

*Only at*  
YOUR M&S

Governance Meeting - June 2013

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# M&S Team

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- Robert Swannell, Chairman
  - Jan du Plessis, Senior Independent Director
  - Andy Halford, Chairman of Audit Committee
  - Steven Holliday, chairman of Remuneration Committee
  - Richard Gillies, Plan A, CSR & Sustainable Business
  - Amanda Mellor, Group Secretary & Head of Corporate Governance
  - Questions
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# Agenda

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- The Board
  - Audit and Risk
  - Remuneration
  - Plan A
  - Questions
-

# The Board

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# Group financial highlights



	TY	vs. LY pro forma	vs. LY reported
Revenue	£10.0bn	+1.3% (CC)	+0.9%
PBT	£665m <sup>#</sup>	-3.2%*	-5.8%
EPS	32.7p	-3.0%*	-6.3%
Dividend	17.0P		Level
Net Debt	£2.6bn	£2.5bn*	LY £1.9bn

Note: Results are stated before non-underlying items

<sup>#</sup> The impact of the changes to IAS 19 when adopted in 2013/14 will be to reduce 12/13 PBT by £17m to £648m

\* Pro forma adjustment to reflect change in terms of the property partnership

# 2012/13: Overview

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- Group sales +1.3%
  - Total GM -2.4% clear plan to address performance in GM
  - Total Food +3.9% strategy to become more specialist is working
  - Multi-channel +16.6% strong progress in M&S.com
  - International +4.5% international development accelerating
- ➔ Mixed trading performance, good progress in 3 of the 4 business areas and in strategic transformation

## 2 years on – what we've delivered

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- Food Repositioning to specialist. Deli +14%, Bakery +20%
  - Food: Availability improvement currently 4%
  - GM : Womenswear plan in place
  - GM: New Home department +9%, new Beauty +25%
  - Store environment: 337 stores complete, +3% sales, IRR 13%
  - Multichannel overhaul: Organisation & new EDC, replatforming 2014
  - International overhaul: Organisation, strong franchise partnerships
  - IT & Logistics: Bradford, Castle Donington, London Gateway, IT systems & roadmap defined.
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# Transformation updates



**Only at YOUR M&S**  
Becoming an International, Multi-channel Retailer  
Cheshire Oaks  
August 2012

**Only at YOUR M&S**  
Multi-channel, International Investor Event  
London  
November 2012

**Only at YOUR M&S**  
Becoming an International, Multi-channel Retailer  
Istanbul  
February 2013

**Only at YOUR M&S**  
E-Commerce Distribution Centre  
Castle Donington  
May 2013

**Only at YOUR M&S**  
GM Press Show  
London  
May 2013

## IT & Supply Chain

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- Aligned the network to the overall business strategy to become an international, multi-channel retailer
  - Adapting to the changing customer needs
  - Significant progress to date
  - Refined UK logistics network design and confirmed timetable for delivery
  - Investing in new GM systems
  - Creating a best in class end-to-end supply chain
- ➔ This is probably the most radical transformation in UK retail
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## 2014/15 onwards

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- Ecommerce UK & International growth through leveraging new infrastructure
  - Strong International growth. Pipeline of c. 250 stores over next 3 years, c. 60% franchise
  - Deliver margin improvement
  - IT & Supply Chain benefits increase from £300m to £350m
  - Lower sustainable capex
-  Improved free cash flow and shareholder returns
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# Summary

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- A radical transformation of business
  - Strong performance in 3 of 4 business areas
  - Plan in place to fix General Merchandise
  - Priorities for 2013/14 are clear
  - 2013/14 will be the last year of significant investment above normal tax rate
  - Beyond 2013/14 will result in increased free cash flow
-

# M&S Board



- 2012/13 Board focus
- 2012/13 key activities
- 2012/13 Board changes
- Diversity update
- 2013/14 Action plan



# Board Focus

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- Execution of strategic plan
  - Thinking about the long term
  - Succession planning
  - Culture and values
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# 2012/13 Key Activities

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Awaydays – Castle Donington, Cheshire Oaks, Istanbul

Board changes

Key discussions:

