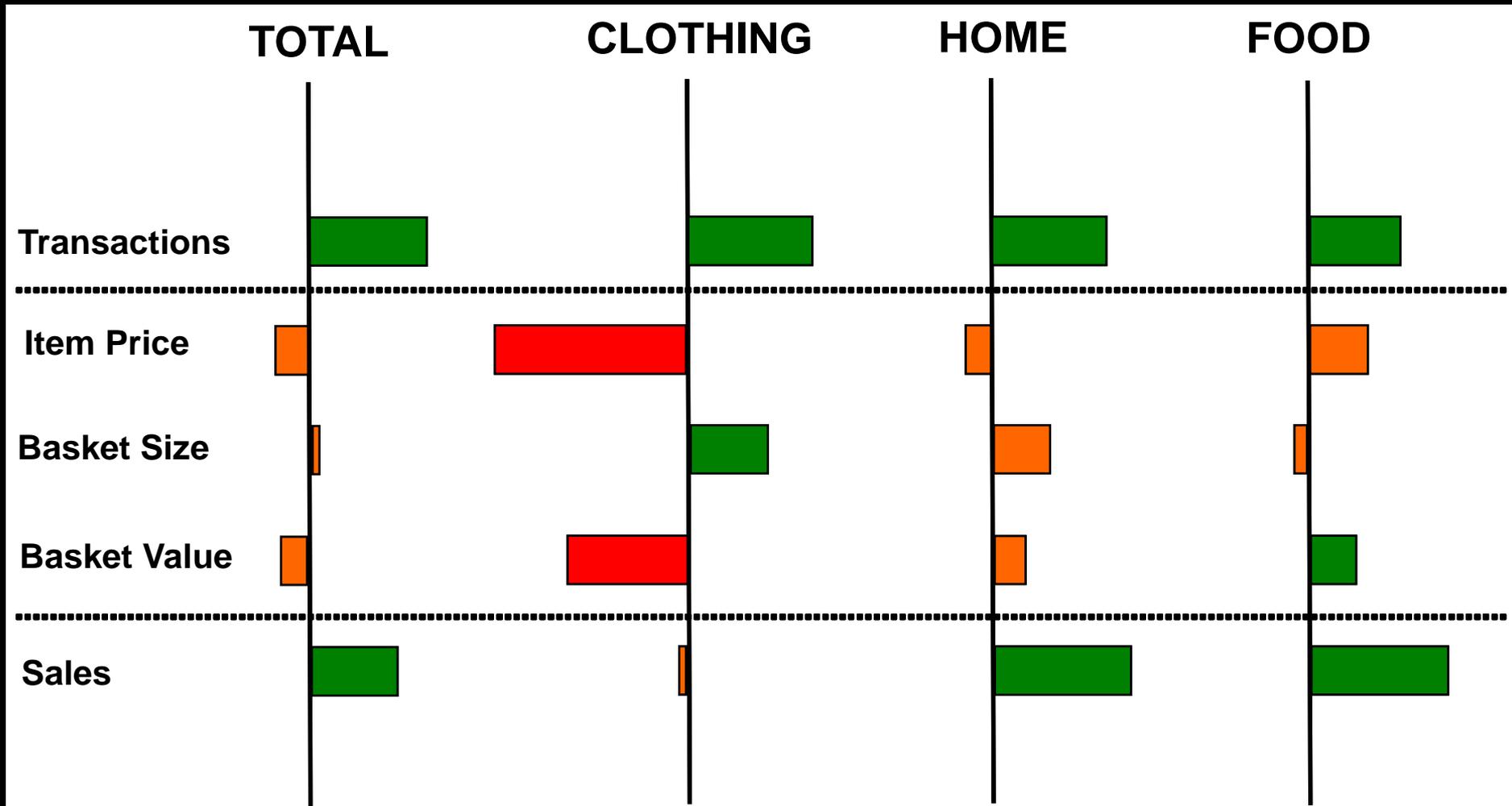
Mystery Shopping %



Highlights

| Value Share | 2004/5 | 2005/6 | 2006/7 | 2007/8 |
|------------------------------------|---------------|---------------|---------------|---------------|
| Total Clothing and Footwear | 10.6 | 10.4 | 11.1 | 11.0 |
| Womenswear | 10.6 | 10.5 | 11.3 | 11.1 |
| Lingerie | 25.6 | 24.3 | 26.1 | 24.8 |
| Menswear | 9.8 | 9.6 | 10.3 | 10.5 |
| Kidswear | 4.4 | 4.2 | 4.5 | 4.8 |
| Food | 3.9 | 4.1 | 4.2 | 4.3 |
| Volume Share | 2005 | 2006 | 2007 | 2008 |
| Total Clothing and Footwear | 10.1 | 10.1 | 10.7 | 11.2 |
