

GOVERNANCE MEETING – JUNE 2015

M&S

EST. 1884

AGENDA

- Business highlights 2014/15
- Key Board activities
- Audit and Risk
- Remuneration
- Plan A
- Questions

2015: GROUP FINANCIAL HIGHLIGHTS

| | TY | vs. LY |
|------------------------------|---------|------------|
| Revenue | £10.3bn | Level |
| Underlying PBT | £661.2m | +6.1% |
| Group PBT | £600m | +3.4% |
| Underlying EPS | 33.1p | +2.8% |
| Dividend | 18p | +1p: +5.9% |
| Free Cash Flow Pre Dividends | £524.2m | +22.5% |

Note: Results are stated on a constant currency basis and prior year comparatives are restated for the impact of changes to IAS19 where applicable.

BALANCE SHEET AND PENSIONS

- Net debt down £240.4m at £2.22bn
- Credit metrics remain strong
- Net debt / EBITDA 1.7x (LY 2.0x)
- Fixed charge cover 3.6x (LY 3.4x)
- IAS 19 pension surplus £449m (LY £189m)

Note: Prior year comparatives are restated for the impact of changes to IAS19

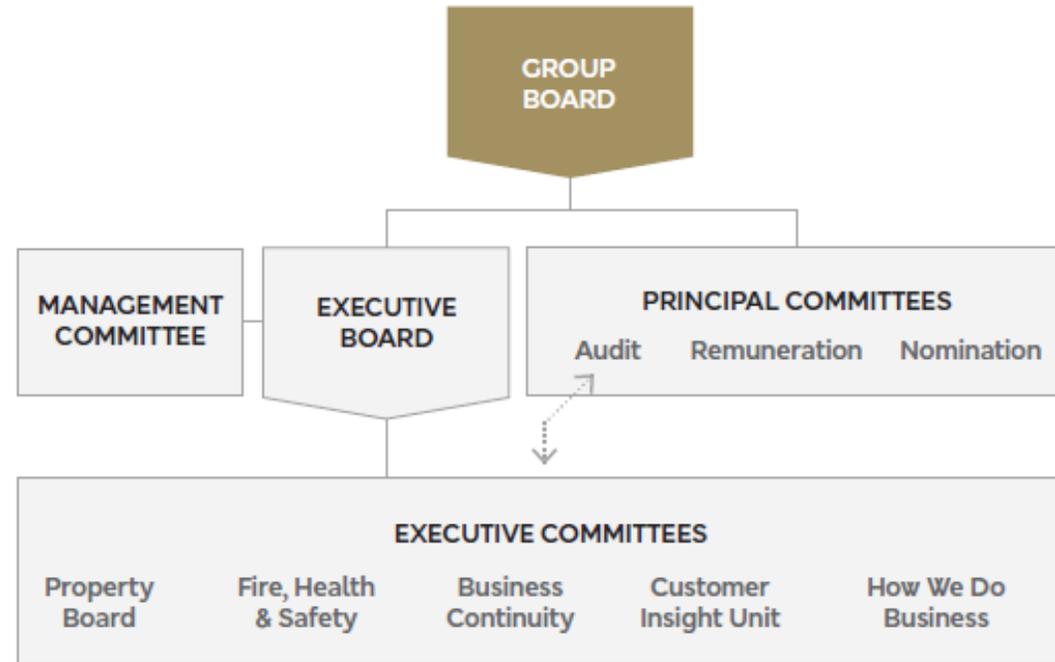
DIVIDEND POLICY

- Progressive dividend policy broadly twice covered by earnings
 - 2014/15 Final dividend increased by 7.4% to 11.6p
 - 2014/15 Full year dividend increased by 5.9% to 18p
- Returning excess cash to shareholders on a regular basis
 - The quantum and method determined by the Board each year
 - £150m share buyback programme 2015/16

STRATEGIC PRIORITIES FOR 2015/16

- Food sales growth
- GM gross margin improvement
- Improve GM performance
- Strong cash generation

