THE YEAR IN REVIEW

Clothing

Clothing is our largest business accounting for 50.1% of UK Retail sales (inc. VAT) last year and its success is very important to the business as a whole.

Three years ago we halted the decline in our Clothing business. But last year our return to growth suffered a serious setback with poor performance in some of our most important core ranges and Childrenswear. As a result, our overall sales fell 0.5% and our market share slipped 0.2% to 11%. (Source: Fashiontrak.)

We have a clear strategy to return Clothing to growth. It recognises that customer demands have shifted considerably and that we have not moved fast enough to meet their aspirations in terms of style and value.

Customers will begin to see significant changes in our offer this year, particularly in women’s fashion where we will apply the lessons we have learned in Lingerie and men’s fashion.

Our core departments – where customers still go first for items such as tops, T-shirts and trousers – will be given clearly defined areas within the store and product will be displayed more imaginatively to create well-signposted choice, in terms of price, style and fit. We will also begin introducing a number of new classic and contemporary brands under the Marks & Spencer umbrella brand, each with its own space in stores so that customers know where to find the look and style that appeals to them most.

Womenswear

When the performance of Womenswear is poor, it has a knock-on effect across the rest of our business. During the year, our share of the Womenswear market fell by 0.4% to 11%, with a strong performance from our casual collections and per una, our exclusive brand with George Davies, offset by a decline in our core departments for knitwear and formalwear.

Women are dressing more casually even on formal occasions. The trend is towards a more individual look that relies less on top-to-toe suiting, our traditional strength. Customers found our smart clothes uninspiring and our presentation confusing last year. The knitwear range was seen as too safe and too similar to our offer of the year before and the accent was on heavyweight items at a time when the weather was unusually warm.

We limited the impact of this by marking down products quickly and have strengthened our buying teams in knitwear, smart and casual clothes. In a longer-term change we have sourced around 30% of our knitwear for this Autumn, including our entire ‘with cashmere’ range, directly from manufacturers rather than through suppliers. Reduced buying times and improved margins have allowed us to improve value and product appeal.

Menswear

We are seeing strong growth in footwear, where we offer style at great value through our own brands and designs.

Our performance elsewhere was more encouraging, particularly in casual clothes, where sales grew by 11.8% and our share of a growing market increased by 0.4% to 10.9%. We saw good growth both in our core ranges of tops, T-shirts, blouses, jeans, shorts and swimwear. Our Linen collection performed strongly and our Autumn campaign, built around the suedette skirt and crinkle blouse, was successful. We continue to lead the high street in innovation with products like Linen with Lycra, machine washable ‘with cashmere’ knitwear and platinum-plated jewellery.
per una had another good year. The collection, aimed at women in their mid-thirties, is also popular with older customers wanting a more contemporary look. In May we launched per una dué, a sharper, more edgy range for women in their late teens to early thirties which we think will also appeal to the ‘young at heart’.

We need to nurture our core older customers while finding new ways to appeal to those under the age of 35. But trends in women’s fashion are not just about age. Increasingly, women shop by attitude. They are remaining younger longer and many want to wear more stylish, fashionable clothes.

The brands we will begin launching this Autumn will reflect this shift in attitudes, offering contemporary and classic looks in both casual and smart clothes. Our most significant launch, and the biggest for us since per una, will be the major expansion of Limited Collection in September 2004. Destined for 66 stores, it is a new approach to our smartwear offer.

**Menswear**

We increased our share of the Menswear market to 10.2%, (slightly up on 10% for last year). As approximately 54% of men’s clothes in our shop are bought by women, we expect to see improvements as Menswear returns to growth. This year we will concentrate on relaunching our formal offer, broadening our Italian range and building on our growing success in areas such as shoes.

We have successfully transformed our casual and smart casual offer for men in recent years, led by the launch two years ago of Blue Harbour. In January we celebrated this success by introducing Blue Harbour Vintage, a younger brand aimed at men over 35. We also introduced Sp, a more contemporary brand, again targeting the slightly younger customer.