- GM review
- International strategy
- Multichannel update
- End-to-end supply chain review
- Risk tolerance debate
- Food safety
- Press leak
- Succession and talent review

Agendas and action plan



# 2012/13 - in the Boardroom

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## Board activity 2012/13

The Board's key priority this year was providing oversight of and challenge to the progress of its strategy to be an international multi-channel retailer. Key activities for the Board during the year included

### Leadership and employees

- Discussed changes in the composition of the Board and its Committees;
- Considered succession planning and approved the appointment of a new executive director and one new non-executive director.
- Reviewed employee engagement across the business – Annual 'Your Say' survey and quarterly pulse surveys; received updates on initiatives taking place across the Company including the BIG idea, director presentations, roundtable director discussions and Women in Business forums.
- Discussed and reviewed high potential talent across the business, held non-executive director lunches with successional and high performing senior management.

### Customers

- Debated and challenged performance in Womenswear. Received and considered updates on the new GM strategy and initiatives across Womenswear.
- Received regular updates from the Customer Insight Unit on the economic environment, the retail sector, competition and customers.
- Considered and approved the launch of M&S Bank current accounts and an in-store branch network.

### Strategy

- Two strategic awaydays:
  - 1) October 2012: Reviewed investments in the new supply chain programme, considered the future of multi-channel and shopping channels, reviewed the store modernisation programme and the impact and future development of Plan A. Included visits to Castle Donington distribution centre and Cheshire Oaks store.
  - 2) February 2013: Held in Istanbul, it provided an opportunity for the Board to meet our franchise partner and review, discuss and develop the international strategy.
- Reviewed the new strategy in GM and the structural changes made across Womenswear.
- Considered, scrutinised and approved the Group's three year strategic and operating plan.
- Discussed the ongoing store modernisation programme.
- Debated the property strategy and the impact of multi-channel.
- Reviewed the long term funding strategy for the DB pension scheme.

### Governance

- Considered, challenged and identified how we continue to manage and monitor risk appetite.
- Reviewed the formal evaluation of the Board and its Committees in 2013, facilitated internally by the Group Secretary.
- Considered, challenged and approved the optimum capital structure for the business.
- Scrutinised and approved a number of capital spending projects.
- Reviewed and challenged the Group's Treasury policies.
- Provided input into the BIS (Business, Innovation & Skills) consultations on the new remuneration and narrative reporting framework.
- Launched an independent investigation into the Q3 leak and reviewed and discussed the recommendations.

### Trust and values

- Reviewed and promoted the business values and culture ensuring that they remain relevant and core to the business.
- Considered the impact of the European wide horsemeat scandal on the food industry and M&S.
- Received updates on the Plan A agenda and reviewed initiatives such as the launch of the Shwopping campaign.

### Shareholder relations

- Discussed the Annual Independent Investor Audit undertaken by Melkison Cowell.
- Actively engaged our top 20 shareholders and investor bodies at our annual governance event in June 2012 in which the Board invited discussion on matters of concern.
- Discussed our international strategy with investors in Istanbul.
- Engaged retail shareholders at the AGM.
- Helped protect our shareholders by launching a share fraud awareness campaign.

Board discussion

Marks & Spencer Governance

# 2012/13 Board Changes



## NED:

- Andy Halford
- Jeremy Darroch
- Steven Holliday

## Executive Directors:

- Kate Bostock
- Steve Rowe
- John Dixon
- Steven Sharp
- Patrick Bousquet-Chavanne



### **Patrick Bousquet-Chavanne**

**Executive Director,  
Marketing and Business  
Development**

**Appointed:** Following the  
AGM on 9 July 2013

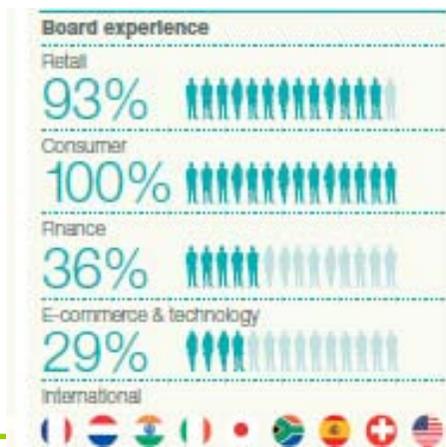
**Experience:** Patrick  
joined M&S in September

