

# **INDEPENDENT AUDITOR'S REPORT** **TO THE MEMBERS OF N BROWN GROUP PLC ONLY**

## **Opinions and conclusions arising from our audit:**

### **1 Our opinion on the financial statements is unmodified**

We have audited the financial statements of N Brown Group PLC for the year ended 27 February 2016 set out on pages 84 to 118. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 27 February 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with UK Accounting Standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

### **2 Our assessment of risks of material misstatement**

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows:

<b>The Risk</b>	<b>Our response</b>
<p><b>Allowance for doubtful debts</b> <b>£97.6m</b> <b>(2015, £100.9m)</b></p> <p>Refer to page 60 (Audit Committee Report), pages 88, 91 and 93 (accounting policy), pages 101 to 106 (financial disclosures)</p>	<p>Our audit procedures included:</p> <p>We critically assessed the Group's definition of "impaired" customer receivables against the requirements of the relevant accounting standards, including evidence of the Group's experience of customers with comparable characteristics.</p> <p>We compared the assumptions made in respect of the probabilities of default against our understanding of the Group as well as our knowledge of market counterparts, and consistency with the historic internal data available.</p> <p>We assessed the assumptions made in respect of timing and value of cash flows for all segments of the model (including customers in arrears and subject to revised payment terms) against historic internal data available.</p> <p>We assessed the accuracy of the allowance for doubtful debt model (including for prior year restatements), with assistance from our IT specialists, by reviewing the detail of the model, and compared the methodology used to our interpretation of the requirements of the relevant accounting standards. This included testing of the completeness and accuracy of data through testing a sample of customer data back to the source system.</p> <p>We also considered the adequacy of the Group's disclosures in relation to the allowance for doubtful debts for compliance with the relevant accounting policies.</p>
<p>The allowance for doubtful debts requires the Directors to assess which accounts are considered impaired. This assessment is particularly judgmental in the case of customers in early arrears or under revised payment terms and may have a material impact upon the provision. The large percentage of the Group's customers that are subject to revised payment terms, in particular where interest has been temporarily waived make the impact of this judgment more significant for N Brown.</p> <p>The Group has altered the population considered for doubtful debts to include all accounts with revised payment terms, resulting in a prior year restatement within the current year financial statements.</p> <p>The other key judgements are in respect of the probability of default and the timing and value of cash flows.</p> <p>To assess the probability of default, the Group estimates a customer's likelihood of entering default based upon the experience of customers with comparable characteristics such as arrears status and payment history. These estimates are inherently uncertain because they are reliant upon historic, non-predictive data and are impacted by the Group's segmentation of customers with comparable impairment characteristics.</p> <p>The timing and value of cash flows are estimated based on the historical cash receipts and write-offs incurred for customers with comparable arrears status and payment history, interest and fees charged and debt sale rates. These estimates are inherently uncertain because of the long-term nature of the cash receipts and the exposure of the portfolio to the credit performance of many individual customers.</p> <p>Due to the quantity of data involved in assessing all of these elements of the provision, it is a complex model for which the completeness and accuracy of data inputs and the accuracy of calculations are, in themselves, risks.</p>	