Men’s fashion moves more slowly than women’s, but the trend to a more casual way of dressing is as marked. Recognising this, we have introduced more relaxed clothes into our Italian collection, aimed at more style-conscious customers, including jeans, linen blend jackets and knitwear.

We are seeing strong growth in footwear and accessories, where we offer style at great value through our own brands and designs, both of which did well at Christmas.

Our traditional strength has been formal clothes for men and, although affected by the trend to more casual dressing, our market share increased from 17.2% to 17.9%. This year we will relaunch our ‘Marks & Spencer Tailoring’ offer, providing customers with distinct price and quality choices for suits, shirts and ties in more of our stores. Essentials, like underwear, have also been core strengths in the past.

Next year we will use supply efficiency gains to fund better prices in essentials and improved quality. We have also revised our buying practices to allow us to buy more regularly for shorter periods, helping us to refresh our ranges more often.
Lingerie and Beauty

Although the downturn in Womenswear had an impact on sales of Lingerie, particularly in the last quarter, we still sell more lingerie than anyone else and our market share, at 26.5%, continued to recover. Our challenge this year is to meet strong competition from high street fashion chains by improving our offer for customers under 35.

Nearly all areas of Lingerie improved, with sales of bras growing particularly strongly. We made significant progress with our DD-G ranges where products are being redesigned to offer greater comfort and support. Only separates, such as slips and camisoles, and shapewear declined, falling by 4% against last year.

The challenge of having a leading market position is to continue meeting the needs of all our customers. Our Lingerie Heaven advertising campaign and in-store promotion, run in Autumn 2003 and Spring 2004, successfully demonstrated the breadth of our offer and that we understand what women want when they buy lingerie. The campaign, backed by the most detailed customer research we have ever carried out, achieved high levels of recognition and boosted sales.

We have already made some progress in creating products for customers under 35. mw, our collection of great value fashionable lingerie for younger women mixed with underwear for men, was a successful innovation and we also expanded our range of knickers last year to meet demand for more fashionable styles and colours.

But we will go further this year with the launch in September of Ceriso, our first ever combined collection of lingerie, sleepwear and beauty products with this younger age group in mind. We will also continue to develop Truly You, our functional yet flatteringly feminine range, and mw. These will be clearly segmented in our stores along with our more sophisticated brands like Salon Rose, Wild Hearts and Dolce Vita.

We know our stores can still be confusing and difficult to shop and we are testing new display techniques for our departments. We are also changing our bra measuring service, training advisers to fit by sight rather than using a tape measure.

We are proud of the work we do to raise awareness of breast cancer, both through the special products we create and through sales in Breast Cancer Awareness month last October of pink ribbons and pink-themed lingerie, hosiery and sleepwear products. We raised over £1 million for the Breakthrough charity last year.

Beauty had a disappointing year in all areas except skincare and cosmetics, which were helped by the launch of Autograph Cosmetics, Organics Extracts, our natural toiletries and skincare range, and the new premium skincare offer, Revival. Toiletry gifts were hit by fierce competition, particularly ahead of Christmas.

We are repositioning our Beauty business, with more sophisticated products and fewer promotions. This will inevitably depress sales in the short term but will place us in a better part of the market.

Childenswear

Our job is to provide clothes that children want to wear and mums and dads want to buy. In schoolwear, we continue to lead in providing innovative products like stain resistant fabrics.
Childrenswear
Competition in childrenswear has intensified in recent years and we have seen our share of the market progressively eroded. Last year, that trend continued with our share down 0.7% on the year at 4.8%.

Despite continuing problems, our share of the important schoolwear market stabilised last year and we made gains in key areas like underwear and hosiery by promoting competitive prices and quality. These successes were offset by underperformance in our baby, girls’ and boys’ daywear, which remain our priority.

Our job is to provide clothes that children want to wear and mums and dads want to buy. We are working hard to appeal to our core customers including parents, children, grandparents and family and friends. We particularly want to attract customers under 35, whether they are young parents or gift buyers.

