2015/16 FULL YEAR RESULTS & STRATEGIC UPDATE

Steve Rowe
Chief Executive Officer

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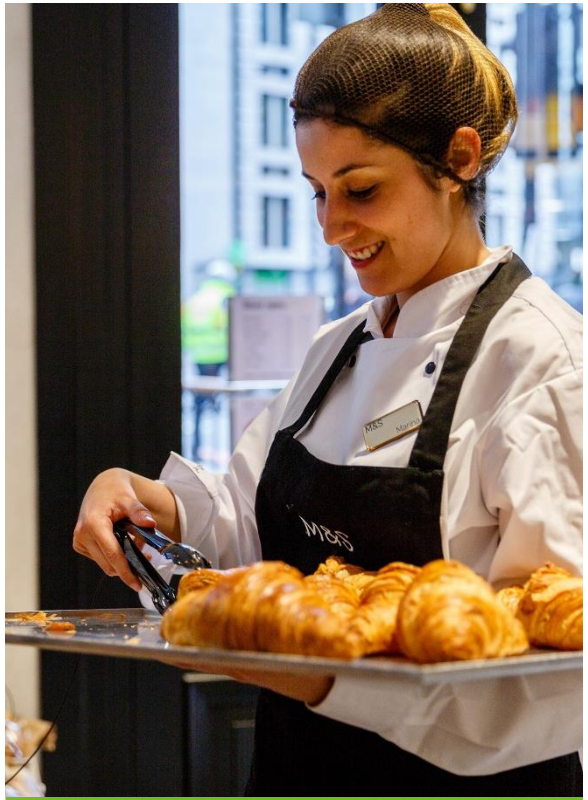
WELCOME

Customer
at the heart

Keep things
simple

Play as
one team



Profitable
growth

AGENDA

Review of 2015/16

Strategic update

Q&A

REVIEW OF 2015/16

Helen Weir
Chief Finance Officer

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OVERVIEW

Group sales[1]	£10.4bn	+0.8%
Underlying profit before tax[1]	£684m	+3.5%
Profit before tax[1]	£483m	-19.5%
Underlying EPS[1]	34.8p	+5.1%
Full year dividend	18.7p	+3.9%
Free cash flow	£539m	↑£15m
Net debt	£2.1bn	↓£85m

[1]Metrics stated on a 52 week basis

FOOD SALES

Total	+3.6%
LFL	+0.2%

Outperformed the market

Increased market share

Quality and innovation

Choice

Convenience

New stores performing well

FOOD SALES

Quality and innovation

Choice

Convenience

FOOD GROSS MARGIN

2014/15	32.8%
Buying margin	-40bps
Operational efficiencies	+80bps
Waste	-40bps
2015/16	32.8%

CLOTHING & HOME SALES

Total	-2.2%
LFL	-2.9%

Disappointing performance

Taken early action

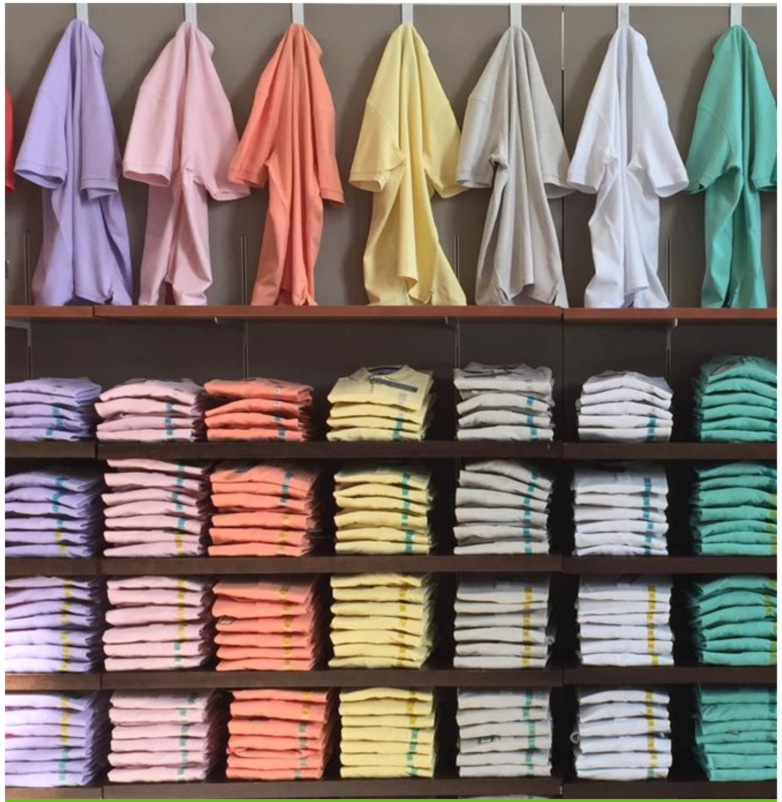
New team in place:

- Product
- Price
- Execution

CLOTHING & HOME SALES

Product

Price



Execution

CLOTHING & HOME GROSS MARGIN

2014/15	52.6%
Buying margin	+295bps
Discounting	-50bps
2015/16	55.1%

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Sales +23.4%

Continued growth

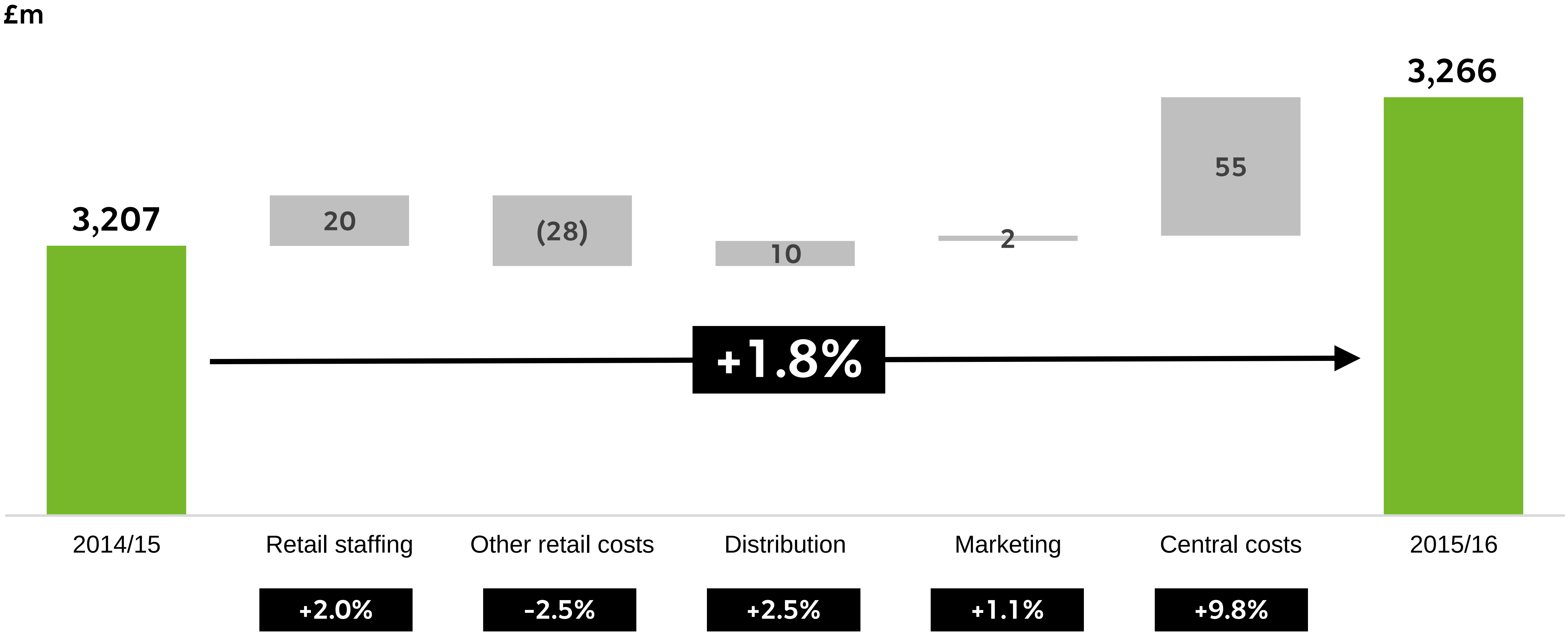
Increased market share

Improved customer journey and metrics

Strong growth in mobile

Sparks

UK OPERATING COSTS



INTERNATIONAL