2012 as Director of Strategy implementation and Business Development and has played a key role in creating the new marketing strategy for Womenswear. Patrick's extensive experience of the consumer goods industry was built up over a career spanning more than 25 years, with 15 years spent in senior global brand management positions in London, Paris and New York. He joined Estée Lauder in 1989 as Vice President and General Manager of Aramis International and was appointed to Lauder's executive committee in 1998. Patrick became Group President of the Estée Lauder Companies in 2001, stepping down in 2008 to pursue opportunities in the internet and new technology fields.

**Other roles:** Non-executive director of  
Brown-Forman Inc

# Diversity Update

- Good mix of diverse experience
- 23% women vs 30% last year
- 35% across senior management
- NED appointments: 50% women
- Executive search firms criteria



# 2013/14 Action Plan

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- Succession planning planning and development of key managers
  - Engagement with shareholders and representative bodies
  - Transparency and disclosure
  - Ongoing knowledge and training for all directors
  - Better understanding of risk, risk tolerance and appetite
  - Long term forward agenda and papers and framework for Board discussion
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# Audit

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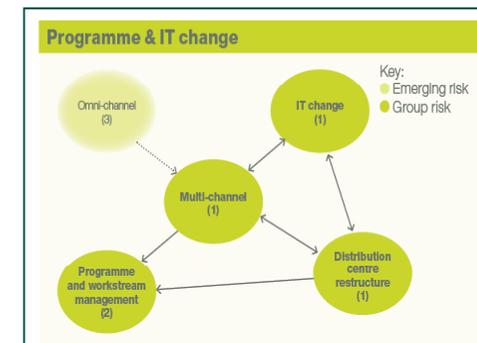
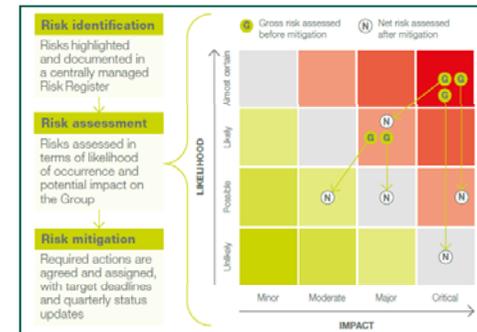
# Audit Committee

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- Four independent, non-executive directors
  - Five meetings p.a.
  - Recent and relevant financial experience
  - Senior management attend by invitation
  - Private sessions with Internal and External Audit
  - Financial scrutiny, internal audit and risk oversight
-

# 2012/13 Key Activities

- Internal Audit Effectiveness review
- Risk review
- Financial Controls Review
- Compliance
- Business area reviews:
  - EDC/NDC
  - Business continuity
  - Plan A
  - Multi-channel
  - HR Shared Services
  - Customer Services
  - Food pricing and promotions
- Effectiveness and action plan



# Action Plan 2013/14

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- Conduct tender of our External Audit contract
  - Review three year assurance plan, design and scope
  - Risk profile and new emerging risks
  - Specific risk presentations on key business areas
  - Implement key findings from RSM Tenon review of Internal Audit function, including a revised Audit Charter
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# Remuneration

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# Remuneration Committee

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- Four independent, non-executive directors
  - Six standard meetings p.a (plus one additional meeting via conference call in 2012/13)
  - Deloitte LLP appointed 2010
  - Senior remuneration framework introduced 2011
  - Annual targets notified each year
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# Key Focus Areas

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- Remuneration targets
  - Alignment – internal/external
  - Contracts, best practice review – Malus introduced this year
  - Reporting and disclosure – single figure introduced this year
  - Engagement and feedback
  - Market/external developments
  - Ongoing training
-

# Framework



## **Fixed: Base pay & benefits, reviewed against:**

- Salary levels in appropriate comparator companies e.g. major retailers; FTSE 25-75
- Company performance, market conditions and economic climate
- Role, responsibility and performance of the individual director
- Level of pay awards in the rest of the business
- Aligned to the remuneration framework for all employees