In recent years we have changed our products too often and overcomplicated the design of our clothes and the layout of our Childrenswear sections. We are simplifying what we do in baby, girls’ and boys’, by concentrating on simple design, and a good range of popular colours and styles. In schoolwear, we continue to lead in providing innovative products like stain resistant fabrics. We will renew 70% of our range for the ‘back to school’ campaign this Summer. In underwear and socks, we will continue to invest in quality and competitive prices.

The DB07 David Beckham range enjoyed a good second year following its roll-out into more stores. In girls’ daywear, we are concentrating on providing appealing and functional clothes, rather than fast fashion items, to help girls build a wardrobe including underwear, jeans, skirts, tops, knitwear, pyjamas, dressing gowns and slippers. We see the baby market as a good area to offer better quality products for newborns and toddlers.

Supply chain
In the last five years we have moved to sourcing over 90% of our clothing from overseas. Last year we rationalised our logistics chain in the UK, moving from five operators to two. These changes in our supply chain mean we will improve bought-in margins by over 10% in the five years to March 2006 and save £20 million a year in logistics costs.

Our priority is to get better product to our stores, more quickly and at better prices, always in that order of priority. We are planning further significant changes in our supply chain. We are focussing our sourcing in countries where all aspects of product procurement are readily available covering yarn, fabrics, garment making and componentry. These textile clusters are in centres of excellence and geographically spread to support our requirements. On logistics we will control freight costs more closely and rationalise warehousing, cutting the number of times goods are handled between factory and store. We have also set a target to source 20% of all clothing directly rather than through third parties by 2006.

We are continuing to test technologies that can improve our stock handling and markdown management. We are extending trials of the RFID radio tagging system to improve stock availability but have been careful to demonstrate that its use will not compromise the privacy of customers. An initial pilot demonstrated RFID can improve stock availability in stores and we are now running a detailed trial in the Menswear departments of six stores served by our Neasden depot in North London.

International stores and outlets
Although we withdrew from many of our overseas activities four years ago, we have maintained nine wholly owned stores in Hong Kong and a network of 155 stores run by franchise partners in 28 territories, mostly in Europe, the Middle East, Asia and the Far East. These performed well last year.

Kings Super Markets in the US, is being stabilised under new management. Last year we decided not to sell the company, as it had not been possible for interested parties to raise sufficient funds to purchase Kings at what we perceived to be a fair price.

We operate 16 Marks & Spencer Outlets offering customers the chance to buy recent Marks & Spencer products at prices on average 30% below normal. The Outlets support the profitability of our Clothing business, helping us to clear excess stock from our stores and our suppliers’ warehouses, to make room for new product.

Breast Cancer Awareness
We are proud of the work we do to raise awareness of breast cancer, both through the special products we create and through sales in Breast Cancer Awareness month of pink ribbons and pink-themed lingerie, hosiery and sleepwear products.
Home

The launch in February of the first Marks & Spencer Lifestore, in Gateshead, was one of our most significant achievements last year, demonstrating how quickly we can bring new ideas to the retail market. Taken from design concept to opening within 12 months, the store opened on schedule and within its £14 million budget.

Customers responded well to the Lifestore environment and were excited by the concept, but the product in some areas has been too contemporary. This is the first of a three store trial. We will open a smaller, town centre version in Kingston, Surrey this summer and a full out-of-town store in Thurrock, Essex in summer 2005, taking forward the learnings in environment, product appeal and price. The store in Thurrock will have the advantages of space, car parking and full stockroom facilities to make it a destination, like Gateshead, for an extended shopping trip.

These trials are part of a concentrated strategy to reposition our Home business. Simultaneously, we are introducing a much bigger range of more stylish products at more stable prices across our main stores. We are reducing our reliance on discounting in furniture with a policy of ‘first price, right price’ and, at the same time, we are introducing more competitive prices across the range from dinner sets and pillowcases to sofas.

This price repositioning had an expected impact on sales, which were down 4.6% last year, particularly in the fourth quarter where they fell 13.7%. As a result, our overall performance in Home was disappointing despite strong growth in stationery, cards and gifts, and bathroom and bedroom accessories.