| Womenswear | 8.8 | 8.8 | 10.0 | 10.0 |
| Lingerie | 16.7 | 16.7 | 18.3 | 17.9 |
| Menswear | 11.2 | 11.2 | 11.1 | 13.1 |
| Kidswear | 4.4 | 4.4 | 5.0 | 5.2 |
| Food | n/a | n/a | n/a | n/a |

Highlights



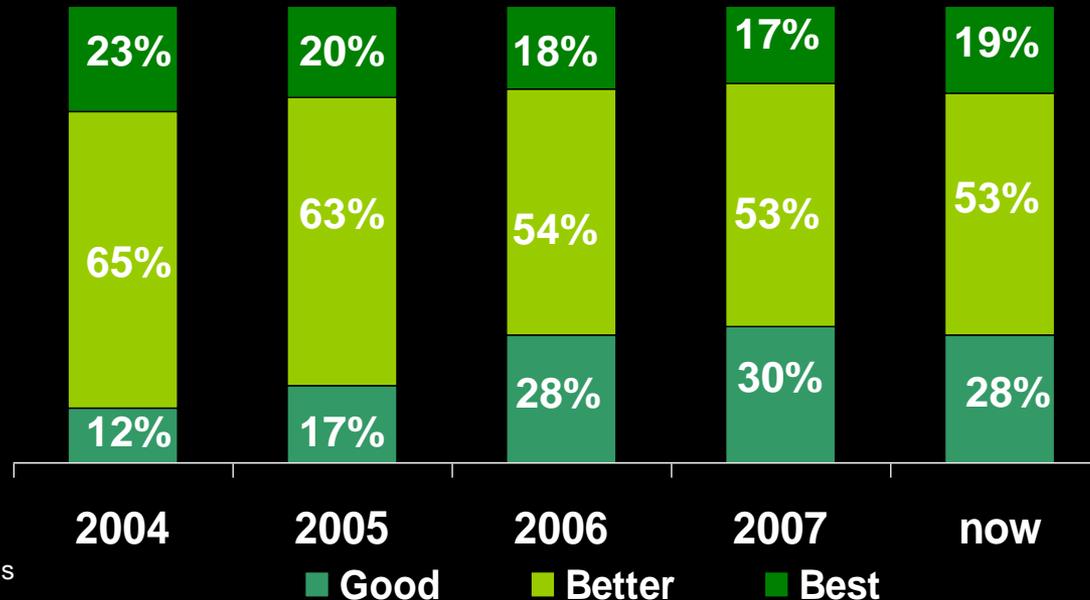
GM: Key Opportunities

- 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

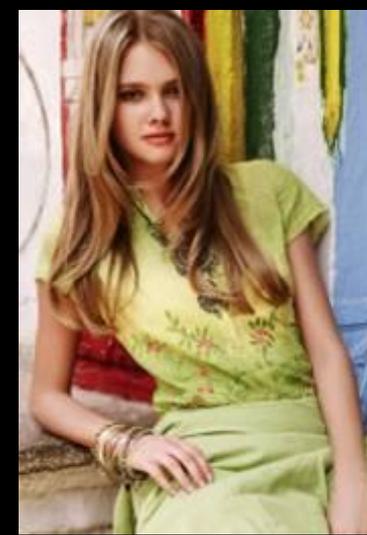
- **Good** (Focus / Hold)
 - Hold value credentials
 - Increase newness and fashion on good product
- **Better** (Drive)
 - Truly differentiated product (M&S twist)
- **Best** (Grow / Broaden)
 - Autograph, Limited and per una
 - Flagship ranges