## **Annual bonus:**

- Up to 200% of salary
- 60% based on Group PBT targets
- 40% on individual objectives
- Compulsory deferral: 50% shares
- Three year vesting

## **Performance share plan:**

- Up to 300% of salary although conventionally 250% of salary
- Vest after three years, subject to performance
- Aligned to shareholder interests and strategic objectives
- Targets based on: cumulative EPS, ROCE, Revenue growth (UK, International, Multi-channel)

# 2013 Remuneration

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- Base pay / annual salary review
  - Annual Bonus Scheme: 38.5% - 45.5% of bonus potential
    - Individual objectives: 17% – 26%
    - Collective objectives: 25% – 34%
    - PBT: 33% of salary
  - 2010 Performance Share Plan – no vesting
-

# 2013/14 Targets



Performance metric	Commercial rationale	Basis of measurement
<b>Earnings Per Share (EPS)</b>	Rewards focus on bottom-line performance	Based on annualised underlying basic EPS growth over three-year performance period
<b>Return on Capital Employed (ROCE)</b>	Rewards efficient use of capital	Based on average ROCE % over three year performance period against pre-determined targets
<b>Revenue</b>	Rewards top line growth in line with business strategy	Based on strategic growth targets: – 10% on UK – 10% on International – 10% on Multi-channel

	% Vesting <sup>1</sup>	Annualised EPS growth (%)	ROCE (%)	Revenue (FY16 – £)		
				UK <sup>2</sup>	Multi-channel <sup>3</sup>	International <sup>4</sup>
Weighting (% of total award)		50%	20%	10%	10%	10%
'Threshold' performance	20%	5%	15.0%	£8,900m	£900m	£1,400m
'Maximum' performance	100%	12%	18.5%	£9,600m	£1,100m	£1,800m

# Action Plan 2013/14

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- Stakeholder engagement and remuneration debate
  - Company-wide remuneration offering and balance to rest of organisation
  - Clarity of remuneration disclosure
  - Ongoing remuneration training
  - Committee succession and handover
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# Plan A Update

**Richard Gillies**  
**Director, Plan A, CSR, Sustainable**  
**Business & M&S Energy**

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## 2013 Progress



Status	Number	Comment
Achieved	139	<i>4 commitments moved from "Achieved" back to "On-Plan" (as we focus on 2015 target)</i>
On-Plan	31	
Behind Plan	5	
Not Achieved	4	
Cancelled	1	<i>Commitment on energy efficient appliances cancelled as we no longer sell these items</i>

## 2013 Progress Highlights

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- Continued to be the only major retailer to be carbon neutral
- Reduced total carbon emissions by 22% (37% taking in to account business growth)
- Improved our energy efficiency by 31% across stores, offices and warehouses
- Zero waste to landfill across both operational and construction waste
- Significantly increased the amount of financial (£135m) and non-financial benefits to M&S on the back of being more sustainable.
- 1,100 people through our Marks & Start programme
- 45% of M&S products have a Plan A attribute







# Governance & Integration



# Risk

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WHAT ARE YOUR PRAWNS EATING? #FISHFIGHT