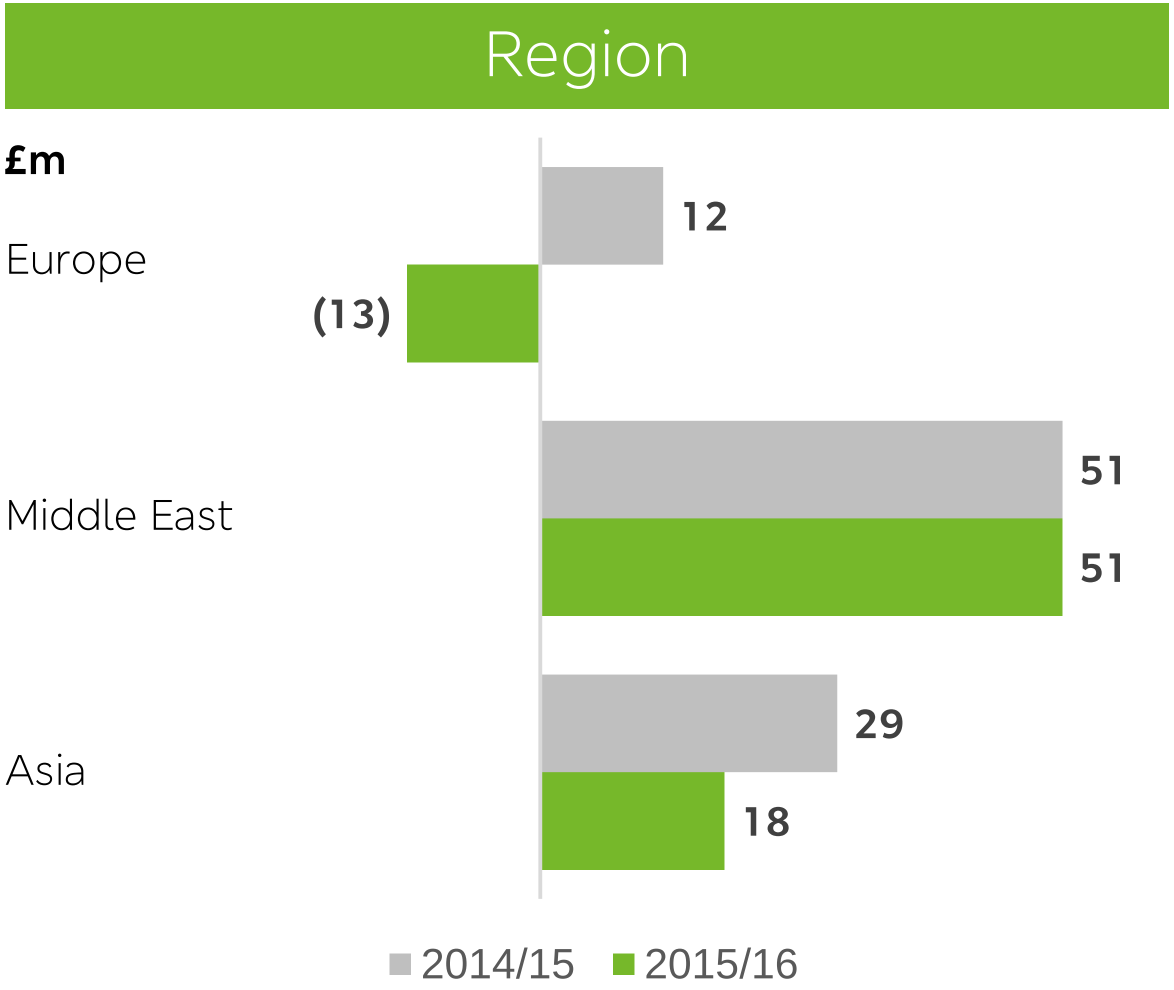
Sales	+1.3%	(cc)
Profit	£56m	-39.6%

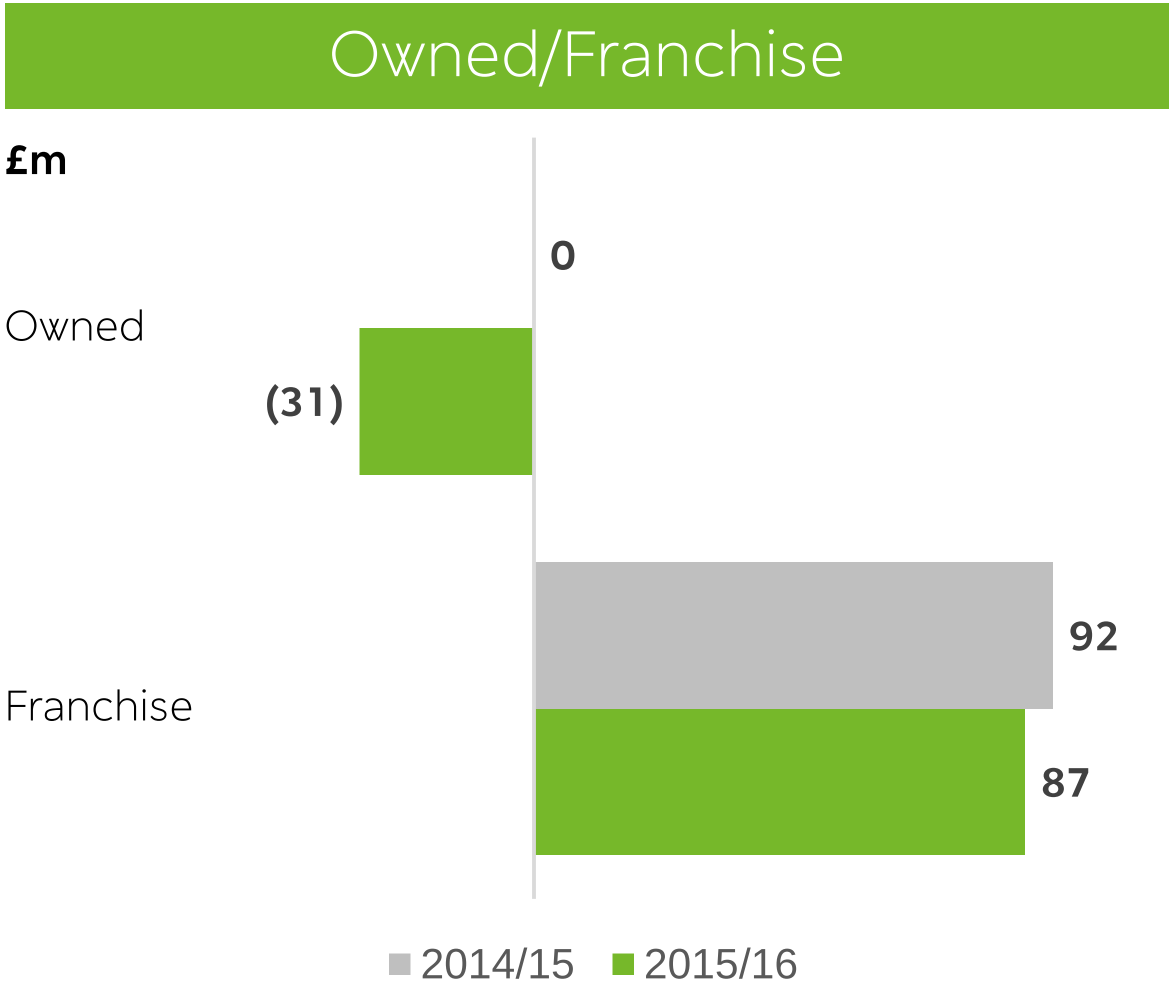
Challenging macro-economic environment

Improved second half sales performance

Significant overall profit decline

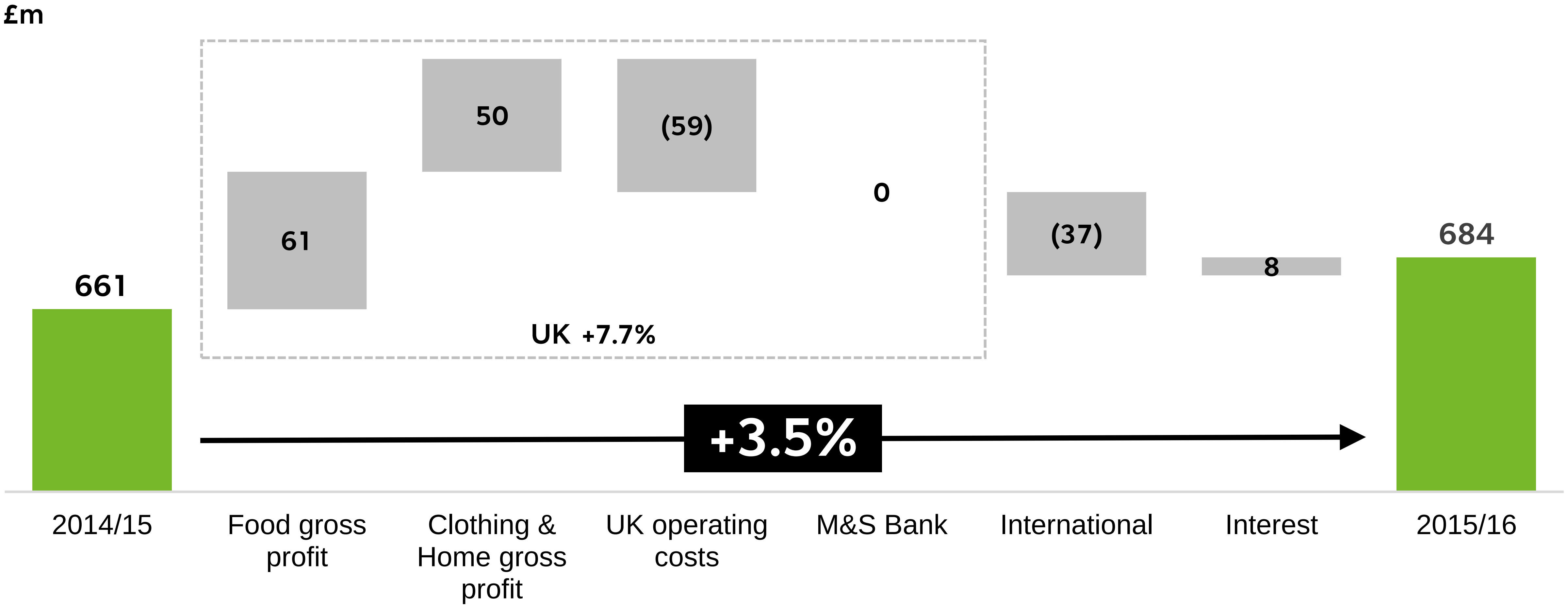
INTERNATIONAL PROFIT BY SEGMENT





Prior year numbers have been restated for a revised allocation of overheads to more accurately reflect business drivers