BOARD

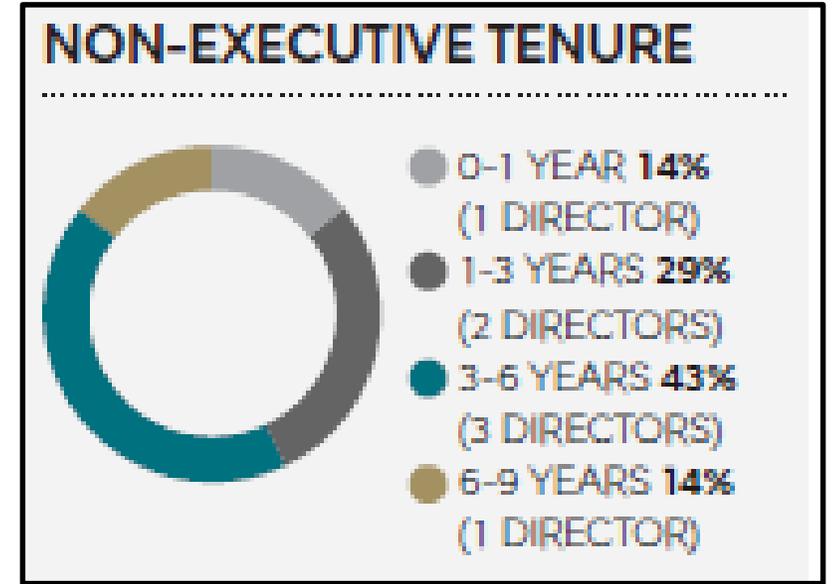
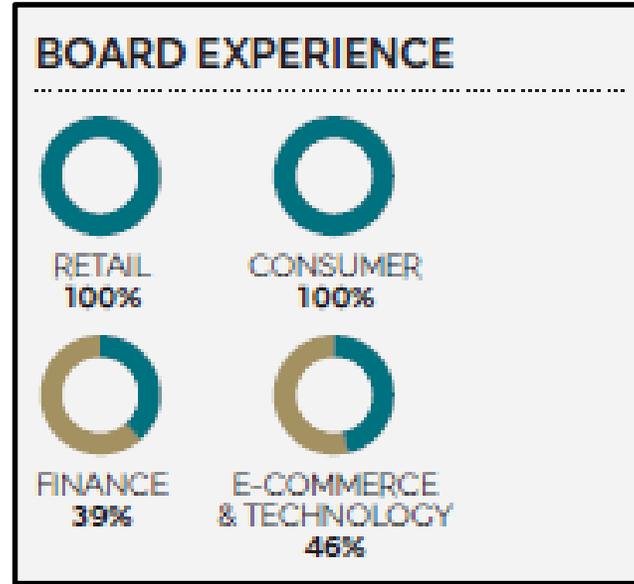
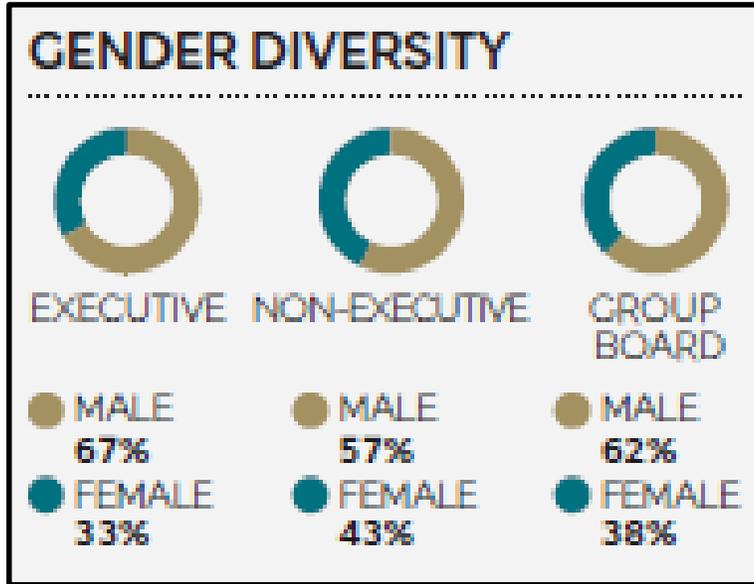


2014/15 KEY ACTIVITIES

- Board changes:
 - SID
 - Committee changes
 - NED appointment
 - CFO appointment
- Castle Donington and .com replatforming issues
- Awayday strategic review and other activities
- Key discussions:
 - Corporate strategy
 - Brand and values
 - CM and food strategy
 - M&S.com
 - International
 - Retail and property
 - Supply chain and IT
 - Three year plan and operating plan
 - Capital structure
 - Property portfolio and the impact of multi-channel
- Independent Board evaluation