We have been selling home furnishings for nearly 20 years. But Home still accounts for only 6.5% of our sales and our share of the UK market is just 2%. With the total home market forecast by Verdict to grow by £6 billion to £30 billion in 2007, we see an opportunity to establish a leading position in the middle of this vibrant market.

The Gateshead store indicates the sort of approach we want to take. It includes an eclectic mix of 12,000 products, including a base range of 4,000 items that are available in our core stores. Creating this extended range was a considerable achievement, increasing the number of factories where we source products from 350 to 1,000. Many of
these products are more stylish and contemporary and we have reorganised our buying, merchandising and selling teams to maintain this new focus on design and elegance.

The look and feel of the Gateshead store is striking and is organised around nine rituals of everyday life: relax; rest; renew; celebrate; cook; organise; escape; alfresco and play. Each concept includes a range of products associated with the ritual. In relax, our living room concept, we group sofas, lighting, accessories, music and books while escape includes luggage, maps and travel books.

The centrepiece of the store is a complete two-storey house designed by the minimalist architect, John Pawson, where customers can draw inspiration from seeing products selected and laid out in its rooms by the designer Ilse Crawford. Our new catalogue, the Design Directory, has been brought together by Tyler Brûlé, the founder of Wallpaper magazine. A 100 seat café in the heart of the store offers bistro-style food inspired by the Sydney-based chef, Bill Granger. Our advisers wear distinctive black uniforms and are trained to offer expert advice. We have introduced new visual merchandising and distinctive packaging, including new black and white shopping bags.

We will develop the Marks & Spencer Lifestore concept carefully. The Kingston store will include all nine concepts but with a more focussed product range, while Thurrock will be a replica of Gateshead. We see a potential for up to 20 Marks & Spencer Lifestores over 10 years. But we will only roll-out further stores when we have proved that the first three can operate profitably.

In the meantime, we have started to introduce a large part of our Marks & Spencer Lifestore product offer at our 49 largest stores, supported by a new edition of our directory and an improved e-commerce offer. We expect the 280 smaller stores to concentrate on displaying a small part of the new range, really well. To increase convenience, our core stores will concentrate on home accessories that customers can take away immediately, while items that need collecting by car or delivery will be sold through our out-of-town stores, directory and website. We believe the prospects for this business are good in the long term.
Food

Our customers continue to see Marks & Spencer as the place to shop for special food, produced to exacting standards. Independent surveys show that we are seen as leaders in freshness, quality and innovation and last year that sense of trust in us was once again endorsed by the many awards we won. We were particularly delighted to win seven silver awards in the prestigious annual food industry Q awards.

Accounting for some 43.4% of our UK Retail sales, Food is an important part of the Marks & Spencer business. We maintained a 3.2% share (source: TNS) of the UK grocery market last year at a time when the market as a whole grew by 4.9%.

Over the year, total sales grew by 5.7%. Adjusted for Easter, sales grew by 5.4%, of which 4.1% was accounted for by opening new space. But we are disappointed that, after two years of strong growth, our like-for-like sales of Food have not been as strong in the last three quarters of the year. Although this is partly explained by poor performance in a number of key trading periods, it also reflects particularly strong like-for-like sales in the preceding year. But our results show that we have significant challenges to overcome.

Our performance was also dented last year at important times. During the summer, we offered too few of the products customers wanted most, notably branded冷 drinks, beers and ice-cream to complement our strong fresh food offer. At Christmas, parts of our offer had not moved on, particularly ambient products like cakes, mince pies and biscuits. After Christmas, our Count on Us diet range suffered because of the trend towards new low-carbohydrate diet solutions.

Despite this, we recorded some significant achievements. In April and May we won the Multiple Marketing Campaign of the Year in the 2003 Retail Industry Awards with our ‘Savour Italy’ promotion. This brought together hundreds of recipes with special offers such as Italian prepared meals, where we increased our market share and Italian wines, where we lifted sales to become UK market leader. The relaunch of our Chinese food offer early in January and February was similarly successful and introduced a range of quality new products like Shanghai Beef Noodles.