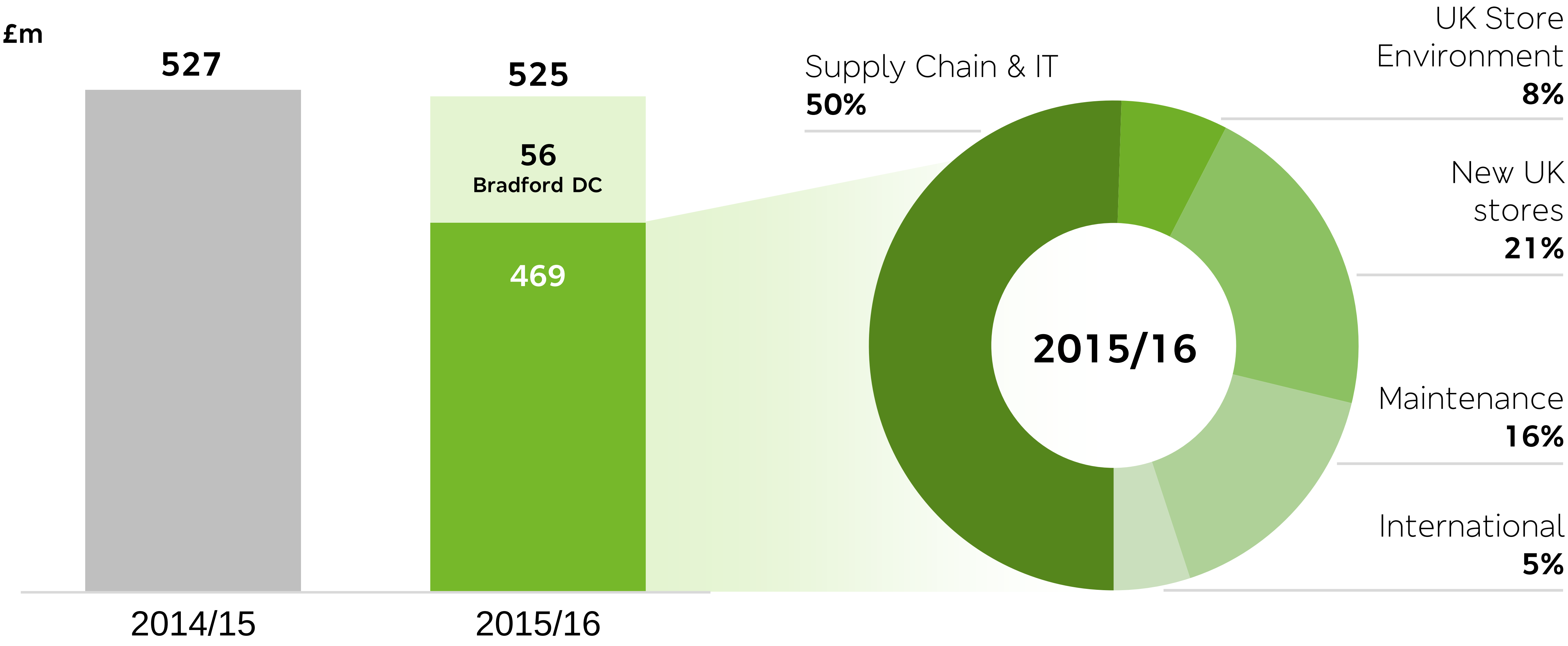
UNDERLYING PROFIT BEFORE TAX



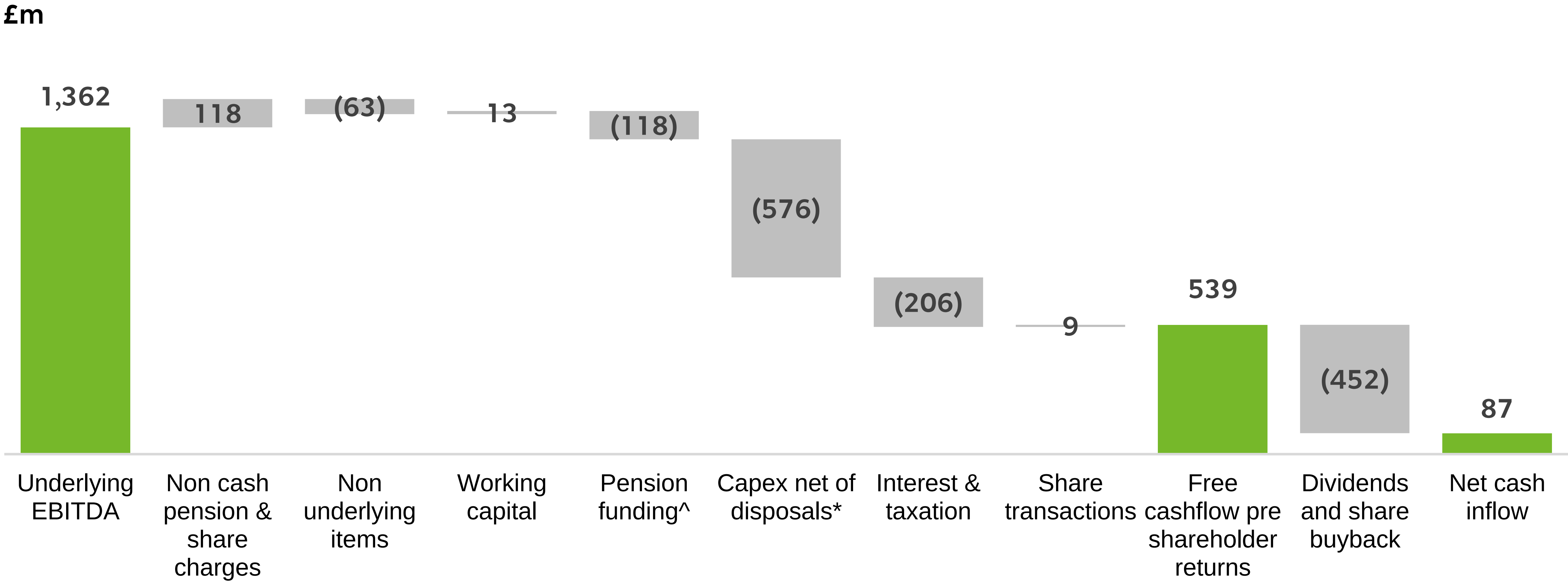
NON-UNDERLYING COSTS

International	£(102)m
UK store review	£(27)m
Buying & merchandising systems	£(24)m
PPI	£(50)m
Other	£2m
Total	£(201)m