DIVERSITY PROGRESS



2015/16 BOARD EVALUATION AND ACTION PLAN

- Full external evaluation conducted
- Conclusion – acceptable in many areas; key focus for year ahead
 - Board decision-making process and debate
 - Management information and KPIs
 - Risk appetite statements
 - Tracking and review of past investments
 - Greater interaction with Board members across the business

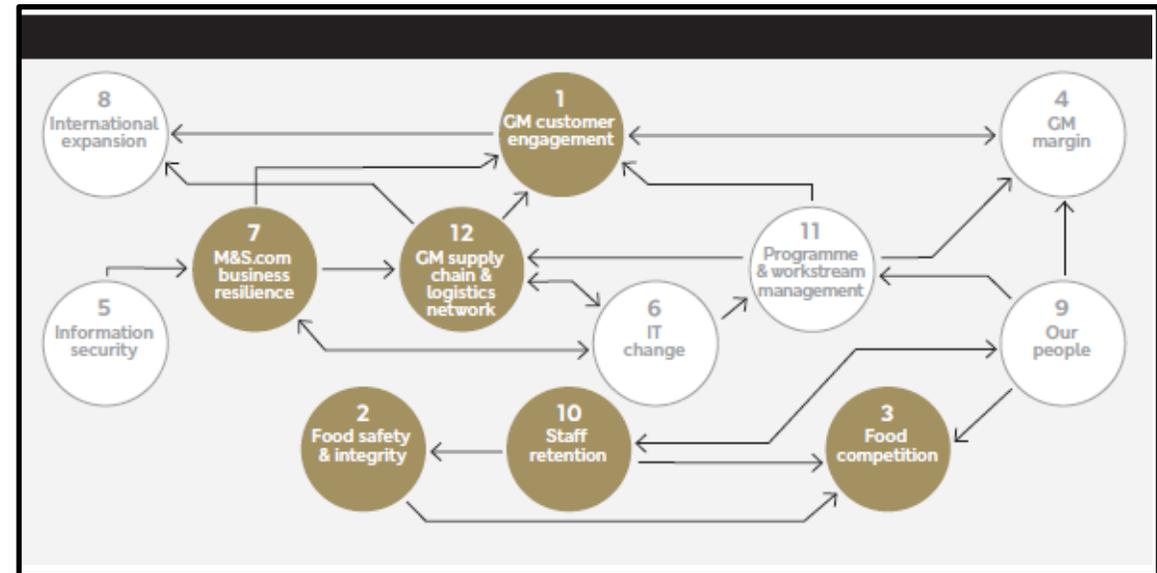
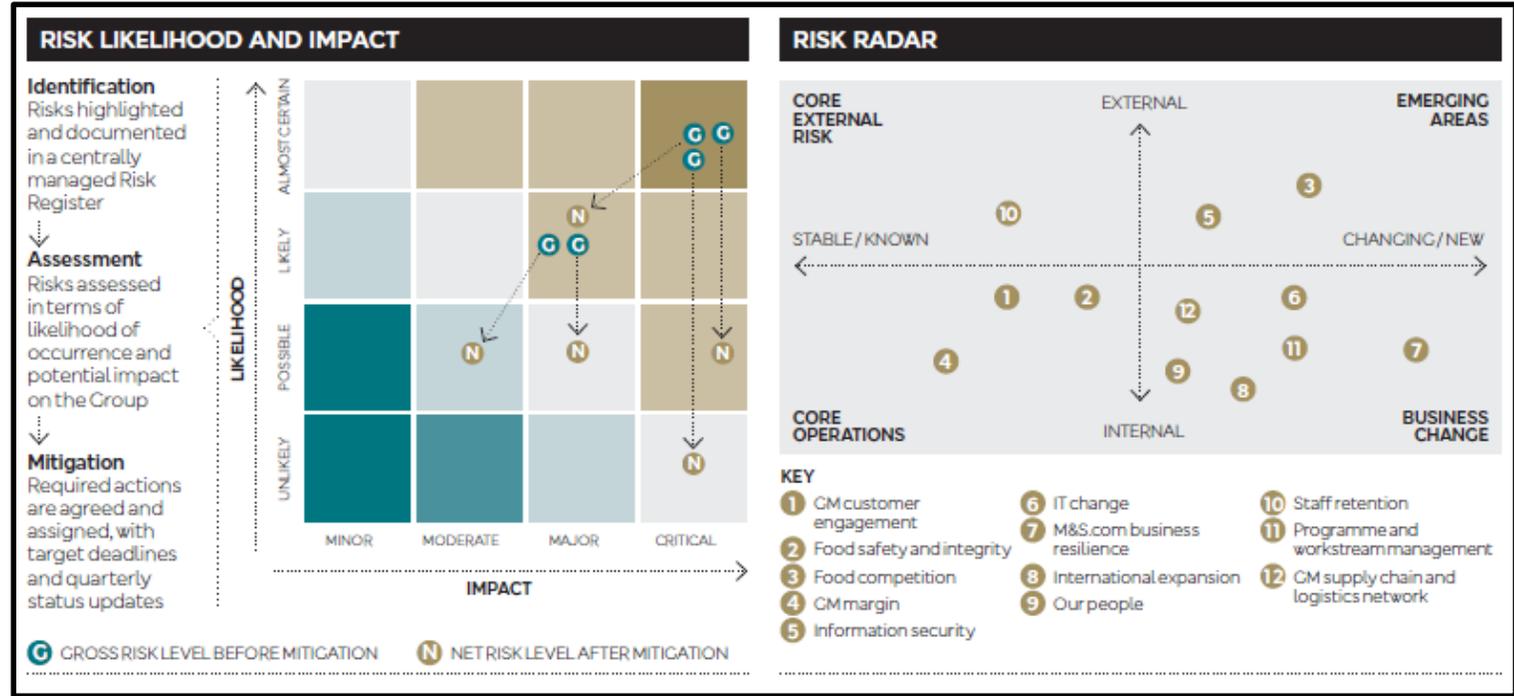
Audit