	<b>The Risk</b>	<b>Our response</b>
<p><b>Regulatory risk</b></p> <p>Refer to page 60 (Audit Committee Report), page 93 (accounting policy and financial disclosures)</p>	<p>The Group's provision of credit services to customers mean that it operates within a regulated environment which requires the Group to comply with the requirements of the Financial Conduct Authority (FCA) and maintain FCA permissions. These permissions could be suspended or withdrawn by the FCA, significantly impacting the Group's ability to continue with its current business model.</p> <p>The requirement for FCA permissions includes the fair treatment of customers, protections for vulnerable customers and appropriate and clear disclosure of terms to customers and, given the current context of media coverage and large scale customer redress provisions across the financial services industry, there is a risk that any non-compliance with regulations could trigger significant customer redress programmes or lead to material fines from the FCA.</p>	<p>Our audit procedures included:</p> <p>We assessed the areas of non-compliance and customer complaints identified and documented by the Group, against the wider industry and discussed with management the financial implications of these issues. This included estimation of the likely impact of any known areas of non-compliance until the resolution of this issue.</p> <p>We assessed the entity-wide governance processes for the identification of regulatory issues and areas of non-compliance.</p> <p>We reviewed correspondence with the regulators and assessed customer complaints for indications of significant or non-identified areas of customer detriment that may require provision in the financial statements.</p>
<p><b>Taxation Provisions</b></p> <p>Refer to page 60 (Audit Committee Report), pages 91 and 93 (accounting policy), pages 97 to 98 and 106 (financial disclosures)</p>	<p>The outcome of a number of open VAT and corporation taxation positions, some of which are proceeding to litigation, is uncertain and as such have required the Directors to make significant judgements and estimates in relation to the likely outcome of these tax issues and exposures. There is a risk that the judgements made by the Directors, and therefore the amounts recorded in the financial statements will differ from any final settlements agreed with HMRC. Given the significant value and judgmental nature of this provisioning, this is considered to be an area of significant audit risk.</p>	<p>Our audit procedures included, with assistance from our own tax specialists, challenging the Directors' assessment of the provisions required by:</p> <p>Inspecting correspondence with HMRC and evaluating the Directors' interpretation of this correspondence by forming our own expectations of the provisions required in the financial statements. This evaluation was based on our knowledge of the business and experience of the industry in which it operates, together with our knowledge and experience of the application of the relevant legislation by authorities and courts.</p> <p>Specifically in relation to VAT, we inspected legal counsel opinion received by the Directors in relation to the Group's likelihood of success in each of the open VAT exposures and critically assessed whether amounts recorded in the financial statements were consistent with this legal opinion.</p>
<p><b>Carrying value of inventories: £101.5m (2015, £94.8m)</b></p> <p>Refer to page 60 (Audit Committee Report), pages 91 and 93 (accounting policy), page 100 (financial disclosures)</p>	<p>The Group has significant levels of inventory and judgements are taken by the Group with regard to the categorisation of inventory as current and non-current at year end and the forecast disposal plans when estimating the inventory provision. Furthermore, the seasonal nature of a retail business and changes in customer preferences and spending patterns, primarily driven by the wider fashion industry, introduce uncertainty over the recoverability of inventories. Given the level of judgements and estimates involved this is considered to be a key audit risk.</p>	<p>Our audit procedures included comparing inventory levels, by season, to sales data to test whether slow moving and obsolete inventories had been appropriately identified. We considered sales of inventories during the year, in particular of inventory that has been held for greater than one year and clearance categories, and compared these sales to the Group's forecast disposal plan at the period end date.</p> <p>We utilised data analytics to test the adequacy of inventory provision by comparing the selling price of inventory in the year to the cost of the inventory as well as analysing the ageing of inventory items. We also considered whether the Group's accounting policies had been consistently applied and the adequacy of the Group's disclosures in respect of the judgement and estimation made in respect of inventory provisioning.</p>

# **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF N BROWN GROUP PLC ONLY**

**CONTINUED**

	<b>The Risk</b>	<b>Our response</b>
<b>Capitalised software and development costs: £116.0m (2015, £89.4m)</b> Refer to page 60 (Audit Committee Report), pages 90 and 93 (accounting policy), pages 99 to 100 (financial disclosures)	The Group has incurred significant software and development project costs in the year in respect of the Fit 4 Future project, a significant systems infrastructure programme. The Group capitalises both internal and external costs to the extent that future economic benefits are expected to be generated by the project. This requires judgement as to whether the costs incurred are capital in nature, whether the project will be completed successfully and, whether sufficient revenue and profitability will be generated to recover the costs capitalised. The Directors also apply judgment as to whether the software and development costs incurred are for technically feasible systems and websites. Given the significant value and judgmental nature of the classification of software and development assets, between operational and capital expenditure, this is considered to be an area of significant audit risk.	For the key inputs into the project's profitability forecast, specifically revenue growth, cost reduction and the timing and amount of capital expenditure, we critically assessed the reasonableness of the assumptions with reference to internal and external data from Project and Infrastructure leads, Board-approved capital spending forecasts, an independent financial benefits review and knowledge gained from performing our other audit procedures. We challenged the Group's assessment of the technical feasibility of the different project releases based on our discussions with key project leads and reviews of detailed business cases produced internally and externally, outlining the proposed features and expected completion dates. We assessed whether costs had been appropriately capitalised, by reference to the recognition criteria of the applicable accounting standards, for a sample of costs agreed to source documentation. We evaluated the adequacy of the Group's disclosures in respect of the judgements made by management that economic benefit will be derived from the projects.

### **3 Our application of materiality and an overview of the scope of our audit**

Materiality for the Group financial statements as a whole was set at £3.8 million, determined with reference to a benchmark of Group profit before tax, normalised to exclude exceptional items relating to reorganisation costs and the write down of stock following the closure of clearance stores, of £17.2 million, of which it represents 4.3%.

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.2 million, in addition to other identified misstatements that warranted reporting on qualitative grounds.

The Group team performed the audit of the Group as if it was a single aggregated set of financial information. The audit was performed using the materiality level set out above and covered 100% of total Group revenue, Group profit before tax, and total Group assets.