CAPITAL EXPENDITURE

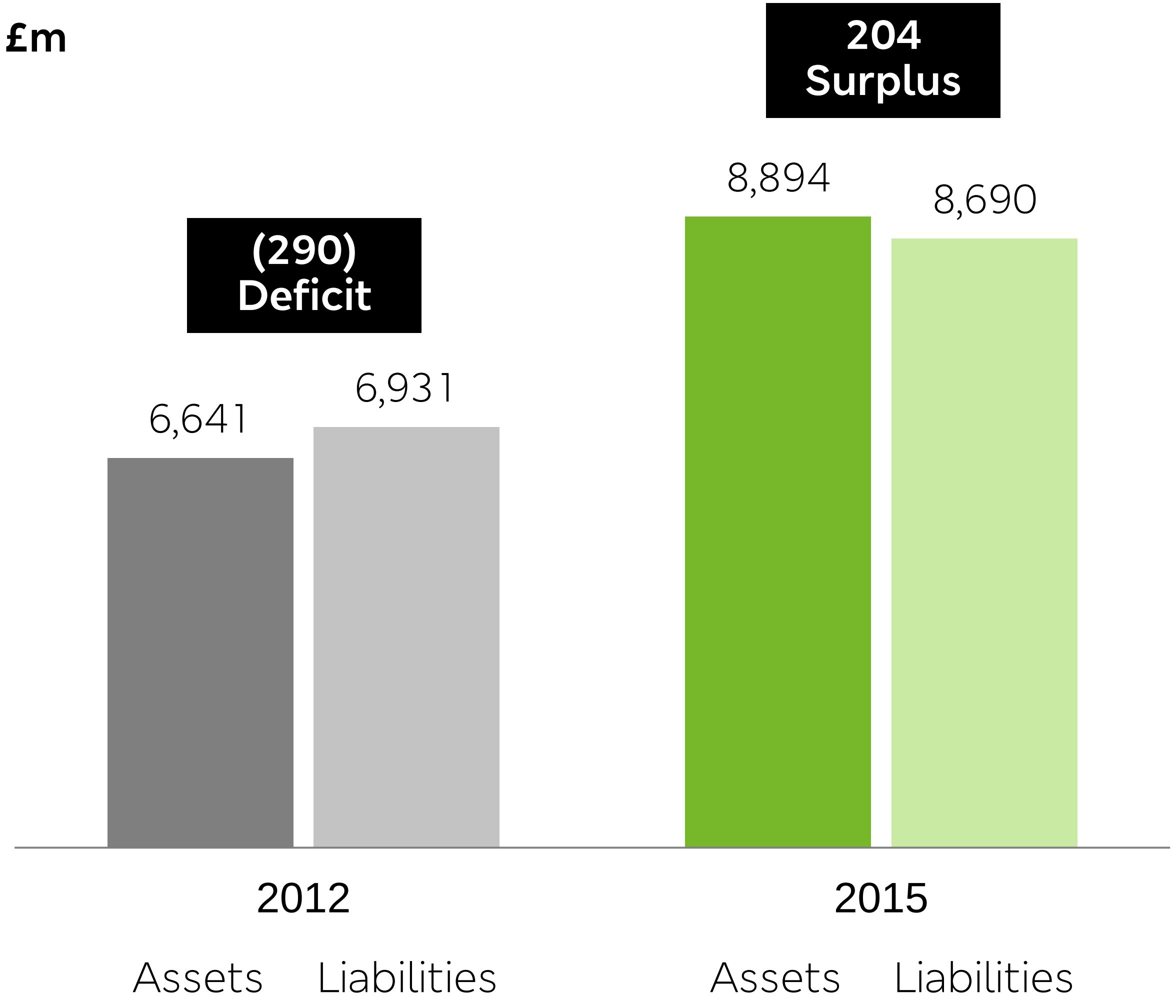


CASHFLOW



^Total pension payments during the year amounted to £190m, including the payment to the SLP
*Includes net cash on acquisition of subsidiary and cash payments in relation to prior year capital accruals

TRIENNIAL PENSION VALUATION



Asset outperformance

c.£300m deficit contributions over 3 years

Existing deficit funding plan unchanged

PAY AND PENSION PROPOSALS

Pay structure

- Customer advisor rate up 15% to £8.50 per hour
- Standardisation of premium pay rates
- Effective April 2017

Defined benefit scheme

- Proposal to close scheme to future accrual
- Members to join the DC scheme
- Effective April 2017

Underlying cost impact not significant

Non-underlying cost of c.£100-£150m in 2016/17

CAPITAL ALLOCATION

Committed to strong balance sheet	1.6x net debt / EBITDA ratio
Committed to a progressive dividend policy	+3.9% increase
Investing in the business to grow	£525m capex
Surplus cash shared with shareholders	£150m buyback

SUMMARY: PROGRESS ON 2015/16 PRIORITIES

1. Food sales growth	2. C&H gross margin improvement	3. Improved C&H performance	4. Strong cash generation
✓	✓	✗	✓

Focus on consistent delivery

Underpinned by strong capital management

2016/17 GUIDANCE

Clothing & Home:	
Sales	Similar trend to 2015/16
Gross margin	c.+50 - 100 bps
Food:	
Sales	Space c.+5%
Gross margin	Level bps
Operating costs	c.+3.5%
Capital Expenditure	c.£450m
Underlying tax rate	c.20%

OUTLOOK

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Difficult trading conditions

Investment in price and store staffing

Short term impact on profit

Strong cash generation

Actions to build long term sustainable growth

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STRATEGIC UPDATE

Steve Rowe

Chief Executive Officer

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A GREAT BUSINESS

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- 32m customers
- Brand and values rooted in heritage
- 900+ stores
- Good franchise partnerships
- Fantastic people
- Plan A

SIGNIFICANT PROGRESS

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- World-leading food business
- Strong dotcom capability
- New systems and distribution
- New Sparks customer loyalty proposition
- Substantial improvement in cash and capital disciplines

NOT SUSTAINABLE

Last three years...

