



Overview of the year

Financial overview

Group revenue

£10.0bn

↑1.3%*

Interim + final dividend

6.2p+
10.8p = 17.0p

→ level

Underlying Group profit before tax

£665.2m

↓5.8%

Underlying Group earnings per share

32.7p

↓6.3%

Group profit before tax

£564.3m

↓14.2%

Group earnings per share

29.2p

↓10.2%

UK

Our UK turnover is split between Food (54%) and General Merchandise (46%). With 766 stores across the UK and a growing e-commerce business, we sell high-quality, great value food and remain the UK market leaders in womenswear, lingerie and menswear.

 [Read more on page 16](#)

General Merchandise revenue

£4.1bn

↓2.4%

Food revenue

£4.9bn

↑3.9%

Number of UK stores

766

↑35 net new stores



Multi-channel

From browsing through to purchase and delivery, we aim to provide the best shopping experience for our customers. Whether in stores, online or by phone, we offer a convenient service for all our customers – however and whenever they choose to shop with us.

 [Read more on page 26](#)

Multi-channel revenue

£651.8m

↑16.6%

Weekly site visits

3.6m

↑18%

Shop Your Way stores

476

↑21 stores



International

We are making the M&S brand even more accessible to customers around the world. We now operate in 51 territories across Europe, the Middle East and Asia and continue to grow our international presence through a multi-channel approach.

 [Read more on page 28](#)

International revenue

£1.1bn

↑4.5%*

International stores

418

↑31 net new stores

Territories

51

↑8 new markets



Plan A

We aim to become the world's most sustainable retailer and Plan A, our eco and ethical programme, is at the very heart of how we do business. More than five years since launch, we continue to extend the influence of Plan A – engaging our employees, suppliers and customers.

 [Read more on page 32](#)

Total Plan A commitments

180

Commitments achieved

139

Commitments on plan

31



*Group revenue and International revenue increases are stated on a constant currency basis throughout the directors' report. Using actual rates Group revenue was up 0.9% and International revenue was up 0.9%.

Online shareholder information

Our online reporting suite keeps shareholders fully up to date, whilst helping us reduce our paper usage.

Over 26,000 shareholders have signed up for electronic communications and are benefiting from more accessible and interactive information. To register, simply go to marksandspencer.com/investors and follow the 'Electronic Shareholder Communication' link.

Investor Relations app

The Marks & Spencer Investor Relations app provides investor and financial media information in an iPad-optimised format. The app delivers the latest share price information and corporate news as well as financial reports, presentations and corporate video. For more information visit marksandspencer.com/investors