4 NEXT FISH FIGHT EPISODE: THURS 28 FEB 2013, 9PM

@UKTESCO

@MORRISONSNEWS

@CooperativeFood

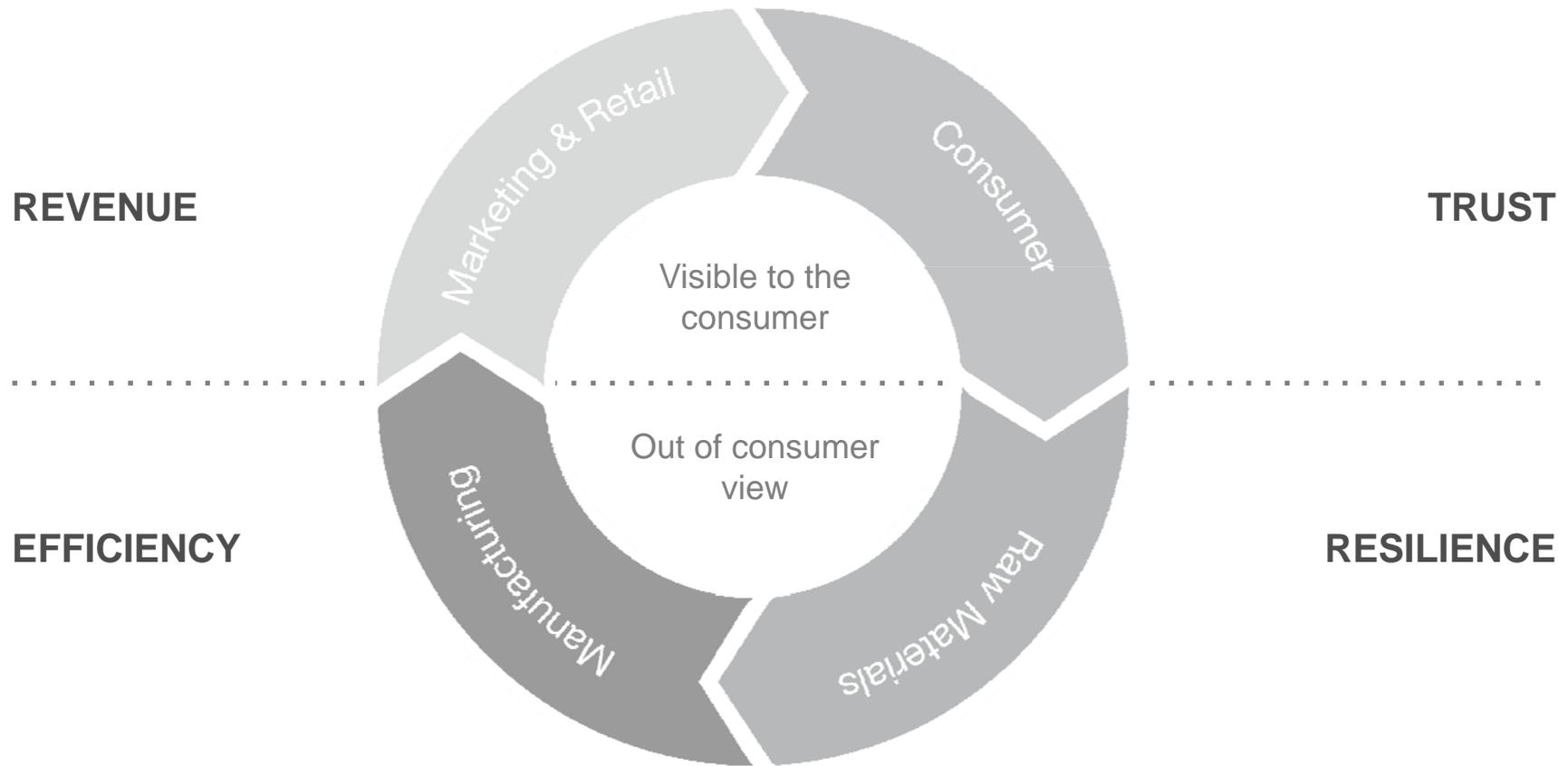
Help Hugh send a powerful message to the supermarkets today!

THANK YOU FOR SUPPORTING HUGH'S FISH FIGHT. PLEASE COME AGAIN.



# The Business Case

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## Our Advisory Board

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A combination of  
above & below the  
line



Communicating our  
message above the line.



Be Bold, have confidence.



Demonstrating how Plan A is  
central to brand and links to  
delivery of core business  
strategy is crucial.



Re-balance Plan A to reflect  
increasing social concerns.



Leadership is about working  
with others – being a leader  
amongst others.

