MARKS & SPENCER

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Dear Shareholder,

On Monday, 10 March 2008, Marks & Spencer announced Board and senior management changes. The announcement stated that "Lord Burns will stand down as Chairman with effect from 1 June 2008" and that "Sir Stuart Rose is appointed Executive Chairman from the same date".

I am now writing to provide some detail of the Board's deliberations prior to making that announcement.

Combined Code on Corporate Governance

As normal, Marks & Spencer will report on its compliance with the Combined Code for 2007/2008 in the Report and Accounts for that year with explanations of any departure from the provisions of the Code. We are aware that the appointment of the current Chief Executive as Executive Chairman requires such explanation and we propose providing an explanation with this year's Report and Accounts, as well as writing to you now.

History/Background

When Stuart joined Marks & Spencer in May 2004, his first task was to lead the response to a possible offer from the Revival Consortium headed by Sir Philip Green. Stuart was selected for his proven leadership qualities and extensive hands-on retail experience, including 17 previous years at Marks & Spencer. He agreed to remain with the Company for a five year term ending in 2009.

Shortly after his appointment, Stuart and his team set out a comprehensive strategy for Marks & Spencer which included the decision to sell M&S Money, acquire full control of per una and return £2.3 billion to shareholders. For the core retail business, plans to focus, drive and then broaden the business through recovery and into growth were set out in detail. This strategy is widely regarded as having delivered sustained improvement and recovery to Marks & Spencer, restoring the brand reputation in the eyes of the British public. Profits before tax, earnings per share and dividends have all grown significantly.

CEO succession beyond 2009 was not an immediate Board priority in the early stages of Stuart's tenure. The focus was on the multitude of tasks to implement the strategy. At the same time, many changes were made in the senior management team including a significant number of departures. Regular succession planning sessions were held at Nomination Committee and Board level to consider these senior management changes. The Board was keen to ensure a proper mix of top talent, combining new recruits and existing employees. Consideration was given when recruiting below Board level as to whether further progression onto the Board was possible. Some of this process is evidenced in the recent elevations to the Board of Kate Bostock and Steven Esom, as well as increased responsibility given to Ian Dyson. The five Executives on the Board have all have joined the business since 2004.

During this time, considerable attention was paid to the shape of the Board and the appropriate qualities of the Non-Executive Directors. In addition to the Executive changes, the entire Non-Executive team has changed since 2004. I joined the Board as Deputy Chairman in 2005 and became Chairman in 2006. Independent Non-Executive Directors Sir David Michels, Louise Patten and Jeremy Darroch were also appointed in 2006 and Martha Lane Fox in 2007, Steven Holliday having been appointed in 2004. So, unusually for a business of this scale, every member of the Board has joined the business since 2004.

The changes that were required on the Board and in the senior management team as the business implemented its profound recovery program since 2004, have inevitably meant that options for Board succession are perhaps more constrained than would be the case where less change has been necessary.

More Recent Events

Although a lot of new talent had come into the Company, or had been developed internally, it became apparent to the Board that, whilst a strong team had been assembled, none of these individuals would be ready to assume the role of Chief Executive by 2009 and so discussions commenced as to alternatives. One option was to bring in a new Chief Executive from outside the organisation and this was the subject of some discussion between Stuart, myself and the Board.

However, the retail environment generally started to deteriorate in the second half of 2007 and as this became more apparent when we entered 2008, it became clear that the trading background to any recruitment process would be very difficult. The uncertainty that would be created in 2008 and 2009 through a recruitment process followed by a period of familiarisation and assessment by a new Chief Executive was likely to be a damaging and unwelcome distraction at precisely the time that the business needed clear leadership to sustain its recovery and transformation. The Board therefore concluded that it was important to secure Stuart's appointment and to change the emphasis of his responsibilities in order to put in place a clear path of transition to a new Chief Executive appointment.

Investor Views

After our Christmas Trading Statement in January this year, several meetings and telephone discussions were held with major institutional shareholders. A recurring theme was concern about succession, with representatives emphasising a need for certainty and continuity. There was strong support and encouragement for Stuart to stay with Marks & Spencer beyond 2009. He was seen as the architect of the recovery and the preferred choice to see through the Board's strategy, particularly given the more challenging economic conditions now prevailing.

Board Decision

Given all the factors referred to above, the Board concluded that Stuart was the right person to lead the Company for a defined period of time. The Nomination Committee examined ways that he could be retained beyond his current commitment to 2009 and discussed an appropriate time period for such an extension. The Board also concluded that with Stuart's period in office ending in 2009, it was appropriate to make a clear announcement of succession plans well before then to avoid the matter becoming the subject of public speculation and concern for shareholders and employees.

I had a number of separate discussions and meetings with Stuart and other Board members to consider the best solution for the Company. It was felt important to be able to create an environment in which internal candidates could develop over a defined period of time. The proposed board structure was made in the context of a simultaneous and rigorous assessment of the senior management team. At the same time as Stuart's appointment was considered, it was decided to create two new main Board roles for Kate Bostock (with increased responsibility for all Clothing) and Steven Esom (Food), as well as increasing the responsibilities of Ian Dyson with the new role of Group Finance and Operations Director. Below Board level, extensive changes were made with new roles and/or new appointments, together with revised Executive Committee membership and the departure of a number of senior executives. An additional key objective was to retain Marketing Director, Steven Sharp, beyond his original five-year term and I am pleased to say that he too will stay until 2011.