### **4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified**

In our opinion:

- the part of the Directors' Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **5 We have nothing to report on the disclosures of principal risks**

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the Directors' Viability statement on pages 54 and 55, concerning the principal risks, their management, and, based on that, the Directors' assessment and expectations of the Group's continuing in operation over the three years to 2019; or
- the disclosures in note 2 of the financial statements concerning the use of the going concern basis of accounting.

## 6 We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the Audit Committee Report does not appropriately address matters communicated by us to the Audit Committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statements, set out on pages 54 and 55, in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement on pages 56 to 58 relating to the company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

### Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 55, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate). This report is made solely to the company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at [www.kpmg.com/uk/auditscopeukco2014a](http://www.kpmg.com/uk/auditscopeukco2014a), which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.



**Stuart Burdass (Senior Statutory Auditor)  
for and on behalf of KPMG LLP, Statutory Auditor**

Chartered Accountants  
1 St Peter's Square  
Manchester  
M2 3AE  
2 June 2016

## CONSOLIDATED INCOME STATEMENT

For the 52 weeks ended 27 February 2016	Note	2016 Before exceptional items £m	2016 Exceptional items (note 7) £m	2016 Total £m	2015 Before exceptional items (restated see note 2) £m	2015 Exceptional items (note 7) £m	2015 (restated see note 2) £m
<b>Continuing operations</b>							
<b>Revenue</b>	3	866.2	–	866.2	837.2	–	837.2
<b>Operating profit</b>	6	96.4	(17.2)	79.2	95.8	(12.6)	83.2
Investment income	9	–	–	–	0.1	–	0.1
Finance costs	10	(8.1)	–	(8.1)	(7.7)	–	(7.7)
<b>Profit before taxation and fair value adjustments to financial instruments</b>		88.3	(17.2)	71.1	88.2	(12.6)	75.6
Fair value adjustments to financial instruments	20	1.1	–	1.1	2.7	–	2.7
<b>Profit before taxation</b>		89.4	(17.2)	72.2	90.9	(12.6)	78.3
Taxation	11	(20.7)	3.4	(17.3)	(19.5)	2.7	(16.8)
<b>Profit for the year from continuing operations</b>		68.7	(13.8)	54.9	71.4	(9.9)	61.5
Loss for the period from discontinued operations	5	(0.6)	–	(0.6)	(10.4)	–	(10.4)
<b>Profit attributable to equity holders of the parent</b>		68.1	(13.8)	54.3	61.0	(9.9)	51.1
<b>Adjusted earnings per share from continuing operations</b>							
Basic	13			24.02p			24.61p
Diluted				23.99p			24.53p
<b>Earnings per share from continuing operations</b>							
Basic	13			19.45p			21.84p
Diluted				19.43p			21.77p
<b>Earnings per share from continuing and discontinued operations</b>							
Basic	13			19.23p			18.15p
Diluted				19.22p			18.09p

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

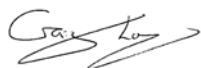
For the 52 weeks ended 27 February 2016	Note	2016 £m	2015 (restated see note 2) £m
<b>Profit for the period</b>		54.3	51.1
<b>Items that will not be reclassified subsequently to profit or loss</b>			
Actuarial gains on defined benefit pension schemes	30	12.5	1.4
Tax relating to items not reclassified	11	(2.5)	(0.3)
		10.0	1.1
<b>Items that may be reclassified subsequently to profit or loss</b>			
Exchange gain/(loss) on translation of foreign operations		0.8	(0.9)
<b>Total comprehensive income for the period attributable to equity holders of the parent</b>		65.1	51.3

## CONSOLIDATED BALANCE SHEET

As at 27 February 2016	Note	2016 £m	2015 (restated see note 2) £m	2014 (restated see note 2) £m
<b>Non-current assets</b>				
Intangible assets	14	124.9	98.3	73.3
Property, plant & equipment	15	76.7	70.5	63.2
Retirement benefit surplus	30	10.8	–	–
Deferred tax assets	22	3.9	7.2	9.7
		<b>216.3</b>	176.0	146.2
<b>Current assets</b>				
Inventories	17	101.5	94.8	89.9
Trade and other receivables	18	553.4	549.5	536.6
Current tax asset		5.3	–	–
Derivative financial instruments	20	2.2	1.1	–
Cash and cash equivalents	26	45.3	40.4	45.3
		<b>707.7</b>	685.8	671.8
<b>Total assets</b>		<b>924.0</b>	861.8	818.0
<b>Current liabilities</b>				
Bank loans	19	–	(7.0)	(9.0)
Trade and other payables	23	(99.7)	(108.9)	(98.0)
Derivative financial instruments	20	–	–	(1.6)
Current tax liability		–	(4.1)	(9.6)
		<b>(99.7)</b>	(120.0)	(118.2)
<b>Net current assets</b>		<b>608.0</b>	565.8	553.6
<b>Non-current liabilities</b>				
Bank loans	19	(335.0)	(280.0)	(250.0)
Retirement benefit obligation	30	–	(3.3)	(4.2)
Deferred tax liabilities	22	(13.3)	(8.5)	(8.6)
		<b>(348.3)</b>	(291.8)	(262.8)
<b>Total liabilities</b>		<b>(448.0)</b>	(411.8)	(381.0)
<b>Net assets</b>		<b>476.0</b>	450.0	437.0
<b>Equity attributable to equity holders of the parent</b>				
Share capital	24	31.3	31.3	31.3
Share premium account		11.0	11.0	11.0
Own shares	25	(0.2)	(0.3)	(0.5)
Foreign currency translation reserve		1.8	1.0	1.9
Retained earnings		432.1	407.0	393.3
<b>Total equity</b>		<b>476.0</b>	450.0	437.0