Autograph





per una ♥♥♥





LIMITED
COLLECTION



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



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

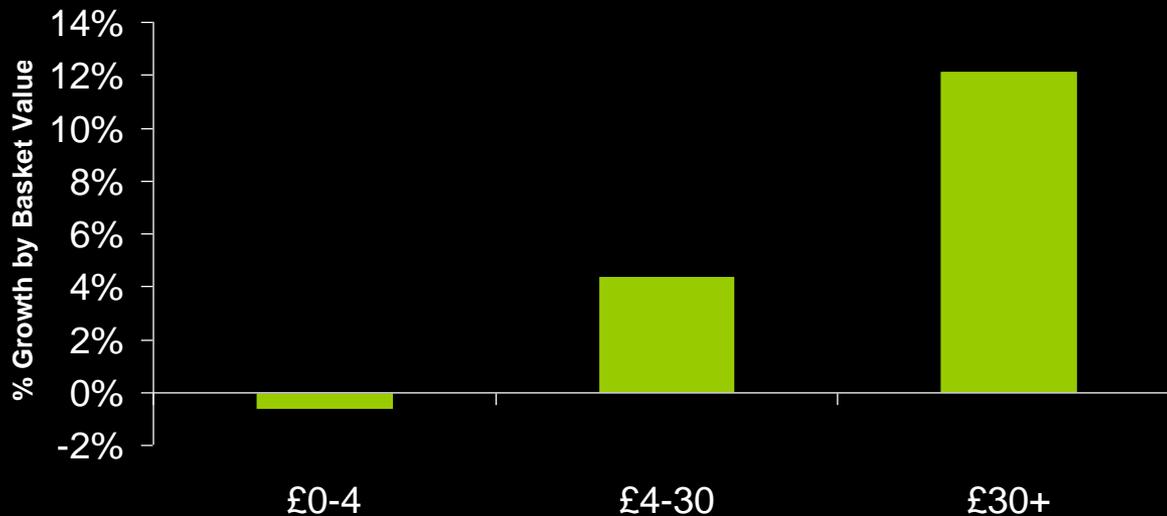
Innovation

- 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



Introduce greater convenience

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



Driving convenience: cataloguing

| Convenience | |
|--|--|
| Travel (For Now) | Grab n Go (For Now, For Tonight) |
| <ul style="list-style-type: none">•Rail•Air•Moto•BP | <ul style="list-style-type: none">•Green Park•Finsbury Pavement•Twickenham |

| Local Food Shop | |
|---|---|
| High Street (Top Up/ Treat) | Out of Town Suburbs (Main Shop) |
| <ul style="list-style-type: none">•Mansfield•Swindon•Brighton | <ul style="list-style-type: none">•Coliseum•Harbourne•Rickmansworth |