But we face longer-term challenges. Food retailing in the UK is changing fast. Our competitors are now producing more of the sort of products at which we excel, like prepared meals and regional dishes. They also enjoy more convenient out-of-town locations than us. Shoppers show a growing readiness to purchase more in big, ‘weekly’, supermarket shops than in the past and are taking advantage of extended opening times, especially at busy times of the year like Christmas. The rapid roll-out of our smaller Simply Food outlets has been a success, giving customers a convenient way to buy our food, but competition here is fierce as well.

Café Revive

We opened 32 Café Revive in-store coffee shops, bringing the total to 180 coffee shops in 172 stores. Café Revive is now the third largest branded coffee bar business in the UK.
In the light of these challenges, we have carried out a detailed review of our Food business and are now planning important changes in the year ahead.

We plan to increase the appeal of our stores and the food we sell to entice more customers to spend more with us. The theme, which will be supported by effective marketing, will be 'Food Love'.

We will concentrate our Food offer on four main areas. We will prioritise fresh, natural, healthy and enjoyable products, such as fish, meat and fresh produce. We will build on our strengths in offering food for special occasions like Christmas and personal treats. We will offer customers ways to experiment with new tastes and recipes from around the world and will concentrate on doing everyday favourites, like ‘bangers and mash’ and moussaka, especially well. We will be aiming to renew at least 30% of our food ranges next year. We will also communicate more confidently to our customers the pride we take in sourcing quality food in a responsible way.

A key part of this new strategy will be to invest the efficiency savings we have made in sourcing into better prices, quality and availability, as well as better price promotion. We also know customer service in our stores, particularly in till queues, does not always match the quality of our food, and we intend to make improvements here too.

**Produce**

Last summer's weather, the best for 26 years, saw sales of fruit and salad grow significantly and this helped us lift total sales of produce for the year. Fruit sales grew, lifting our share of the UK market to 4.5%. Salads and vegetables also grew but our overall share of the market dipped slightly.

We are immensely proud of the work we've done to improve the quality of our food where we have bolstered our market share by working closely with suppliers to deliver unique products like the Jubilee Strawberry. During the summer, sales of strawberries, raspberries and cherries were particularly strong, supported by TV advertising. We remain market leaders in tray and bowl salads and are continuing to grow our share of the more mature market for side-of-plate dishes like coleslaws, potato and pasta salads. We maintained our share of the prepared vegetables market and continued to grow in organic vegetables, although the overall market weakened slightly last year.

**Food for special occasions**

Our Christmas ordering service continues to be a success, leading the market despite increased competition. This year we invested in improving the service and tackled queuing problems to increase convenience. Products that were once out of the reach of many people's budget are less so these days allowing more people to indulge in wonderful food at special times. We had particular success with the sale of lobsters this Christmas, where we were market leaders.

We are increasingly looking to bring together food with other products like wines, chocolates, flowers, cards and gifts to help customers celebrate special occasions. We know our offer here has to be innovative to be really special. On Mother's Day our flower selections were too heavily geared to conventional basket arrangements rather than more fashionable cut flowers, which did well. We will continue to do more in this area in the future. We had a good Easter, with a unique offer of gifts and chocolate eggs.
Responsibility and healthy eating
As we describe in greater detail in our Corporate Social Responsibility Report, published on our website, we continue to work hard to address our customers’ demand for food produced responsibly and safely. We have the ability to apply very high standards in the quality and sourcing of our food.

We insist on being able to trace the origin of all our own brand foods, wherever they are sourced in the world, and are constantly striving to improve the labelling of them. In the Bird Flu epidemic that affected some Asian chicken production, we could reassure our customers that no Marks & Spencer products were affected because of our policy on traceability.

We’ve been able to increase our share of the Scottish haddock market whilst working to safeguard the fishing industry, by joining with suppliers to pioneer new fishing techniques, which cut the risk of also catching cod, now an increasingly endangered fish which, along with a host of other species, we are working to conserve.