2014/15 KEY ACTIVITIES

- Financial controls review
- Assurance plan review
- Business risk reviews:
 - Ethical sourcing
 - Food supplier terms and conditions
 - International operations
 - GM sourcing
 - Hedging Policy
 - M&S.com and Castle Donington resilience
 - Business continuity
- Updated process for assessing effectiveness of external auditor

RISK

- Key risks
 - GM customer engagement
 - Food safety and integrity
 - Food competition
 - GM Margin
 - Information security
 - IT change
 - M&S.com business resilience
 - International expansion
 - Our people
 - Staff retention
 - Programme & workstream management
 - GM supply chain and logistics network
- Risk Interconnectivity
- Link to assurance plan



2015/16 ACTION PLAN

- Oversight of key business risks: focus on international retail and ethical sourcing
- Supporting risk work achieved in 2014/15 and definitions of risk appetite across the business
- Development, design and scope of the assurance plan, with particular focus on key strategic priorities

Remuneration

2014/15 KEY ACTIVITIES

- Retender of independent external advisors : PwC appointed
- Remuneration framework review
 - PSP – changes within parameters of policy
 - Investor feedback
- Design and targets for 2015/16 remuneration schemes
- Review of DRR disclosures
- Consideration of remuneration and alignment internal/external
- Review of new share plan rules ahead of renewal
- Engagement and feedback

2014/15 REMUNERATION HIGHLIGHTS

| | |
|---|---|
| Base pay / annual salary review | No increase for CEO Executive Directors range 2-6% |
| Annual Bonus Scheme (200%) <i>Group PBT</i> <i>Business Unit Profit</i> <i>Individual objectives (40% max)</i> | 18-62% of max: range 36-124% <i>6.2-12.4%</i> <i>0-30%</i> <i>10-26%</i> |
| 2011 Performance Share Plan | 4.7% vesting |

2015/16 ANNUAL BONUS SCHEME TARGETS

Profitability targets *Individual objectives*

| | Group PBT | Free Cash Flow | Business unit profit | % bonus | Examples of measures | |
|---------------------------|------------------|-----------------------|-----------------------------|----------------|------------------------------|--|
| Marc Bolland | 30% | 30% | | 40% | GM gross margin | People |
| Patrick Bousquet-Chavanne | 30% | | 30% | 40% | Customer engagement strategy | International LFL sales |
| John Dixon | 30% | | 30% | 40% | GM UK LFL sales | GM4 Programme |
| Steve Rowe | 30% | | 30% | 40% | Food UK sales | Quality and innovation of food proposition |
| Laura Wade-Gery | 30% | | 30% | 40% | New distribution centre | Customer journey |
| Helen Wweir | 30% | 30% | | 40% | Operating costs | End to end supply chain |