For this new structure to work optimally, the Board considered that it was important to give space for the senior management to develop in their roles over time. For this reason, the proposal for Stuart to take up the role of Executive Chairman forms an integral part of the overall Executive team. In particular :

- A strong signal is given to the Executive Board members that Stuart's role has changed and that they have increased responsibility and accountability for their specific executive functions.
- Stuart can adjust his own executive responsibilities as others develop or join the Board and as the business demands.
- The process of transition can be handled more smoothly with the scope to extend or shorten any handover period to a new Chief Executive.

In this context, the appropriate timetable for these transitional arrangements was discussed. It was concluded that a further two years beyond 2009 to 2011 would give adequate time to make succession choices and then revert to conventional Chairman and Chief Executive roles following his departure in 2011.

This comprehensive proposal for Board and senior management changes was properly debated and considered by the Nomination Committee and then by all the Directors who gave it their unanimous support, mindful of their obligation to put in place a leadership structure which, in their opinion, is best suited to serve the shareholders. The option to confirm that Stuart was leaving in 2009 and that we were starting the process of finding a new Chief Executive was not considered an attractive alternative.

In making its decision, the Board was conscious that appropriate governance safeguards should be put in place. These aspects are dealt with below.

Compliance with the Combined Code

The Board is very conscious of the governance arguments (set out in the Combined Code) that companies should split the roles of Chairman and Chief Executive as it is undesirable to have too much concentration of authority in one person. Nevertheless, after detailed consideration, the decision to proceed was made for the reasons set out above, reflecting the particular stage of transition of Marks & Spencer.

However, in deciding to appoint Stuart as Executive Chairman, the Board was aware of the need to put in place balancing controls to mitigate the governance concerns that such a structure might otherwise engender. Accordingly, the Board has agreed the following :

a) **Limited period of appointment until July 2011** when the Company will revert to the conventional model of Chairman and Chief Executive.

b) **Appointment of Sir David Michels as Deputy Chairman** (and continuing his role as Senior Independent Director). Sir David is an experienced and notably independent-minded businessman with considerable knowledge of consumer businesses from his distinguished career in the hospitality business, latterly as Chief Executive of Hilton International. He has also served as a Non-Executive Director on the Boards of a number of UK listed companies. He has committed to spend sufficient and significant time in his role as Deputy Chairman and is resigning from the Boards of The British Land Company PLC and RAB Capital PLC in order to ensure that he can fulfil this commitment.

c) **Clear specification of duties of Executive Chairman and Deputy Chairman** to ensure proper division of responsibilities and balance of power. The Deputy Chairman will have joint responsibility with the Executive Chairman for the agenda and the overall Board structure and composition. He will chair the Nomination Committee, provide leadership for the Independent Directors, be responsible for monitoring Board Effectiveness and lead on Corporate Governance issues. In addition, the Non-Executive Directors will meet independently at least twice a year.

d) **Appointment of two new Executive Directors and significantly enlarged responsibility for Group Finance and Operating Director** to balance responsibilities and allow Stuart to concentrate on the strategic growth areas of the business.

e) **Recruitment of an additional Non-Executive Director** to ensure a majority of independent Directors on the Board and who has the experience and credentials to become a future Senior Independent Director. Following the appointment, of that Non-Executive Director, the Board will consider the appointment of a further Non-Executive Director who would also have scope to take a future senior role on the Board.

Remuneration

There has been some speculation around Board remuneration connected with our announcement which I should clarify :

- Kate Bostock joins the Board on a salary of £500,000.
- Steven Esom joins the Board on a salary of £535,000.
- Ian Dyson's broadened responsibilities result in a new salary of £675,000.
- David Michel's annual fee as Deputy Chairman will be £245,000.

There is no alteration to the pay and conditions for Stuart Rose or Steven Sharp arising from these changes whose salaries remain at £1,130,000 and £565,000 respectively.

Consultation

In the period leading up to the announcement, the Board considered how best to communicate with shareholders. The changes proposed as part of the new governance and management structure were wide ranging and not only included the appointment of Stuart to the position of Executive Chairman (and David Michels to Deputy Chairman), but two new Board appointments, the extension of the Finance Director's role and a large number of senior management appointments, as well as news of the departures of several members of the senior management team.

In light of these proposed changes and their sensitivities the Board was concerned about the risk of leaks. The Board was unanimous and clear that the proposed changes, taken as a whole, were in the interests of shareholders, customers and employees. The Board was also clear that whatever consultation was undertaken in advance of an announcement, its deliberations would nonetheless be subject to comment and scrutiny. The Board also knew that it would, rightly, be obliged under the Combined Code to explain why it was proposing to combine the Chairman and Chief Executive roles and to answer questions from any shareholders with concerns.

Conclusions

In conclusion, the Board has taken what it believes is the best decision for shareholders, cogniscent of its prime objective to ensure the Company's ongoing commercial success. The Board unanimously believes that the overall arrangements represent a sensible way forward and provide a sound transitional governance structure leading to appointment of a new Chairman and Chief Executive by Summer 2011 with appropriate governance safeguards referred to above. The Board recognises that unanimous support of the decision may not be forthcoming. Ultimately, however, the Board is appointed to make decisions and I hope that you will accept and understand our decision once you have considered this letter.

T. Burns

Lord Burns
Chairman
Marks and Spencer Group plc