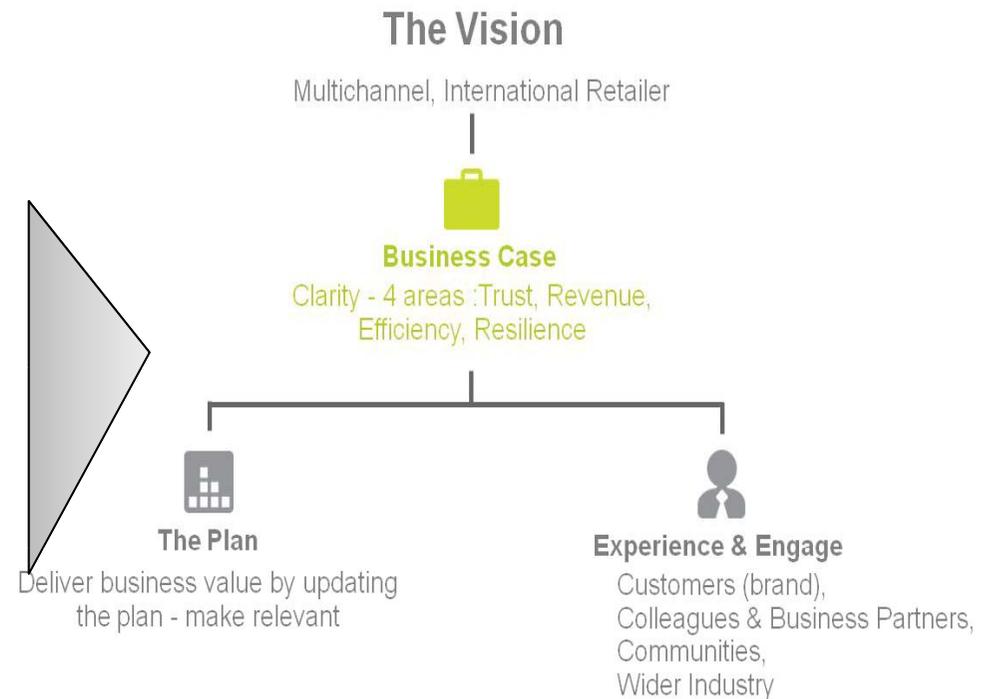


Think web first and very visibly  
embrace new technology.



## Plan A v.3.0

- Customer orientation
- Simpler and more emotional
- People focused
- Bottom up engagement
- Move to the core of M&S brand and strategy
- Delivery more value to the business (Quality, In Touch)
- Continue to lead the industry



# Engagement Has Already Started

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**Customer Engagement**

A grey rounded rectangle with a green border contains the text "Customer Engagement". A large grey arrow points downwards from the bottom center of the rectangle.

Greater customer visibility  
by 2015/16  
*(More open)*

5" "cradle to cradle"  
by 2017/18  
*(More Shwopping)*



**Community Engagement**

A grey rounded rectangle with a green border contains the text "Community Engagement". A large grey arrow points downwards from the bottom center of the rectangle.