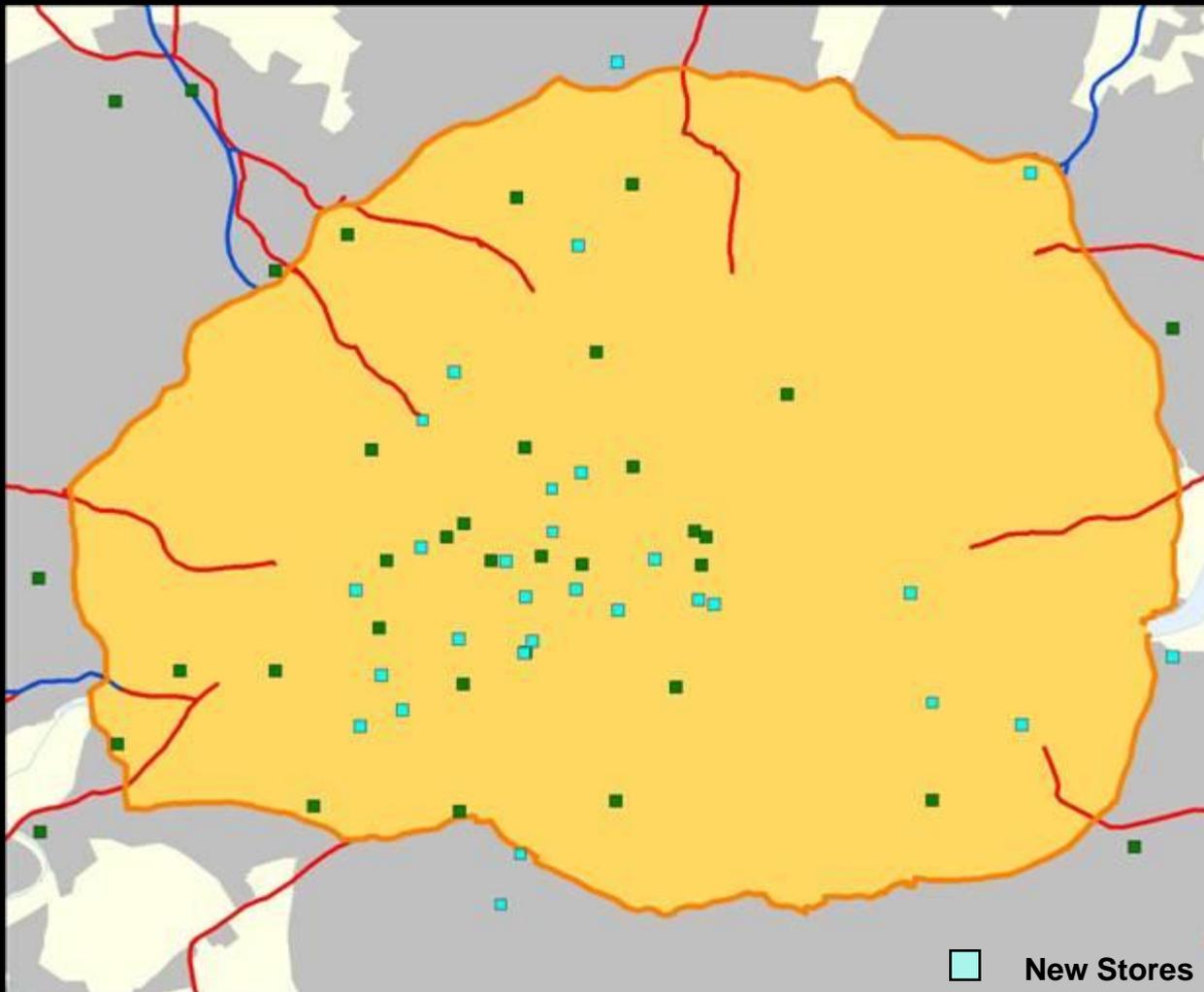
| Destination Food Hall |
|---|
| <ul style="list-style-type: none">•Marble Arch•Camberley•Glasgow Argyll |

Extending brand reach

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



Simply Foods

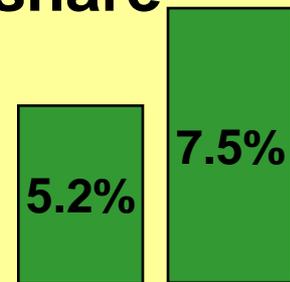


2000 to 2007

Footfall **+25%**

Frequenc **+21%**
y

Market share



2000 2007

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

YOUR M&S

Wine

Money back guarantee on all wine cases

To order by phone call 0845 60 90 200

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

Rosé

Up to 25% off all Rosé wines***

Wine

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

Featured Categories

| | | |
|-------------------------|--------------------|---------------------|
| <p>Champagne</p> | <p>Rosé</p> | <p>White</p> |
|-------------------------|--------------------|---------------------|

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Autograph

Prices include delivery

Roses

- Avalanche+
- Latina®
- Paula
- Red Intuition®
- Sweet Avalanche+
- All Roses
- Lilies
- All Lilies
- Mixed Bouquets
- All Mixed Bouquets

[Return to Flowers](#)

Roses

Striking, dramatic, luxurious, Autograph rose bouquets feature long-stemmed, large-headed roses in a selection of exquisite colours. Available as 12 or 24 blooms

Sweet Avalanche+

Red Intuition®

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USA

Shop

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Contact us

Register

My orders

lunchtopo

Welcome to lunchtopo

Take for all your business occasions, from board meetings to business lunch and office parties, with a wide range and menu of delicious food from M&S, delivered direct to your office

Food for business Delivered direct

Seeking lunch ideas?