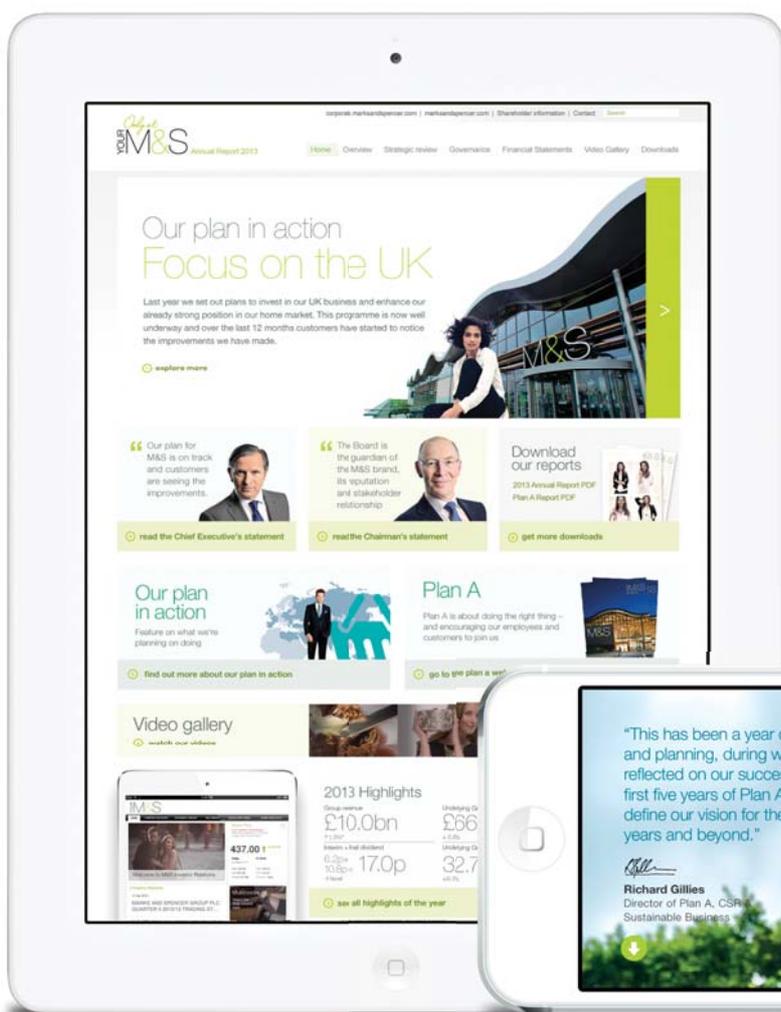
Plan A

For highlights of our performance against Plan A go to page 32 of this report. More detailed information about the progress we have made this year is available on our online Plan A 2013 report at marksandspencer.com/plana2013

Discover more – go online

The 'discover more' logo in this report indicates that we have additional content available on our online version at marksandspencer.com/annualreport2013

Discover more online



Overview	
Chairman's statement	02
Marketplace	04
How our business operates	07
Strategic review	
Chief Executive's overview	08
Our plan in action	10
Performance against our plan	12
People behind the plan	14
Our plan in action	
Our brand	16
General Merchandise	18
Food	21
UK stores	24
Multi-channel	26
International	28
People	30
Plan A	32
Financial review	
Financial review	34
Governance	
Chairman's overview	38
Board of directors	40
Leadership	42
Effectiveness	44
Accountability	45
Engagement	49
Audit Committee	50
Nomination Committee	53
Remuneration report	55
Pensions governance	71
Other disclosures	72
Independent auditors' report	77
Financial statements and other information	
Consolidated income statement	78
Consolidated statement of comprehensive income	78
Consolidated statement of financial position	79
Consolidated statement of changes in equity	80
Consolidated cash flow information	81
Notes to the financial statements	82
Company statement of financial position	110
Company statement of changes in shareholders' equity	110
Company statement of cash flows	110
Company notes to the financial statements	111
Group financial record	113
Shareholder information	114
Index	116

Chairman's statement



“We are implementing revolutionary change in our retailing systems and infrastructure but the values on which M&S was founded remain unaltered.”

Robert Swannell
Chairman

DIVIDEND

Interim dividend paid on
11 January 2013

6.2p per share

Final dividend to be paid
on 12 July 2013

10.8p per share

Total dividend for
2012/13

17.0p per share

2012/13 was another year of progress for M&S, where a mixed trading performance was balanced by good progress in building our long-term foundations, in line with our key strategic goals.

We are implementing large-scale revolutionary change that spans our supply chain, stores, web platform and IT infrastructure – creating a sound base for sustainable future growth. However, our plans to transform M&S have not altered the values on which we were founded; our commitment to Quality, Value, Service, Innovation and Trust continues to set us apart.

Performance and dividend

In a difficult year, customers continued to place their trust in M&S. We delivered consistently strong results in our Food business, up 3.9%. Our executive team took decisive action to address areas of underperformance in our General Merchandise business and we began to see improvements in our operational execution and a reassertion of our quality credentials.

We made significant improvements to our UK operations: rolling out our new store concept across our estate, opening a new e-commerce distribution centre and strengthening our systems. Our Multi-channel business and our priority International markets grew strongly, supporting our strategic goals.

In line with our dividend policy, we remain committed to delivering consistent returns to our shareholders. This year we intend to pay a final dividend of 10.8p, unchanged from last year.