The financial statements of N Brown Group plc (Registered Number 814103) were approved by the board of directors and authorised for issue on 2 June 2016.

They were signed on its behalf by:



**Craig Lovelace**  
CFO and Executive Director

## CONSOLIDATED CASH FLOW STATEMENT

For the 52 weeks ended 27 February 2016	Note	2016 £m	2015 (restated see note 2) £m
<b>Net cash from operating activities</b>		<b>64.5</b>	73.1
<b>Investing activities</b>			
Proceeds on disposal of property, plant and equipment		–	0.1
Purchases of property, plant and equipment		(12.1)	(14.9)
Purchases of intangible assets		(46.1)	(44.6)
Interest received		–	0.1
<b>Net cash used in investing activities</b>		<b>(58.2)</b>	(59.3)
<b>Financing activities</b>			
Interest paid		(9.6)	(7.4)
Dividends paid		(40.2)	(40.0)
Increase in bank loans		48.0	28.0
Purchase of shares by ESOT		(0.4)	(0.2)
Proceeds on issue of shares held by ESOT		0.8	0.9
<b>Net cash used in financing activities</b>		<b>(1.4)</b>	(18.7)
Net increase/(decrease) in cash and cash equivalents		4.9	(4.9)
Cash and cash equivalents at beginning of period		40.4	45.3
<b>Cash and cash equivalents at end of period</b>	26	<b>45.3</b>	40.4

## RECONCILIATION OF OPERATING PROFIT TO NET CASH FROM OPERATING ACTIVITIES

For the 52 weeks ended 27 February 2016	2016 £m	2015 (restated see note 2) £m
<b>Operating profit from continuing operations</b>	<b>79.2</b>	83.2
<b>Operating loss from discontinued operations</b>	<b>(0.7)</b>	(11.0)
Adjustments for:		
Depreciation of property, plant and equipment	6.0	8.0
Loss/(gain) on disposal of property, plant and equipment	0.7	(0.1)
Amortisation of intangible assets	19.2	15.0
Impairment of intangible assets	–	8.0
Share option charge	2.2	2.1
<b>Operating cash flows before movements in working capital</b>	<b>106.6</b>	105.2
Increase in inventories	(6.7)	(4.9)
Decrease/(increase) in trade and other receivables	0.9	(11.9)
(Decrease)/increase in trade and other payables	(12.2)	5.1
Pension obligation adjustment	(1.7)	0.3
<b>Cash generated by operations</b>	<b>86.9</b>	93.8
Taxation paid	(22.4)	(20.7)
<b>Net cash from operating activities</b>	<b>64.5</b>	73.1