We take concerns about animal welfare seriously. During the year, we responded to worries about chicken farming by introducing the Oakham Chicken range, which is reared in a more natural way with proper shelters and freedom to move. We continue to work on the reduction of pesticides and residues on our fruit and vegetables, publishing details of our success and failures on our website, and were singled out in the Friends of the Earth Real Food Campaign for our work here. We continue to use only free-range eggs and to pursue our non-GM food policy.

Healthy eating is an increasing concern, amid worries about obesity, coronary heart disease and other diseases. We aim to reduce the salt content of our foods, which will go further and will be achieved more quickly than industry-wide commitment. We plan similar targets on sugar and fat content. We ran our first summer health campaign during the year, continued to promote healthier foods for kids and supported the Government’s five-a-day campaign by improving the labelling and choice of fruit and vegetable options.

New ways to shop for food
Customers are increasingly pushed for time and looking for more convenient ways to shop for food. Simply Food is our answer to this trend. During the year, we opened 52 stand-alone food outlets taking the total to 97, of which 62 are branded Simply Food and 14 are franchises run with Compass Group at key transport hubs like busy railway stations.

Sales from Simply Food outlets grew strongly. The vast majority are new sales to us although we estimate that around 10% on average will be deflected from our main stores, where they are closely co-located.

Roll-outs of new formats are never problem-free and we would expect a number of sites to be less successful than hoped. During the year, we closed our Barnet store, because it was poorly positioned to compete. The closure was managed carefully. Staff were fully consulted and offered alternative employment in nearby stores.

We are pleased with this growing estate of new stores and are looking to experiment with new locations. We carried out a trial of the first Simply Food motorway store at Toddington services on the M1 in Bedfordshire and have already opened a store at Manchester Airport. We remain on plan to open 500,000 sq ft of new food-only space by March 2006.

We opened 32 Café Revive in-store coffee shops, bringing the total to 180 coffee shops in 172 stores. Café Revive is now the third largest branded coffee bar business in the UK.
The launch in October of our ‘&more’ combined credit and loyalty card was a significant strategic achievement. We see our financial services business, now called Marks & Spencer Money, as a growth opportunity that will support our core Clothing and Food businesses. We will be using the ‘&more’ card as a base for providing a range of good value savings and insurance products and developing our loyalty offer to entice our customers to shop more widely in our stores.

For some years, people have been moving away from using storecards in favour of credit cards. We needed to respond to this trend but we were determined that the process of selecting customers, setting credit limits and managing fraud and debt levels should be done with care. We also wanted to offer customers a card which gave them valuable benefits, in the form of quarterly loyalty vouchers.

The launch of ‘&more’ was a major challenge for the business. The biggest credit card launch ever undertaken in Europe, it also involved our largest ever promotional campaign, including visual merchandising in stores and TV advertising. We restructured our financial services operations in Chester to manage the card and introduced new call centres, including one in Mumbai, India, to provide the sort of customer support required of a major new credit card. The card was introduced on schedule and within its £60 million budget, with nearly half of our 5 million Chargecard customers moving over to the new card in just six weeks. We are now a top-ten credit card operator in the UK, from a standing start.

However, the launch coincided with criticism in Parliament of the way the cards industry was being managed and regulated. Shortly afterwards, The Office of Fair Trading (OFT) reviewed our launch and, while praising the prudent way we had selected customers and set credit limits, criticised us for not seeking direct confirmation from customers before sending them the new card. In response, we asked all customers to contact us before their cards were activated. We now have 2.1 million ‘&more’ accounts and some 2.7 million card-holders. Those customers who did not contact us to activate the card were returned to our existing Chargecard scheme.

We were disappointed to face criticism from the OFT, but determined to respond quickly to its concerns and to learn lessons. We want to be trusted as a responsible financial services operator.

Customers are becoming familiar with the combined credit and loyalty card scheme. Redemption of loyalty vouchers is now rising. In the last quarter of the year, some £10 million of reward vouchers were issued to 1.5 million customers. We are using the vouchers to offer customers a range of more personalised promotions across our catalogue.