Governance and the Board

On joining M&S, I set out three clear priorities for the Board and we remain firmly focused on these key aspects. First, to debate and agree our strategy, holding the executive team accountable for its execution. Second, to ensure we have the most talented team to execute our strategy and that we plan effectively for succession. Finally, to set the tone of ‘doing the right thing’, supported by the appropriate governance structures and their effective implementation.

This year we set out some planned changes to our non-executive team. Having served on the Board since 2006, Jeremy Darroch will retire from the Board in June 2013. I would like to thank Jeremy for his significant contribution to M&S and his strong leadership of our Audit Committee. We welcomed Andy Halford as a non-executive director in January. As Chief Financial Officer of Vodafone for the past eight years, Andy has a wealth of valuable experience and will succeed Jeremy as Chairman of the Audit Committee from June. With continuity in mind, Steven Holliday agreed to stand for re-election at the AGM for a further year, before stepping down at the AGM in July 2014. By this time he will have served on the M&S Board for ten years and chaired the Remuneration Committee for almost five years.

After nine years, Steven Sharp, Executive Director, Marketing, is retiring from M&S. He will step down from the Board following the AGM and will continue to work in the business as Creative Director until 28 February 2014. I would like to thank Steve for the significant role he has played in shaping the M&S brand and reinforcing our quality, style and ethical credentials through numerous iconic campaigns.

As a result of this change, Patrick Bousquet-Chavanne will take over responsibility for marketing and will be put forward for election to the Board as Executive Director, Marketing and Business Development at this year's AGM. Patrick joined M&S in September 2012 as Director of Strategy Implementation and Business Development and has played a key role in the development of the new marketing strategy in womenswear.

Our governance principles

Leadership

Strategy, performance, responsibility and accountability are at the heart of your Board's discussions. We interrogate each area to ensure high-quality decision-making, that in turn drives a culture of continuous improvement across the business.

 [Read more on page 42](#)

Effectiveness

Our performance is independently reviewed on a regular basis to ensure that the Board remains focused, is provided with actions for improvement and meets targets for future improvement.

 [Read more on page 44](#)

Accountability

Strategic decision-making is discussed within the context of risk, ensuring that we understand and, where possible, mitigate those risks to which M&S is exposed.

 [Read more on page 45](#)

Engagement

Building relationships with private and institutional investors is fundamental to achieving our goals. We do so through face-to-face meetings and a range of communications channels.

 [Read more on page 49](#)

This year, we made internal changes to strengthen our executive team on the Board. John Dixon was appointed as Executive Director of General Merchandise and after 26 years with M&S, has a proven track record in a variety of roles, most recently as Executive Director of Food. Former Director of Retail Steve Rowe is a proven retailer with 23 years' experience at M&S and he has succeeded John as Executive Director of our Food business.

How we do business

The founders of M&S understood clearly the importance of 'doing the right thing' to create long-term value. We continue their tradition of responsible behaviour through our comprehensive environmental and ethical programme, Plan A. To succeed over the long term businesses need to make connections with society and Plan A is our manifestation of that. It also makes sound economic, as well as moral sense.

Values matter in business – and we work hard to maintain high levels of trust and transparency with all our stakeholders – particularly across the supply chain. Operating our business in the right way has benefited us at a time when transparency of supply has never been more important to customers.

Plan A forces us to think differently and accept new ways of doing things. It's also influenced how we do business, enabling us to be open – both inside and outside the Boardroom – about our achievements and equally frank when we fall short of expectations or targets. Over five years since launch, the programme's values remain central to our long-term future and our connection with employees and customers.

Shareholder engagement

Taking shareholders with us on our journey allows them to see clearly the progress we are making. We held a number of investor and analyst events during the year, including a visit to Istanbul to see our international operations at first hand. We also held a briefing on our multi-channel re-platforming, hosted visits to our new flagship store at Cheshire Oaks and our new e-commerce distribution centre at Castle Donington. More recently, we held a briefing on our plans for our General Merchandise business. All of the information shared at these events is available to our shareholders at marksandspencer.com/investors.

As part of our commitment to share our progress, a preview of our forthcoming Autumn/Winter Womenswear collection is enclosed with this report. We have compiled this exclusive edit for our shareholders, which I hope illustrates how we have listened and responded to our customers.