Plan A and cultural values underpin

2015/16 PERFORMANCE SHARE PLAN TARGETS

| | % of Award | EPS growth 50% | ROCE 20% | International 7.5% | M&S.com 7.5% | UK gross margin 7.5% | Cumulative Free cash flow 7.5% |
|-----------|-------------------|---------------------------|---------------------|-------------------------------|-----------------------------|---------------------------------|---|
| Threshold | 20% | 5.0% | 15.0% | 5.0% | 11.0% | - | £1,350m |
| Maximum | 100% | 12.0% | 16.5% | 15.0% | 18.0% | - | £1,650m |

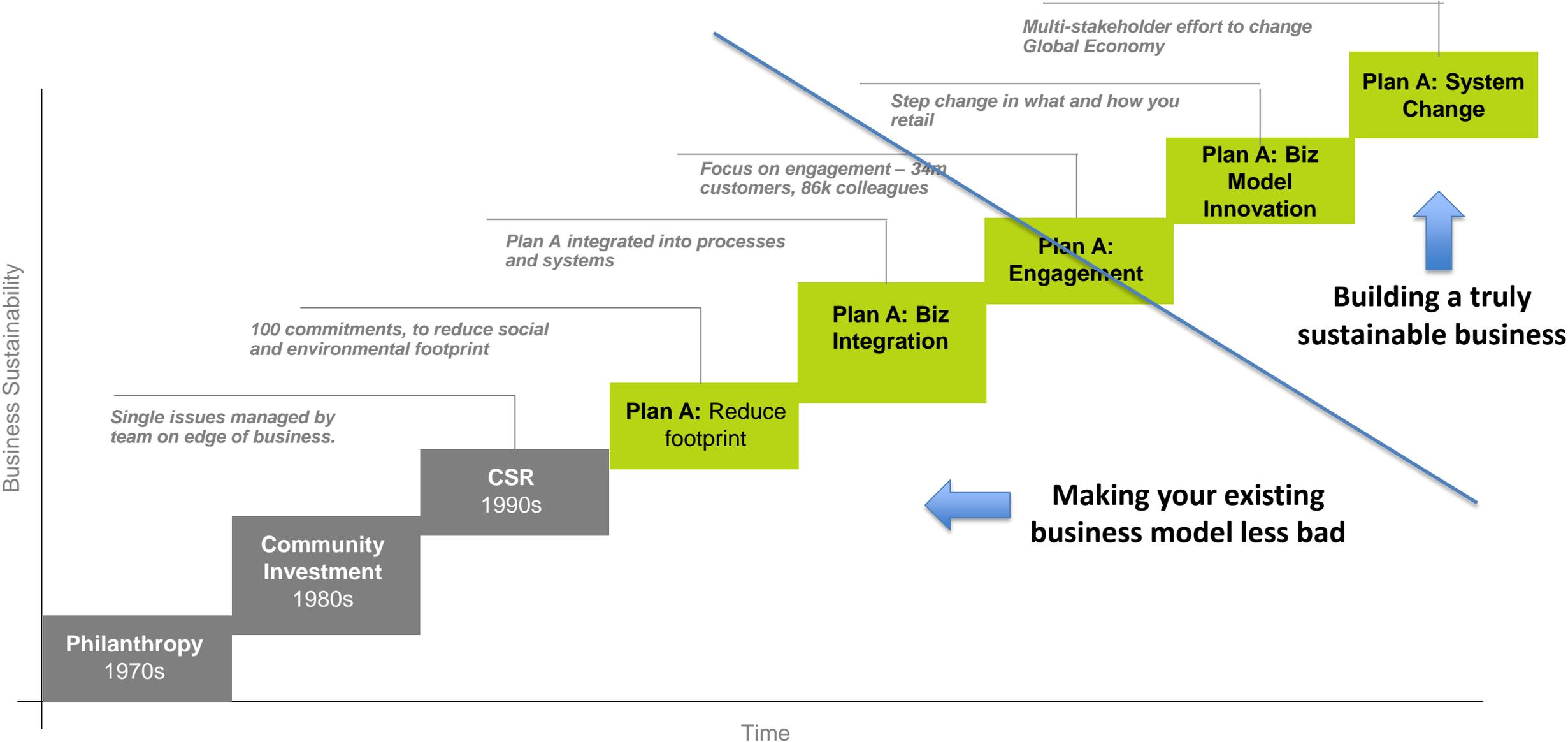
2015/16 ACTION PLAN

- Alignment of remuneration with business strategy
- Alignment external and internal
- Assessing and mitigating potential risk in overall framework