As we expected, Marks & Spencer Money profits have been depressed by the investment we have made in the launch of ‘&more’. Our immediate priority is to increase card spending and balances so that the credit card moves into profit during 2006.

As ‘&more’ grows, we see an opportunity to extend our range of financial services. At the end of the year we launched a new Mini-Cash ISA savings account which, before closing to new savers, had attracted more than double the number of savers, many new customers to Marks & Spencer, and, at £325 million, more than twice the volume of savings we had forecast. We continue to offer travel, pet, home and wedding insurance and launched motor cover during the year. Other products will be added as we work to improve the convenience and attractiveness of our in-store financial services offer.

‘&more’
Customers are moving away from using storecards in favour of credit cards. We will be using the ‘&more’ combined credit and loyalty card as a base for providing a range of good value savings and insurance products and developing our loyalty offer to entice our customers to shop more widely in our stores.
Stores

A key part of our recovery plan has been to modernise our stores. Around 280 stores have now benefited from improved lighting and layouts. This has enabled us to create a consistent store concept offer across the chain. But we recognise there’s more we need to do to remain competitive.

Last year we began the first of a series of trials to create more inspirational stores which are easier to shop. We have experimented with new display equipment in our smaller stores which has enabled us to offer 30% more choice in women’s clothing without increasing overall stock levels. This makes it easier for customers to see new lines throughout the season as well as providing more choice of colours in each line. These trials resulted in improved sales at six smaller pilot stores.

We are also considering more comprehensive changes. We have opened two fashion-only stores at Speke, in Liverpool, and Fforestfach, near Swansea to test our new store design concept, following early trials last year in Windsor. Later this year, we will make major changes at our city-centre store in Newcastle and modernise seven smaller town centre stores, starting with Basingstoke. We will also be testing new ways to display and merchandise our food in these pilot stores. The look of these new stores, the emphasis on customer service, the way our employees dress and the equipment we use to display product will all be significantly different and will help us to deliver our new fashion and food concepts.

Customers will begin to get a taste of how we intend to move our stores forward this autumn, when the initial results of the first phase of the store design and development programme are delivered. We will use these pilot stores to prove the customer and financial case for roll-out, and, wherever possible deploy new elements across the chain.

People

Marks & Spencer has a highly committed workforce. Our challenge is to remain an employer of choice, offering colleagues an inspiring and rewarding working environment, while becoming more efficient.

We are changing the way we work throughout the company with one main aim: to help everyone, wherever they work, focus on offering a better customer experience.

In April we announced a review to make our offices in London, Salford Quays, Manchester and Chester more efficient. We have told our 5,000 head office employees that around 500 jobs are likely to be lost this year and a further 500 next year. We are consulting fully with employees on these changes.

We have already begun changing the way we work in our stores through the Retail Change Programme, recognising that many of our work practices are not competitive. This project is designed to match the way we run our stores with the way our customers shop, making sure we have the right people in the right place at the right time. Changes include reducing the number of start and finish times, extended opening hours, reviewing base pay levels, making sure teams work together for longer and freeing advisers to spend more time with customers. It will also make stock management and replenishment more efficient.

We are consulting with our Business Involvement Groups (employee representation forums) to ensure these changes are supported and implemented locally. We will continue to invest in our six Retail Academies nationwide to improve training in leadership and new in-store skills. Where changes have already been made in a number of pilot stores, performance has already improved. During the year, we set a new two-year timescale to achieve these changes but customers should already begin to see benefits in 2004/05.

Our move from traditional offices in Baker Street to a new London office in Paddington will allow us to change working practices and introduce relevant new technology. The emphasis will be on more mobile working, in an open-plan environment and faster decision making.
New technology will enable us to communicate with each other faster and with our supply base more effectively.

Increasingly, we are trying to reward colleagues for great personal performance. Everyone is now assessed and a greater proportion of variable pay will be based on individual performance with a strong link to driving business performance.