The Notice of Meeting that accompanies this report highlights a change of venue for our AGM. As part of our plan to make M&S a more efficient business, this year's meeting will be held at Wembley, which has the facilities to host all our large-scale events, both internal and external. It is also easily reached by public transport and we encourage all our shareholders, large and small, to attend.

Looking ahead

As we move into the third year of our plan we are fully committed to its execution. Though the retail landscape remains challenging, we are in no doubt that this is the right course.

The fundamental and revolutionary changes taking place to the infrastructure of M&S are essential. Our progress will become increasingly visible to our stakeholders, as customers experience the tangible benefits of the improvements we have made. We are confident that these changes will deliver a more valuable company.

Delivering and executing this level of change requires hard work, perseverance and most of all commitment. I am always impressed by the efforts of our employees – wherever they work in M&S – and I thank them sincerely for their contribution this year.



Robert Swannell
Chairman

Marketplace

Customers are the heart of our business, so it is vital that we understand what they want from M&S. Our Customer Insight Unit (CIU) uses a combination of market research and customer feedback to help us understand how our customers think and identify the factors that influence their shopping behaviour.

Market overview

During 2012/13 there was little economic growth in the UK, with a Gross Domestic Product increase of just 0.3% in 2012. Vacancy rates remained high and over the course of the year a number of well known retailers disappeared from the high street.

Rising energy costs and petrol price increases further squeezed household budgets this year. As the gap between pay rises and inflation widened, incomes were further eroded by benefit cuts and the removal of certain tax credits.

The market was adversely affected by unseasonal weather conditions during 2012/13. The early part of the financial year included three of the wettest months on record and the UK experienced the coldest March in over 50 years.

These factors contributed towards a market footfall decrease of 3.7%. Retailers fought hard to win consumers' spend and there were continued high levels of promotional activity on the high street.

There were genuine moments of national celebration during the year and The Queen's Diamond Jubilee and the Olympic Games lifted the nation's mood. However, the feelgood factor they generated proved fairly short-lived and did not translate into higher retail sales.

How is this affecting our customers?

Consumers have become used to navigating choppy economic waters and confidence levels continued to improve as a result. However, high profile administrations – coupled with the ongoing threat of a triple dip recession – meant this confidence remained fragile and a sense of caution prevailed.

Consumer confidence index



With the unique national celebrations finished in the early part of the year, customers attached greater significance to traditional events and family celebrations. They were determined to make these occasions truly special – making their time with friends and family more memorable.

Health and wellbeing also featured prominently in consumer priorities this year. They looked to retailers to help make living a healthier lifestyle more enjoyable and affordable, with less emphasis on dieting and more focus on delicious and nutritious quality ingredients.

Trust was also an important issue within the food industry this year. Customer concerns about transparency and traceability in the meat supply chain prompted a move towards quality food retailers.

Ultimately, consumers wanted to feel every purchase they made was worthwhile – adding genuine value to their lives. As a result, they looked to retailers to inspire them and provide clear reasons to spend.

How are our customers shopping?

With shopping trips restricted and budgets limited, customers told us that they wanted to enjoy their shopping experience, in a stress-free and inspiring environment. They wanted to feel valued by retailers and great customer service was a key consideration for shoppers. As a result, we invested further in our service proposition – delivering new training to our store employees.

Over the last year, any growth in the market has come from online, as more customers shifted to shopping across multiple channels. As a result, they expected retailers to join up their different shopping channels and provide them with a seamless experience and service whichever way they chose to shop.

The continued growth of smartphone and tablet ownership meant mobile devices became an even more influential browsing and buying tool this year. This growth has not only made it easier for customers to shop on the move but it has also altered their behaviour at home, with the rise of 'second screening'. This trend, whereby more customers are watching TV with a mobile or tablet device in hand, has proved to be a valuable opportunity for retailers to engage directly and provide consumers with reasons to interact with their brand there and then. Our marketing activity responded to this trend, as explained on page 16.