Food profit growth

Clothing & Home buying margin

Prudent cost management

+£36m

Underlying PBT

Clothing & Home sales

Depreciation

International profit

PRIORITIES TO ADDRESS

Customer and Brand

Recover and grow Clothing & Home

Continue to grow Food

UK Store Estate

International

Organisation

Cost review

Financial plan

PRIORITIES TO ADDRESS

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CUSTOMER AND BRAND

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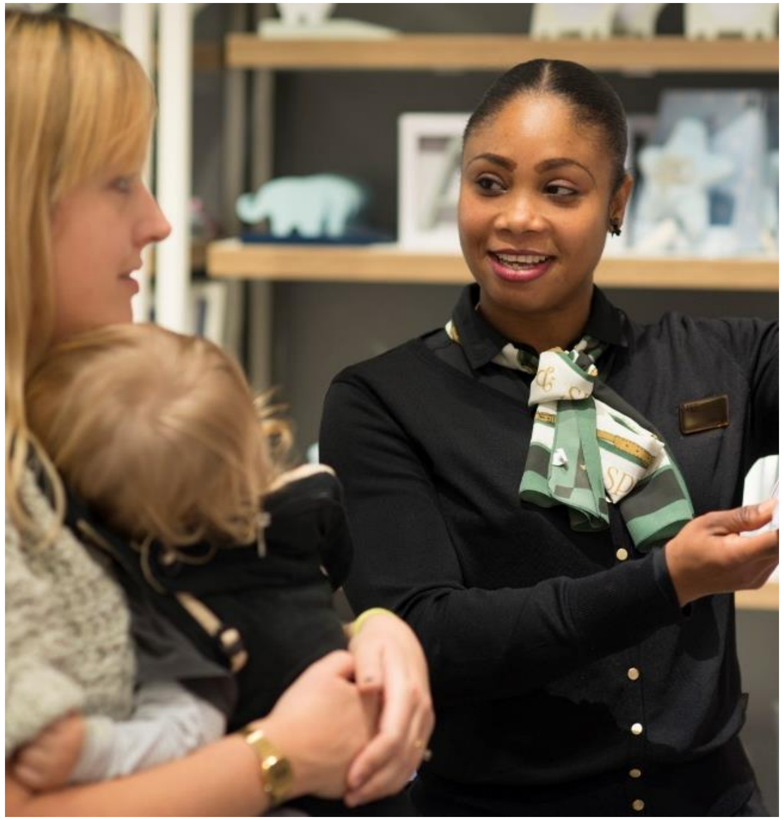
CUSTOMER FIRST


Customers at the heart: plans built on insight

MARKET AND CUSTOMERS

In a challenging market, customer behaviour is changing

Clothing	Food
More style conscious	Shopping for today
Value savvy	Prioritising health
Using multiple channels	Eating out of home
Shopping multiple retailers	Demanding convenience
Expecting personalisation	Tailored products

It’s about attitude, not age

CUSTOMER DRIVEN

32 million customers

Female

50+

18 Trips

Celebrate and cherish our core customers

DATA DRIVEN

32 million customers: some surprises

42%	22%	30%	90%
are men	are under 35	shop both clothing and food	shop a single mission

In the past five years, all growth has come through frequency

DEFINING OUR CUSTOMERS

Occasionals	Core	Top
22m Customers	**7m** Customers	**3m** Customers
Food	**Food**	**Food**
Trips 4	Trips 11	Trips 75
Spend £9	Spend £19	Spend £14
Clothing	**Clothing**	**Clothing**
Trips 2	Trips 8	Trips 26
Spend £14	Spend £28	Spend £25