We are studying what our brand means to people working for us, from how we recruit the right people for different jobs and environments right through to the uniforms colleagues wear in our stores. We are improving the way we select candidates for interview using a specially devised 20-minute telephone interview prior to an interview in store. Last year, use of this system cut the cost of recruiting store advisers and section managers by 61%, resulting in an annual saving of £1.6 million.

**Corporate Social Responsibility**

We have a strong tradition of corporate social responsibility (CSR) but we want to make sure CSR is integrated into our operations at every level.

CSR is important to us in two main ways: it allows us to respond to opportunities to differentiate ourselves from competitors; and to identify the risks of failing to meet the expectations of our customers and wider society. Both can help us to prosper, attracting shoppers to our stores, retaining the best staff, securing strong partnerships with suppliers and creating more value for shareholders.

During the year, we were ranked as the global leading retailer in the Dow Jones Sustainability Indexes for the second year running. In Business in the Community’s Corporate Responsibility Index we were rated as the leading general retailer, and overall were ranked as 18th out of 139 companies, with a score of 93%.

Where our products carry the Marks & Spencer label, we can control our supply chain effectively and make sure we source our products responsibly. This sets us apart from our competitors.

In our first full CSR report, published on our website at www.marksandspencer.com/thecompany, we explain in detail how our global sourcing principles commit us to sourcing goods ethically and how we are working with suppliers to spread good practice further down the supply chain. We also outline the progress we have made in improving the quality and traceability of our food and measures to improve animal welfare and protect industries, like fishing, on which we depend. We also explain some of our distinctive policies like using only free-range eggs and non-GM foods. The report also highlights areas like employment, energy and waste, where we recognise that we have more to do.

Our CSR Committee, led by the Chairman, Luc Vandevelde, meets at least three times a year, has developed an overall CSR framework for the Company and the executive committee is regularly updated on CSR. The Head Office and Retail CSR Forums oversee activities in our offices and stores. CSR is co-ordinated by a full-time project team.

A key success during the year was the launch of our Marks & Start community programme offering work experience to people with disabilities, the homeless, the young unemployed, school children, students and parents wanting to return to work.

We made steady progress phasing out the use of harmful pesticides and cutting residues on our fruit, vegetables and salads, winning recognition as the leading UK retailer in the Friends of the Earth Real Food Campaign. We carried our policy of increasing the organic produce we use into non-food areas by beginning to use organic cotton in some of our clothes as part of a scheme to encourage farmers in rural India to transfer to organic production.

Our challenges for the year ahead include making sure Marks & Start fulfils its aims, to continue developing a rigorous policy on sourcing wood, to make sure that we are leaders in farmed salmon feed standards, and to complete our work to bring new suppliers for the Marks & Spencer Lifestore into our ethical trading compliance scheme.

New technology will enable us to communicate with each other faster and with our supply base more effectively.

Increasingly, we are trying to reward colleagues for great personal performance. Everyone is now assessed and a greater proportion of variable pay will be based on individual performance with a strong link to driving business performance.

We are studying what our brand means to people working for us, from how we recruit the right people for different jobs and environments right through to the uniforms colleagues wear in our stores. We are improving the way we select candidates for interview using a specially devised 20-minute telephone interview prior to an interview in store. Last year, use of this system cut the cost of recruiting store advisers and section managers by 61%, resulting in an annual saving of £1.6 million.

**Corporate Social Responsibility**

We have a strong tradition of corporate social responsibility (CSR) but we want to make sure CSR is integrated into our operations at every level.

CSR is important to us in two main ways: it allows us to respond to opportunities to differentiate ourselves from competitors; and to identify the risks of failing to meet the expectations of our customers and wider society. Both can help us to prosper, attracting shoppers to our stores, retaining the best staff, securing strong partnerships with suppliers and creating more value for shareholders.

During the year, we were ranked as the global leading retailer in the Dow Jones Sustainability Indexes for the second year running. In Business in the Community’s Corporate Responsibility Index we were rated as the leading general retailer, and overall were ranked as 18th out of 139 companies, with a score of 93%.

Where our products carry the Marks & Spencer label, we can control our supply chain effectively and make sure we source our products responsibly. This sets us apart from our competitors.

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