Consumers' purchasing decisions were increasingly influenced by how quickly and easily they could receive their goods. As more retailers launched and improved next day delivery options, customers' expectations were set even higher. Customers now expect flexible and tailored choices for both ordering and delivery as standard and we worked hard to improve our Shop Your Way service, as explained in the Multi-channel section of this report on page 26.

CUSTOMER INSIGHT

“I want every purchase I make to feel worthwhile and really make a difference to me.”



How we have responded

Area	Impact	Response
<p>Clothing The clothing market remained flat this year and was impacted by unseasonal weather. Limited consumer budgets, meant womenswear in particular continued to be extremely competitive and very promotionally driven.</p>	<p>Many consumers deferred their shopping trips, deciding to ‘make do’ with their existing wardrobe, unless they were presented with compelling reasons to buy.</p>	<p>We established eye-catching ‘trend zones’ aligned to our advertising campaigns in stores, giving customers ideas on outfit building and enabling them to clearly identify the right products for them.</p>

<p>Home The static housing market meant sales of big-ticket items such as furniture remained depressed. Consumers increasingly used stores as ‘try before you buy’ showrooms to make purchasing decisions, but used online methods to purchase – avoiding additional distractions.</p>	<p>With continued emphasis on family and socialising at home, customers looked for inspiration and affordable style, as their focus remained on smaller-scale projects to refresh and update their homes.</p>	<p>Our new inspirational roomset layout delivered a real wow factor in stores, showcasing statement pieces of furniture, homeware and accessories from our collections. We also featured stylish room ideas on our website, Home catalogue and on the new M&S Home iPad app. Furniture sales increased as a result.</p>
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<p>Food Driven by commodity and fuel price increases, inflation continued to be the principal factor affecting the food market. Competition amongst retailers remained intense, with high levels of promotional activity. In the wake of the supply chain issues, trust and traceability became a priority for customers.</p>	<p>Customers continued to demand good value food, but also expressed renewed commitment to healthy eating, particularly in the New Year. They looked for a stress-free shopping experience, with clear promotions and quality they could trust.</p>	<p>Our Simply M&S range caters for customers seeking affordable quality and we continued to extend our Health offer, with a brand new range – Delicious and Nutritious. Our reputation for exceptional food provenance served us well this year and we reminded our customers of our longstanding relationships with British farmers who share our values and commitments.</p>
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<p>Brand In a challenging market, dependable established brands continued to benefit. The well publicised issues in the food supply chain further fuelled a migration towards quality, trusted brands.</p>	<p>With a limited budget available – consumers turned to brands they trusted to deliver genuine quality. They wanted every purchase to make a difference to their lives.</p>	<p>Our marketing activity highlighted the quality and innovation that sets M&S apart – both in Food and Clothing. We used a broader variety of models so customers could see how the latest styles would make a difference to their wardrobes. Our food campaigns showed how M&S Food can make ordinary occasions special.</p>
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<p>Multi-channel This year online and mobile channels continued to play an increasingly important role in influencing shoppers and determining their purchasing decisions.</p>	<p>Customers were looking for integrated, effortless shopping experiences that allowed them to make well-informed choices and buy in the way that suits them best.</p>	<p>This year we better integrated our shopping channels – bringing the latest digital technology into our stores. We launched our first transactional iPhone app and added new browse and order points to our stores. We rolled out over 1,500 iPads to our employees – helping to offer a more personalised service.</p>
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Marketplace continued



International marketplace

GDP continued to grow in our priority markets of Russia, the Middle East, India and the Shanghai region of China. Trading conditions continued to be challenging across the Eurozone, particularly in Greece, Spain and the Republic of Ireland.

We believe most trends are global and our UK catalogue is the core of our international offer. Careful editing ensured that our collections remained relevant to the slightly younger age profile of our international customers. We also responded to a variety of international demand trends including increasing local garment sourcing in India. This has resulted in faster speed to market, improved margins for us and better choice and fit for the customer. We also introduced better phasing of outerwear in Russia to capture the market earlier in the season when demand is highest.