Plan *2020*

Mike Barry: Director Plan A - @planamikebarry

Our Journey – Inflection Point



OUR SUSTAINABLE VALUE CREATION MODEL

PLAN A 2020

OUR RESOURCES & RELATIONSHIPS

£ FINANCIAL

Generating stakeholder returns through effective management of our financial resources

MANUFACTURED

Maintaining our channels and supply chain infrastructure to meet customer demand

💡 INTELLECTUAL

Strengthening our brand through creation and protection of our intellectual properties

OUR RESOURCES & RELATIONSHIPS

🌿 NATURAL

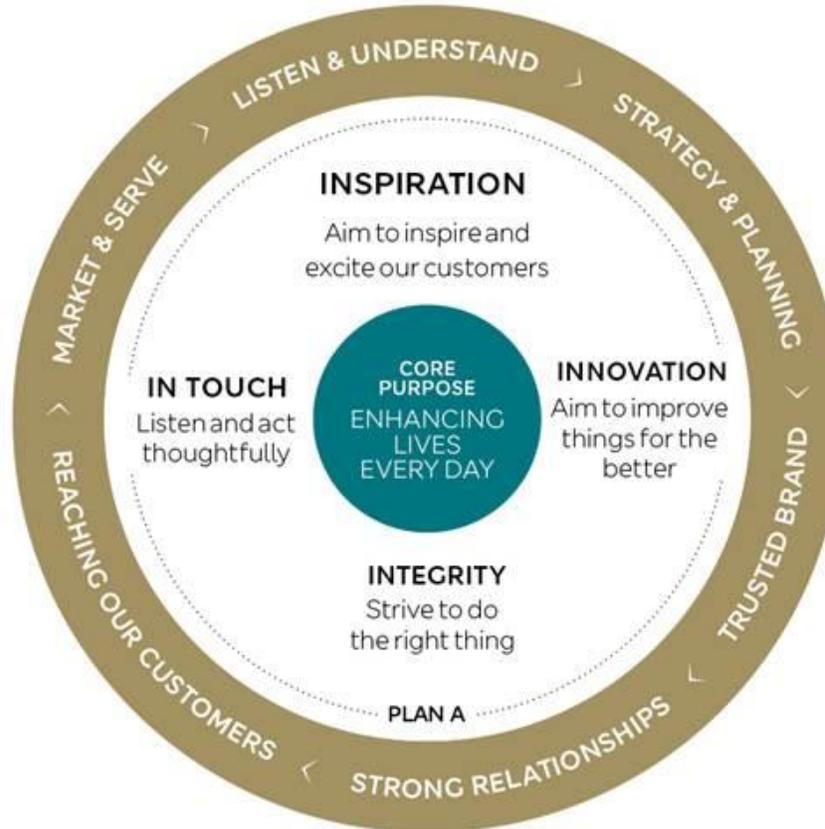
Sourcing responsibly and using natural resources efficiently

👤 SOCIAL & RELATIONSHIP

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

👤 HUMAN

Developing people and their knowledge



THE M&S DIFFERENCE

Plan A 2020: Value Case



ECO-EFFICIENCY
(£160M IN 2014-15)



CUSTOMER
DIFFERENTIATION



EMPLOYEE MOTIVATION



SUPPLY CHAIN RESILIENCE



NEW PRODUCTS/SERVICES

| | | | | |
|------------------------------------|--|--|--|--|
| | Plan A 2020 | | | |
| | Enhancing Lives Every Day | | | |
| What will we be famous for? | Inspiration | In Touch | Integrity | Innovation |
| | We will engage, excite and inspire our customers | We will create a deeper connection with our suppliers, our customers and their communities | We will always strive to do the right thing. We will lead our sector in sustainable consumption and production | We are restless in our aim to improve things for the better |
| Priorities 2015-16 | <ul style="list-style-type: none"> Marketing integration and customer activation Scale partnerships to inspire other businesses | <ul style="list-style-type: none"> Lead Movement to Work Rollout Plan A internationally Launch Global Community Programme Stores engaged locally | <ul style="list-style-type: none"> Drive Plan A attributes Be a leader on transparency | <ul style="list-style-type: none"> Put circular economy into practice Deliver zero carbon operations |
| Activity | 100 Commitments | | | |