With over 200 products to choose from, including self service ideal for business lunches, we offer the solution

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Food to Order E-Catalogue

2008 Page 01 Page 02 Page 03 Page 04 Page 05

Welcome

Create the perfect menu for every occasion with our food to order service

Click on the corners of the catalogue to turn the pages

Once you've decided what you'd like, download the order

Food - International

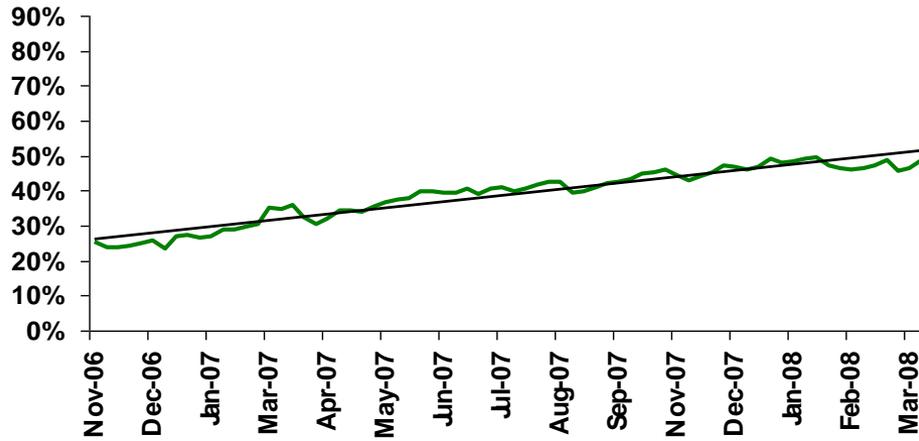
- Eire
- Extending ranges
 - Ambient
 - Frozen

Improve operational execution

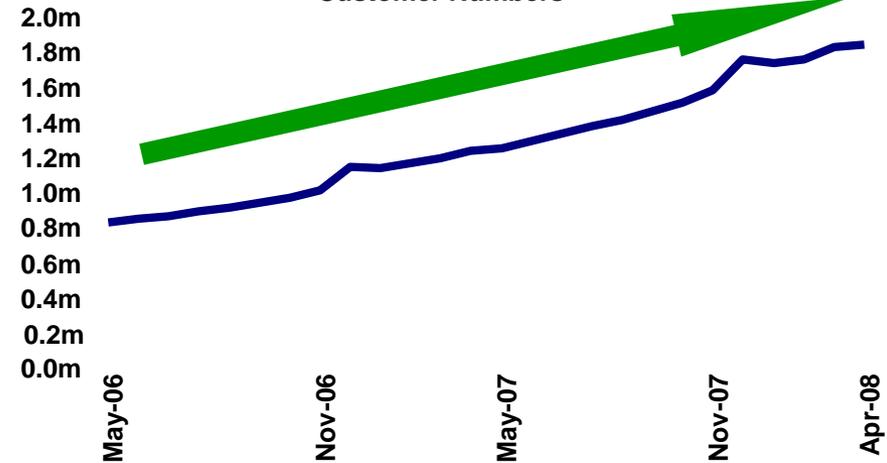
- Supplier terms
- Availability, waste, traceability & transparency
 - Plan to reduce waste over 2008/9 and 2009/10
 - Improve availability to 95%
- Supply chain optimisation
 - BP dedicated depot opens July
 - Depot mechanisation
 - Improved policing of supply base
 - Improve end-to-end warehouse labour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

M&S Direct

Growth Ahead of the Market



Customer Numbers



- 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

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

Shanghai



Vilnius



Dubai



Plan A: achievements & goals

- Launched UK's largest clothing recycling scheme with Oxfam
- 30°C 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

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