Our British heritage and brand values are key assets for M&S in international markets. A heightened appetite for all things 'British' was particularly apparent this year, as global attention focused on The Queen's Diamond Jubilee and the London Olympics. These events presented us with the ideal opportunities to showcase the best of M&S and differentiate ourselves from local competitors.

↑ Plan A participation

This year we continued to extend our influence beyond M&S. More customers than ever took part in a variety of Plan A activities.

→ Highlighting our credentials

The M&S brand is synonymous with British style. Our Golden Bell store in Shanghai carried a range of exclusive products that showcased our UK heritage.



As part of our strategy to become an international multi-channel retailer, we launched websites in Germany, Spain, Austria and Belgium, extending our reach into the some of the fastest growing online fashion markets in Europe. Making the most of London's status as an international fashion capital, the launch was themed around showcasing the very best of 'London style' – from our catwalk-influenced Limited Collection to the craftsmanship of our Savile Row Inspired tailoring. M&S' British heritage will continue to play a leading role in our international marketing activity.

How Plan A helps us respond

Plan A – our eco and ethical programme – sets us apart as a leader in the marketplace and helps us tackle the sustainability issues that face all major retailers.

With key raw materials and natural resources under increasing pressure, we continued to develop a more sustainable supply chain, focusing on areas such as cotton and sustainable fishing. Our long-established strict sourcing standards meant M&S did not need to withdraw any products as a result of the supply chain issues.

In a challenging economic environment, Plan A also helps us to run a more efficient business, through reducing waste and energy use. We continued to share our experiences with suppliers – enabling them to reduce their own manufacturing costs and create a more sustainable future.

This year we launched new ways to engage our customers in Plan A, with exciting initiatives such as Shwopping and our Big Beach Clean-Up.

Looking ahead

Customers are pragmatic about the future, realising that economic recovery is still some way off. However, they are gaining increasing confidence, thanks to their ability to manage through these difficult times and remain focused on spending wisely and well with retailers they trust.

How our business operates

Over the last 129 years M&S has grown from a single market stall to become an international multi-channel retailer. We now operate in over 50 territories worldwide and employ almost 82,000 people. Remaining true to our founding values of Quality, Value, Service, Innovation and Trust, we work hard to ensure our offer continues to be relevant to our customers. Through diversifying our store locations, channels and product ranges we are reducing our dependence on the UK and broadening our international focus.

In touch

Customers are at the heart of our business and through our Customer Insight Unit, we ensure their needs inform every aspect of our decision-making. Through a combination of customer feedback, focus groups and consumer research we are in touch with over 17,000 customers every month, helping us anticipate their needs.

What we offer

Our heritage of innovation helps us lead the way with first-to-market products across food, fashion and homeware. We are the UK's leading clothing retailer and offer high-quality food, with a focus on freshness, convenience and speciality. Our own-brand model sets us apart and we further differentiate our offer through exclusive collaborations.

Reaching our customers

Our products are sold through 766 UK and 418 international stores – in diverse locations across high streets and out of town retail parks. Our Simply Food franchise partnerships ensure we are in the most convenient locations – from railway stations to motorway services. As shopping habits change, we're combining the best of web and store to extend our reach and drive more spend from customers. In-store technologies help customers shop more of our catalogue and our newly-created app enables browsing and buying for shoppers on the move – making M&S available 24/7.

Investing in our people

We communicate with our people throughout the year via a range of channels and measure employee

engagement quarterly. All our training and support activities are closely linked to our business plans; from improving employee skills and product knowledge to the development of future leaders for M&S.

Innovative ways of working

Ongoing improvements to our operations are making us more efficient. Our restructured supply chain has improved our stock management and availability and our e-commerce distribution centre and new IT platform will strengthen our ability to deliver growth. The creation of a long-term sustainable business model for M&S through Plan A lies at the heart of the way we work.

Managing risk

Effective risk management is essential to the achievement of our strategic objectives – and a key consideration in our Board's deliberations. In evaluating risk, we consider external competitor and economic factors, our core day-to-day operations, business change activity and potential future risks. Mitigating activities to address these are detailed in the Accountability section of this report.