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital (note 24) £m	Share premium £m	Own shares (note 25) £m	Foreign currency translation reserve £m	Retained earnings £m	Total £m
<b>Changes in equity for the 52 weeks ended 27 February 2016</b>						
Balance at 28 February 2015 as previously reported	31.3	11.0	(0.3)	1.0	453.6	496.6
Effect of amendment to IAS 39	-	-	-	-	(46.6)	(46.6)
Balance as at 28 February 2015 – restated see note 2	31.3	11.0	(0.3)	1.0	407.0	450.0
<b>Comprehensive income for the period</b>						
Profit for the period	-	-	-	-	54.3	54.3
Other items of comprehensive income for the period	-	-	-	0.8	10.0	10.8
Total comprehensive income for the period	-	-	-	0.8	64.3	65.1
<b>Transactions with owners recorded directly in equity</b>						
Equity dividends	-	-	-	-	(40.2)	(40.2)
Purchase of own shares by ESOT	-	-	(0.4)	-	-	(0.4)
Issue of own shares by ESOT	-	-	0.5	-	-	0.5
Adjustment to equity for share payments	-	-	-	-	0.3	0.3
Share option charge	-	-	-	-	2.2	2.2
Tax on items recognised directly in equity	-	-	-	-	(1.5)	(1.5)
Total contributions by and distributions to owners	-	-	0.1	-	(39.2)	(39.1)
<b>Balance at 27 February 2016</b>	<b>31.3</b>	<b>11.0</b>	<b>(0.2)</b>	<b>1.8</b>	<b>432.1</b>	<b>476.0</b>
<b>Changes in equity for the 52 weeks ended 28 February 2015</b>						
Balance as at 1 March 2014 as previously reported	31.3	11.0	(0.5)	1.9	441.6	485.3
Effect of amendment to IAS39	-	-	-	-	(48.3)	(48.3)
Balance as at 1 March 2014 – restated see note 2	31.3	11.0	(0.5)	1.9	393.3	437.0
<b>Comprehensive income for the period</b>						
Profit for the period as previously reported	-	-	-	-	49.4	49.4
Effect of amendment to IAS 39	-	-	-	-	1.7	1.7
Profit for the period - restated see note 2	-	-	-	-	51.1	51.1
Other items of comprehensive income for the period	-	-	-	(0.9)	1.1	0.2
Total comprehensive income for the period	-	-	-	(0.9)	52.2	51.3
<b>Transactions with owners recorded directly in equity</b>						
Equity dividends	-	-	-	-	(40.0)	(40.0)
Purchase of own shares by ESOT	-	-	(0.2)	-	-	(0.2)
Issue of own shares by ESOT	-	-	0.4	-	-	0.4
Adjustment to equity for share payments	-	-	-	-	0.5	0.5
Share option charge	-	-	-	-	2.1	2.1
Tax on items recognised directly in equity	-	-	-	-	(1.1)	(1.1)
Total contributions by and distributions to owners	-	-	0.2	-	(38.5)	(38.3)
<b>Balance at 28 February 2015 – restated see note 2</b>	<b>31.3</b>	<b>11.0</b>	<b>(0.3)</b>	<b>1.0</b>	<b>407.0</b>	<b>450.0</b>



# NOTES TO THE GROUP ACCOUNTS

## 1 General information

N Brown Group plc is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is listed on the inside cover at the end of the report. The nature of the Group's operations and its principal activities are set out on page 52 of the directors' report.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 2.

The Group financial statements for the 52 weeks ended 27 February 2016 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the EU. The Company has elected to prepare its parent company financial statements in accordance with FRS101, these are presented on pages 112 to 118.

The accounting policies have been applied consistently in the current and prior periods, other than that as set out below.

### Adoption of new and revised Standards

No standards have been adopted that affect the reported results or financial position.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- Amendments to IFRS 10, IFRS 12 and IAS 28 (Dec 2015): Investment Entities: Applying the Consolidation Exception.\*
- Amendments to IAS 1 (Dec 2015): Disclosure Initiative.
- Annual Improvements to IFRSs: 2010–2012 Cycle (Sept 2014)
- Annual Improvements to IFRSs: 2012–2014 Cycle.
- Amendments to IFRS 10 and IAS 28 (Sept 2014): Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.\*
- Amendments to IAS 27 (Aug 2014): Equity Method in Separate Financial Statements.
- IFRS 9: Financial Instruments.\*
- Amendments to IAS 16 and IAS 41 (Jun 2014): Agriculture: Bearer Plants.
- IFRS 15: Revenue from Contracts with Customers.\*
- Amendments to IAS 16 and IAS 38 (May 2014): Clarification of Acceptable Methods of Depreciation and Amortisation.
- Amendments to IAS 7: Disclosure initiative.\*
- Amendments to IFRS 11 (May 2014): Accounting for Acquisitions of Interests in Joint Operations.
- IFRS 14: Regulatory Deferral Accounts.\*
- IFRS 16 Leases \*

The directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods, except as follows:

- IFRS 9 will impact both the measurement and disclosures of Financial Instruments.
- Management are still assessing the impact of the introduction of IFRS 15 and IFRS 16 on the financial statements of future periods.

\* Not yet endorsed by the EU

### Discontinued operations

Discontinued operations are those which management identify separately and where notice has been given that they are to be discontinued. As a result of notice being given regarding the closure of Gray & Osbourn in 2015 as detailed in note 5, both the current year and prior year income statement exclude the results of Gray & Osbourn under continuing activities.

## 2 Accounting policies

### Basis of accounting

The financial statements are prepared on the historical cost basis except that derivative financial instrument are stated at their fair value. The principal accounting policies adopted are set out as follows.

### Accounting period

Throughout the accounts, the directors report and financial review, reference to 2016 means at 27 February 2016 or the 52 weeks then ended; reference to 2015 means at 28 February 2015 or the 52 weeks then ended unless otherwise stated.