2% youth employability  
programme from July  
*(More opportunities)*

Local community  
programmes  
*(Bringing it home)*

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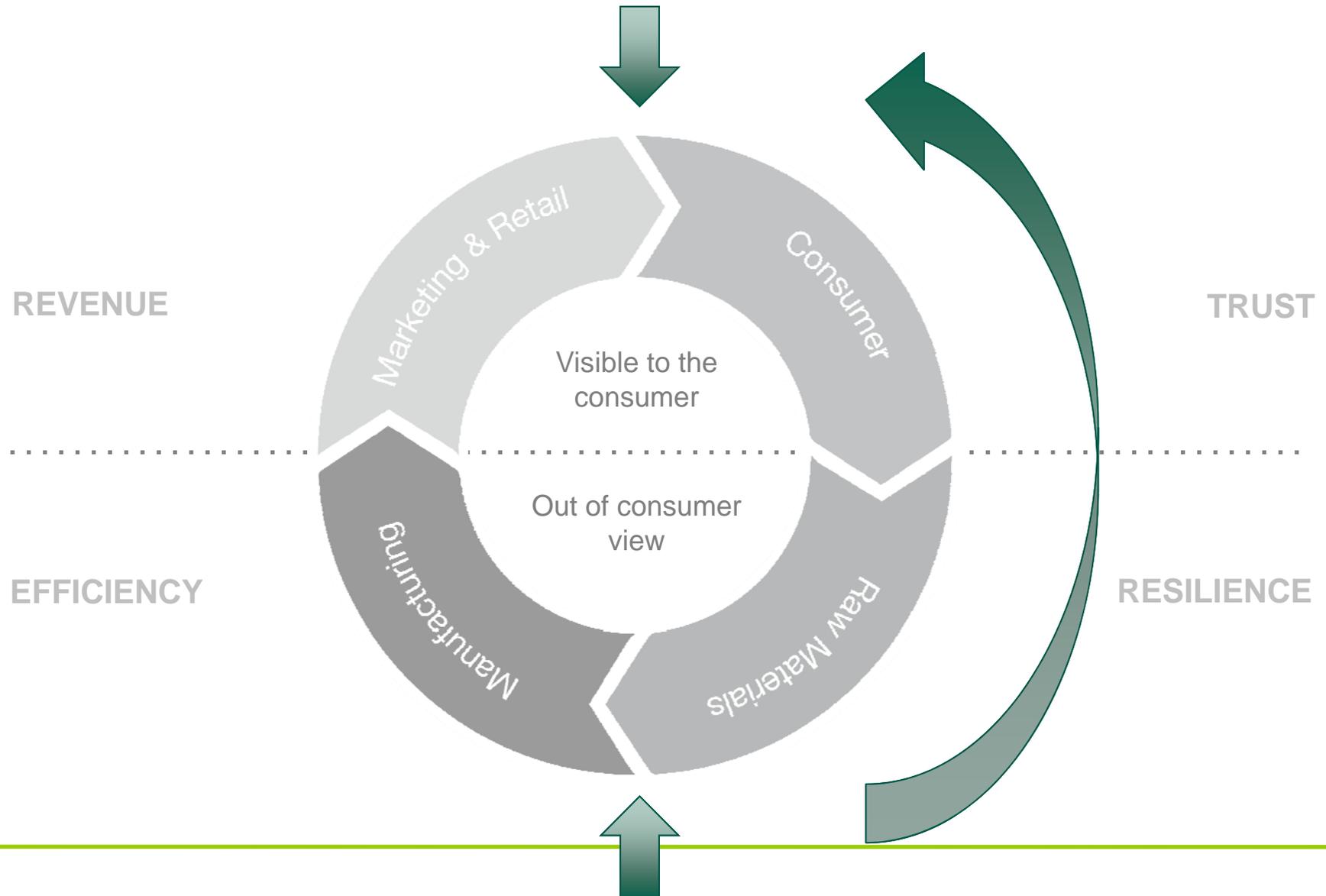
## What's New – Plan A v3.0

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- **Alignment** of our strategic aims – *Sustainable International Multichannel retailer*
  - Re-focus plan form **customer view** point - *Product / Places / People*
  - Embed in **brand** as “Quality” and open up , be more transparent to customers
  - **Localise** Plan A - *“Plan A for you”*
  - **Bolder targets** on youth employment (Marks & Start) and circular economy (Shwopping)
  - Bring **international and multi-channel** fully in to scope
  - More **pace, scale and resilience** building in **supply chains**
  - Greater supply chain **transparency**
  - Building our **people capabilities** – *Responsible Leadership*
-

# A Radical New View:



## What's New – Plan A v3.0

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- **Alignment** of our strategic aims – *Sustainable International Multichannel retailer*
  - Re-focus plan from **customer view** point - *Product / Places / People*
  - Embed in **brand** as “Quality” and open up , be more transparent to customers
  - **Localise** Plan A - *“Plan A for you”*
  - **Bolder targets** on youth employment (Marks & Start) and circular economy (Shwopping)
  - Bring **international and multi-channel** fully in to scope
  - More **pace, scale and resilience** building in **supply chains**
  - Greater supply chain **transparency**
  - Building our **people capabilities** – *Responsible Leadership*
-



## Summary

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- Good progress - strong base
  - Increasing strength in Business case
  - Increasing risk – greater scrutiny
  - Rapidly shifting agenda
  - Customer & colleague looking for re-assurance / relevance locally
  - v. 3.0 - A new plan to respond, building resilience and capability
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