LISTENING TO OUR CUSTOMERS

250,000

Customer conversations

In-store experience

Exit interviews

Online experience survey

Brand tracker

Customer satisfaction survey

INSIGHT: FOOD

Delighting them in Food

Specialist destination

Leader and trendsetter

Standout taste, quality and newness

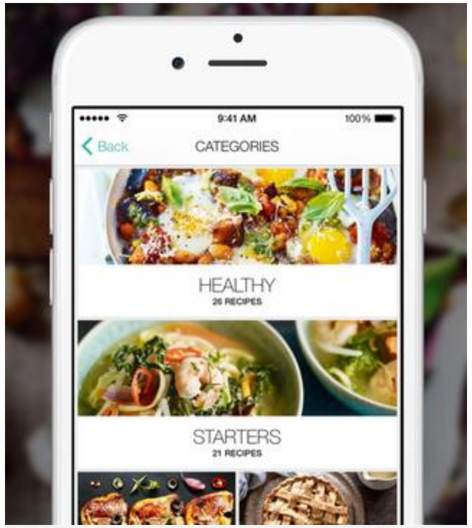
Famous for convenience

Trust & integrity

WHAT CUSTOMERS WANT

Food

Further ahead on trends



Inspire with recipe ideas

Adventurous mid-week meals

More personal

Inspiring and effortless experience

INSIGHT: CLOTHING

Frustrating them in Clothing

Balance of style and fashion

Overwhelming choice

Too much effort needed

Out-of-stock of what I want

Inconsistent on price and value

WHAT CUSTOMERS WANT

Clothing

A focus on style rather than fashion

Better fit that flatters

Better availability

Clearer pricing and value definition

Inspiring and effortless experience

Making every moment special

CLOTHING & HOME

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CLOTHING & HOME PRIORITIES

Product

Wearable, contemporary style

Stylish wardrobe essentials

High quality with clear differentiation

Execution

Improved value credentials

Right availability

Service and experience

PRODUCT IS KEY

Re-establish
our style authority

Focus on wardrobe
essentials

Become famous
for fit

PRICE AND PROMOTION

Investment in price

Lower opening price points

Increase mix of Good

Significant reduction in promotions

Reduce reliance on discounting

Leverage Sparks

Fewer, better sales

RANGE

Simplify the range

Clear product definitions

Improved range structure

Number of lines reduced by c.10%

Catalogue

AVAILABILITY

Improve availability

Reduce number of phases

Target 100% on season launch and on core product

Optimise allocation of stock

Leverage Sparks data

SERVICE AND EXPERIENCE

Great customer experience

Catalogue

Staffing

Role of brands

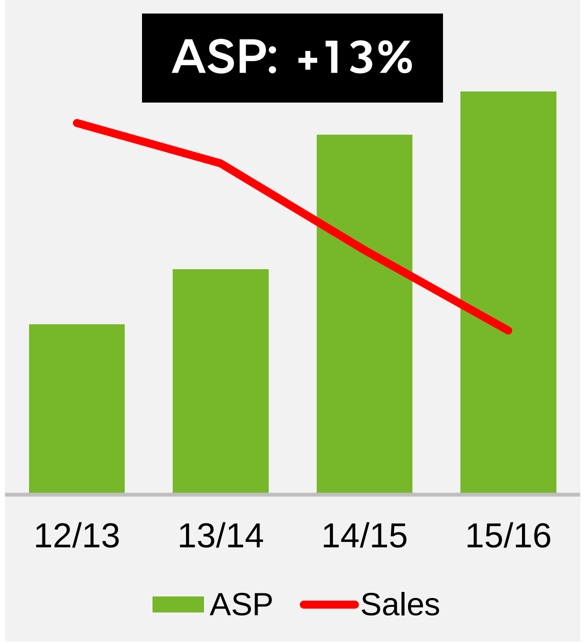
Upgraded facilities

Enhancing M&S.com capability

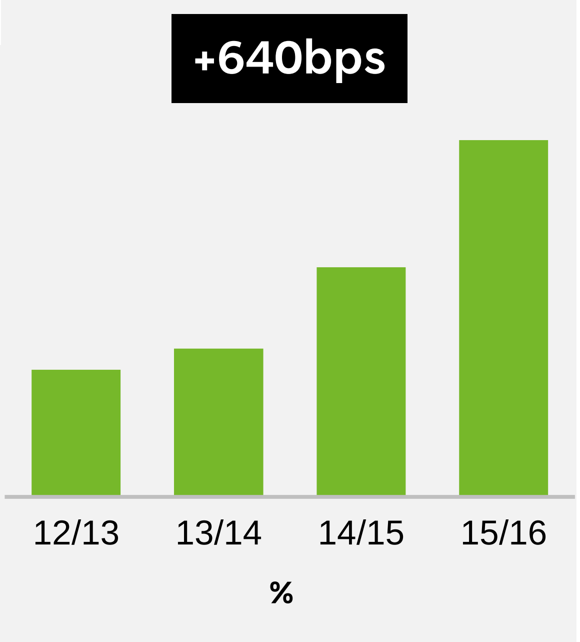
GROSS MARGIN

+330 bps over 3 years

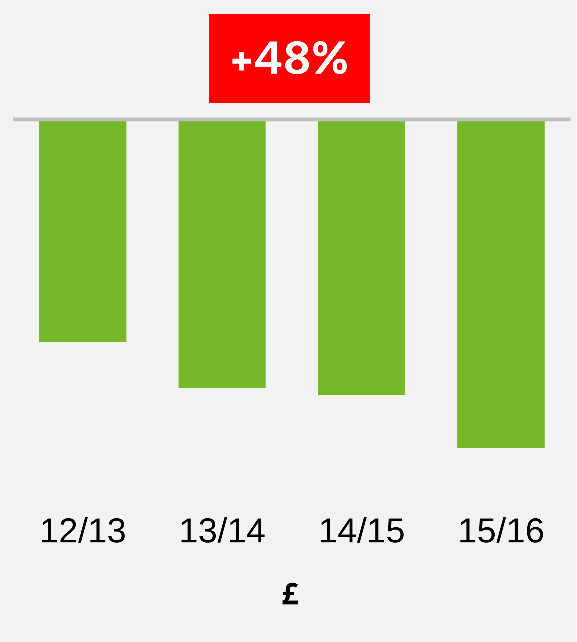
ASP / Sales



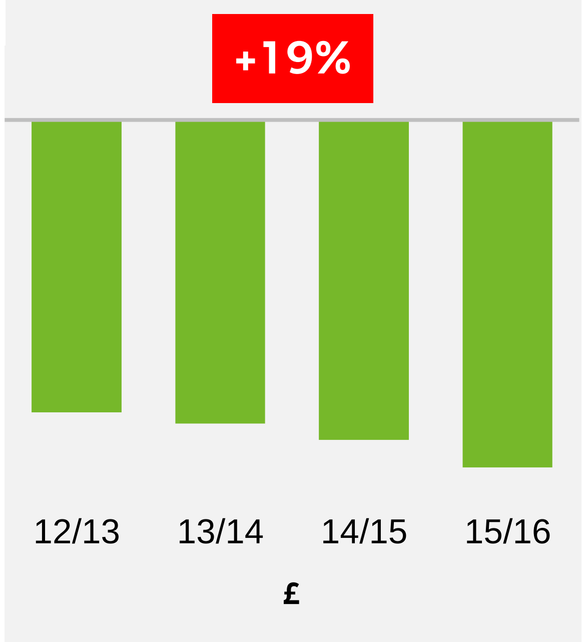
Buying margin



Promo cost



Markdown cost



MARGIN GAINS WILL SLOW

Continue to drive buying margin

Reduce markdown and promotion cost

Invest in price

CLOTHING & HOME PRIORITIES

Product

Wearable, contemporary style

Stylish wardrobe essentials

High quality with clear differentiation

Execution

Improved value credentials

Right availability

Service and experience

FOOD

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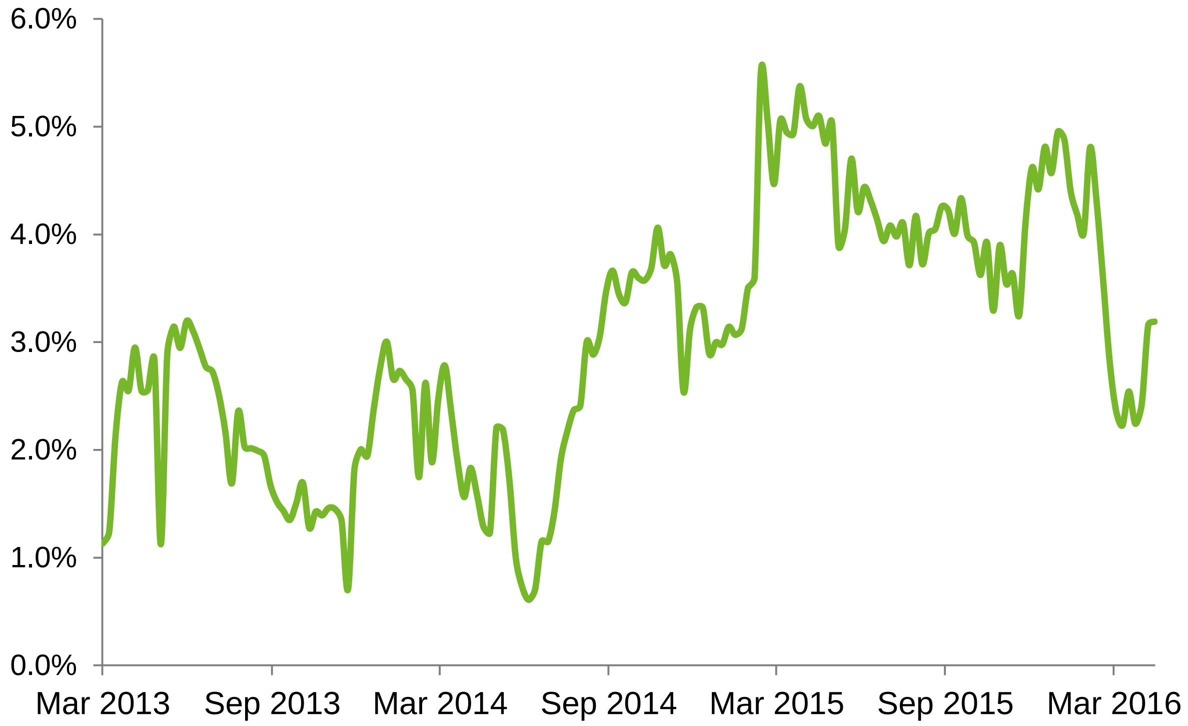
STRONG PERFORMANCE