### Restatement

International accounting statement 39 ("IAS39"), in relation to the provisioning for bad and doubtful receivables, was adopted by the Group in 2005 at its introduction. Deloitte, as the Group's auditors, consistently confirmed that the Group's financial statements were appropriately prepared in accordance with IAS39.

Following the appointment of KPMG as auditor's during the year ended 27 February 2016, the Group determined that it was necessary to make a change in the technical interpretation of IAS39. This in no way affects the way in which the Group has operated or will operate its business. The revised interpretation of IAS39 relates to the judgement over whether a credit loss has been incurred when interest or other charges are temporarily waived, even for customers who ultimately repay their full capital balance. For customers who find themselves in financial difficulties, the Group may offer revised payment terms to support the customer, encourage rehabilitation and thereby maximise long term returns. For customers under such payment arrangements where interest and/or other charges are waived, the Group's financial statements now reflect an impairment provision for the foregone interest income upfront and the Group is recognising interest or other income over time on the impaired balances. Previously, in focusing primarily on the underlying cashflow risk to the business, and in arriving at provisions against such balances, the Group was focused upon the capital element of receivables and did not consider loss of interest as an impairment loss.

The impact of the prior year adjustments to reflect the revised interpretation of IAS39 is as follows:

	2015 As published £m	2015 Adjustments £m	2015 As restated £m
<b>Income statement</b>			
Revenue	818.0	19.2	837.2
Operating profit	81.2	2.0	83.2
Other	(4.9)	–	(4.9)
<b>Profit before taxation</b>	76.3	2.0	78.3
Taxation	(16.5)	(0.3)	(16.8)
<b>Profit from continuing operations</b>	59.8	1.7	61.5
Loss from discontinued operations	(10.4)	–	(10.4)
<b>Profit attributable to equity holders of the parent</b>	49.4	1.7	51.1

The impact of the restatement is to increase both basic and diluted earnings per share by 0.6 pence in FY15.

	2015 As published £m	2015 Adjustments £m	2015 As restated £m	2014 As published £m	2014 Adjustments £m	2014 As restated £m
<b>Balance sheets</b>						
Trade and other receivables	609.9	(60.4)	549.5	599.0	(62.4)	536.6
Deferred tax asset	3.2	4.0	7.2	4.8	4.9	9.7
Other	305.1	–	305.1	271.7	–	271.7
<b>Total assets</b>	918.2	(56.4)	861.8	875.5	(57.5)	818.0
Current tax liability	(13.9)	9.8	(4.1)	(18.8)	9.2	(9.6)
Other	(407.7)	–	(407.7)	(371.4)	–	(371.4)
<b>Total liabilities</b>	(421.6)	9.8	(411.8)	(390.2)	9.2	(381.0)
<b>Net assets</b>	496.6	(46.6)	450.0	485.3	(48.3)	437.0
Other	43.0	–	43.0	43.7	–	43.7
Retained earnings	453.6	(46.6)	407.0	441.6	(48.3)	393.3
<b>Total equity</b>	496.6	(46.6)	450.0	485.3	(48.3)	437.0

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company (its subsidiaries) made up to the Saturday that falls closest to 28 February each year. The Employee Share Ownership Trust is also made up to a date coterminous with the financial period of the parent company.

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

### Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured

at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date.

Acquisition costs are expensed as incurred.

### Goodwill

Goodwill arising on acquisition is recognised as an asset on the date control is acquired and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities, and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

Goodwill is not amortised, but is reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Purchased goodwill arising on acquisitions before 1 March 1998 was charged against reserves in the year of acquisition in accordance with UK GAAP and has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

# NOTES TO THE GROUP ACCOUNTS

CONTINUED

## 2 Accounting policies (continued)

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents the total amount receivable for goods and services provided in the normal course of business net of returns, VAT and sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed. Financial services sales includes interest, administrative charges and arrangement fees. Interest income is accrued on a time basis, by reference to the principal outstanding and the applicable effective interest rate which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial assets to that asset's net carrying amount. Revenue from non-interest related financial income is recognised when the services have been performed.

### Property, plant & equipment

Property, plant and equipment is stated at cost, less accumulated depreciation and any provision for impairment in value.

Depreciation is charged so as to write off the cost of assets to their estimated residual values, based on current prices at the balance sheet date, over their remaining useful lives, using the straight-line method. No depreciation is charged on freehold land. In this respect the following annual depreciation rates apply:

Freehold buildings	2%
Leasehold property and improvements	over the period of the lease
Motor vehicles	20%
Computer equipment	between 14% and 20%
Plant and machinery	between 5% and 20%
Fixtures and equipment	between 10% and 20%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### Intangible assets

Computer software development costs that generate economic benefits beyond one year are capitalised as intangible assets and amortised on a straight-line basis over a range of five to seven years.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group intends to and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Group can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials and direct labour. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

Customer databases arising on acquisitions assessed under the requirements of IFRS 3 are amortised over their useful economic lives, which have been assessed as being five years.

Legally protected or otherwise separable trade names acquired as part of a business combination are capitalised at fair value on acquisition. Brand names are individually assessed and are assumed to have an indefinite life and are not amortised, but are subject to annual impairment tests.

### Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying value of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimate of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

### Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease even where payments are not made on such a basis.

Assets held under finance leases are included in tangible fixed assets at a value equal to the original costs incurred by the lessor less depreciation, and obligations to the lessor are shown as part of creditors. The interest element is charged to the income statement over the period of the lease to produce a constant rate of charge on the balance of capital repayments outstanding.

### Inventories

Inventories have been valued at the lower of cost and net realisable value. Provision is made based on the age of the inventory. Cost comprises direct materials and those overheads that have been incurred in bringing inventories to their present location and condition based on the standard costing method. Cost has been calculated on a first-in first-out basis. Net realisable value means estimated selling price less all costs to be incurred in marketing, selling and distribution.

### Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### Foreign currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in pounds sterling, which is the functional currency of the Group, and the presentation currency for the consolidated financial statements.

In preparing the financial statement of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

In order to hedge its exposure to certain foreign exchange risks, the Group may enter into forward contracts and options (see below for details of the Group's accounting policies in respect of such derivative financial instruments).

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

### Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. Profits and losses on financial instruments are recognised in the income statement as they arise.

### Trade receivables

Trade receivables are measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired based on specific customer patterns of behaviour which may be affected by external economic conditions.

The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Trade receivables are assessed for impairment on a collective basis. Objective evidence of impairment could include the Group's past experience of collecting payments and observable changes in national and local economic conditions that could correlate with a default event.

## NOTES TO THE GROUP ACCOUNTS

CONTINUED

### 2 Accounting policies (continued)

#### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

#### Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

#### Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis in the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

#### Trade and other payables

Trade and other payables are recognised initially at fair value, are not interest bearing and are subsequently measured at amortised cost.

#### Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

#### Derivative financial instruments

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates relating to the purchase of overseas sourced products, and interest rates relating to the Group's debt. The Group uses foreign exchange forward contracts and interest rate swap contracts where appropriate to hedge these exposures. In accordance with its treasury policy, the Group does not use derivative financial instruments for speculative purposes.

The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide written principles on the use of financial derivatives.

Derivatives are stated at their fair value. The fair value of foreign currency derivatives contracts is their quoted market value at the balance sheet date.

Market values are based on the duration of the derivative instrument together with the quoted market data including interest rates, foreign exchange rates and market volatility at the balance sheet date. The fair value of interest rate contracts is the estimated amount that the Group would receive or pay to terminate them at the balance sheet date, taking into account prevailing interest rates.

Changes in the fair value of currency derivative financial instruments are recognised in the income statement as they arise.

#### Share-based payments

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based

payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. Fair value is measured by use of a Black-Scholes model. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

#### Own shares held by ESOT

Transactions of the group-sponsored Employee Share Ownership Trust (ESOT) are included in the Group financial statements. The trust's purchases and sales of shares in the Company are debited and credited directly to equity.

#### Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

For defined benefit retirement benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. Remeasurement comprising actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on scheme assets (excluding interest) are recognised immediately in the balance sheet with a charge or credit to the statement of comprehensive income in the period in which they occur. Remeasurement recorded in the statement of comprehensive income is not recycled. Past service cost is recognised in profit or loss in the period of scheme amendment. Net-interest is calculated by applying a discount rate to the net defined benefit liability or asset. Defined benefit costs are split into three categories:

- current service cost, past-service cost and gains and losses on curtailments and settlements;
- net-interest expense or income; and
- remeasurement.

The Group presents the first two components of defined benefit costs within operating expenses (see note 30) in its consolidated income statement. Curtailments gains and losses are accounted for as past-service cost. Net-interest expense or income is recognised within finance costs (see note 10).

The retirement benefit asset/(obligation) recognised in the balance sheet represents the present value of the defined benefit asset/(obligation), as reduced by the fair value of scheme assets. Any asset resulting from this calculation is restricted to the past service cost plus the present value of available refunds and reductions in future contributions.

#### Supplier rebates

The Group enters into volume based rebate arrangements with suppliers. Rebates are calculated annually based on agreements in place, which stipulate an agreed percentage of purchase be granted as a rebate. Rebates are agreed with suppliers before they are recognised in the Income Statement.