12 w/e M&S Food Performance vs. IGD



Consistently outperformed a difficult market

Strong track record

Increased market share

Improved customer scores

FOOD PRIORITIES

Product

Quality and innovation

Price

Convenience

Execution

Availability and choice

Retail formats

Roadmap

QUALITY AND INNOVATION

Special and different

Clear distinction in fresh

Health, convenience
and Food on the Move

Strong pipeline of innovation

STAYING COMPETITIVE ON PRICE

Maintain gross margin while re-investing in price

Competitive price position

Value optimisation programme

Reduce promotions

Improve waste

AVAILABILITY AND CHOICE

Better range profiling

More newness across our estate

Locally relevant ranges

RETAIL FORMATS

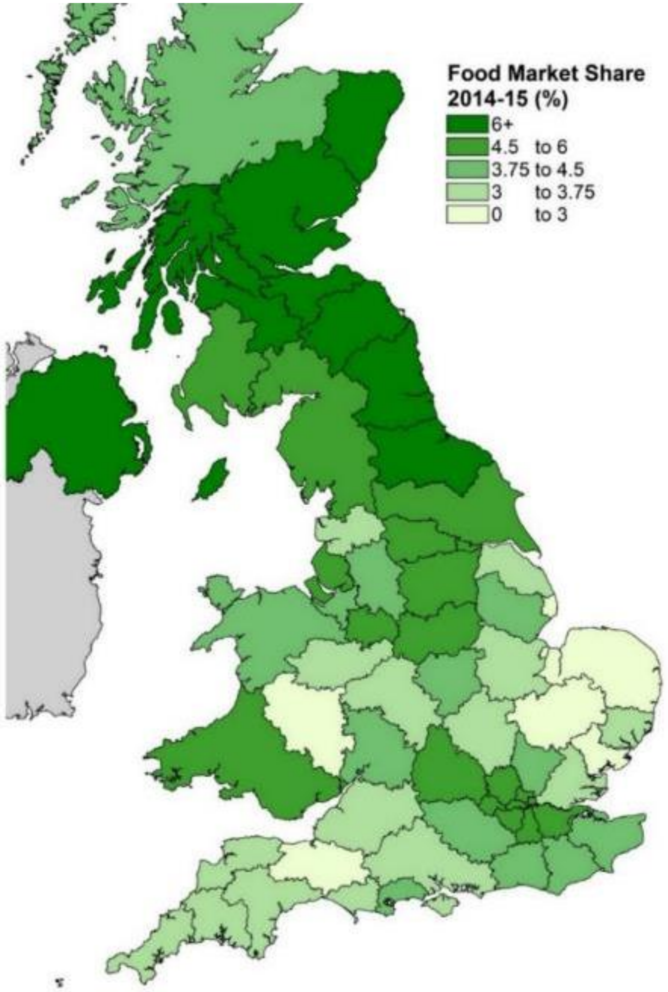
Foodhall

Simply Food

Franchise

Optimising choice by customer mission

ROADMAP



UK Food market share

On track to open c.250
Simply Food stores
by end of 16/17

Additional 200
new Simply Food stores
by end of 18/19

FOOD PRIORITIES

Product

Quality and innovation
Price
Convenience

Execution

Availability and choice
Retail formats
Roadmap

CONCLUSION

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PRIORITIES TO ADDRESS

Customer and Brand

Recover and grow
Clothing & Home

Continue to grow Food

UK Store Estate

International

Organisation

Cost review

Financial plan

SUCCESSFUL & SUSTAINABLE BUSINESS

Customer measures

Financial measures

SUMMARY: IMMEDIATE PRIORITIES

Recover and grow Clothing & Home sales

Continue to grow Food

Continued tight cost control

Maintain strong cash discipline

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APPENDICES

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INTERNATIONAL

	2014/15	2015/16	Var %	Var % (cc)
Sales	1,088	1,066	-2.0	1.3
Owned	747	742	-0.7	4.0
Franchise	341	324	-4.9	-4.2

Operating Profit	92	56	-39.6	-40.4
Owned	0	(31)	n/a	n/a
Franchise	92	87	-5.3	-3.3

Prior year numbers have been restated for a revised allocation of overheads to more accurately reflect business drivers

INTERNATIONAL

	2014/15	2015/16	Var %	Var % (cc)
Sales	1,088	1,066	-2.0	1.3
Europe	627	604	-3.8	3.4
Middle East	173	162	-6.3	-5.6
Asia	288	300	4.4	1.0
Operating Profit	92	56	-39.6	-40.4
Europe	12	(13)	-207.0	-201.6
Middle East	51	51	-0.1	0.8
Asia	29	18	-39.0	-41.1

Prior year numbers have been restated for a revised allocation of overheads to more accurately reflect business drivers

STORES AND SPACE

UK	Mar 2016	Mar 2015	Openings	Closures	Change
Premier	12	12	-	-	-
Major	62	61	1	-	1
High Street	228	229	6	-7	-1
Simply Food owned	222	198	25	-1	24
Simply Food franchise	349	306	50	-7	43
Outlet	41	46	-	-5	-5
UK Stores	**914**	**852**	**82**	**-20**	**62**
Selling space (m sq ft)	17.0	16.7			

International					
Europe	150	163	9	22	-13
Middle East	154	154	11	11	0
Asia	164	163	18	17	1
International stores	**468**	**480**	**38**	**50**	**-12**
Selling space (m sq ft)	6.1	6.1			

Prior year numbers have been restated for a revised allocation of overheads to more accurately reflect business drivers