#### Going concern

In determining whether the Group's accounts can be prepared on a going concern basis, the directors considered the Group's business activities together with factors likely to affect its future

development, performance and its financial position including cash flows, liquidity position and borrowing facilities and the principal risks and uncertainties relating to its business activities. These are set out within the Risk Management Report on pages 28 to 31.

The Group has considered carefully its cash flows and banking covenants for the next twelve months from the date of signing the audited financial statements. These have been appraised in light of the current economic climate. As such, conservative assumptions for working capital performance have been used to determine the level of financial resources available to the company and to assess liquidity risk.

The Group's forecasts and projections, after sensitivity to take account of all reasonably foreseeable changes in trading performance, show that the Group will have sufficient headroom within its current loan facilities of £405m – which are committed until 2020 – and its £20m overdraft facility. After making appropriate enquiries, the directors have a reasonable expectation that the company and the Group have adequate resources to continue in operational existence. Accordingly, they continue to adopt the going concern basis in the preparation of the annual report and accounts.

#### Exceptional items

Exceptional items are those that are considered to be one off, non-recurring in nature and so material that the directors believe that they require separate disclosure to avoid distortion of underlying performance and should be separately presented on the face of the income statement.

#### Critical judgements and key sources of estimation uncertainty

The key assumptions concerning the future and other sources of estimation uncertainty at the year end date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

#### Trade receivables

An appropriate allowance for estimated irrecoverable trade receivables is derived where there is an identified event which, based on previous experience, is evidence of a potential reduction in the recoverability of future cash flows. This estimation is based on assumed collection rates which, although based on the Group's historical experience of customer repayment patterns, remains inherently uncertain. Changes in the assumptions applied could have a significant impact on the carrying value of trade receivables.

As a result this is continually assessed for relevance and adjusted appropriately. Further information is given in note 18.

#### Taxation

The Group's tax balances comprise income tax, which is the sum of the total current and deferred tax balances, and VAT. The Group has on-going discussions with HMRC in respect of open taxation positions and the calculation of the Group's potential liabilities or assets in respect of these necessarily involves a degree of estimation and judgement in respect of items whose tax treatment cannot be finally determined until resolution has been reached with HMRC or, as appropriate, through a formal legal process. Issues can, and often do, take a number of years to resolve. The amounts recognised or disclosed are derived from the Group's best estimation and judgement and, where appropriate, legal counsel's opinion has been sought. However, the inherent uncertainty regarding the outcome of these means eventual realisation could differ from the accounting estimates and therefore impact the Group's results and cash flows.

#### Inventory

Provision is made for those items of inventory where the net realisable value is estimated to be lower than cost. Net realisable value is based on both historical experience and assumptions regarding future selling values and disposal channels, and is consequently a source of estimation uncertainty.

#### Regulatory

The regulatory environment in which the Group operates is both complex and changing and the Group continues to review and develop its compliance with the requirements of the FCA. This can be a critical area of judgement when considering any liabilities that could arise as a result of the legislation in place.

#### Software Development Costs

Included within intangibles assets are significant software and development project costs in respect of the Groups transformation project, Fit 4 the Future. Costs are capitalised to the extent that future economic benefits are expected to be generated by the project, which requires judgment to be made as to whether the project will be completed successfully, will be technically feasible and whether sufficient revenue and profitability will be generated to recover the costs capitalised. If these criteria are not subsequently met, the asset would be subject to a future impairment charge which would impact the Groups results. This is consequently a source of estimation uncertainty.

## 3 Revenue

An analysis of the Group's revenue is as follows:

#### Continuing operations

	2016 £m	2015 (restated see note 2) £m
Sale of goods	606.6	582.9
Financial services	259.6	254.3
Revenue – continuing operations	866.2	837.2
Investment income	–	0.1
	866.2	837.3

#### Discontinued operations

Subsidiary catalogue business	4.3	14.5
Revenue	870.5	851.8

## NOTES TO THE GROUP ACCOUNTS

CONTINUED

### 4 Business segments

The Group has one reportable segment in accordance with IFRS 8 - Operating Segments, which is the Home Shopping segment. The Group's board receives monthly financial information at this level and uses this information to monitor the performance of the Home Shopping segment, allocate resources and make operational decisions. Internal reporting focuses on the Group as a whole and does not identify individual segments. To increase transparency, the Group has decided to include an additional voluntary disclosure analysing product revenue within the reportable segment, by brand categorisation and product type categorisation.

	2016 £m	2015 (restated see note 2) £m
<b>Continuing operations</b>		
<b>Analysis of revenue – Home shopping total</b>	<b>866.2</b>	837.2
Product	606.6	582.9
Financial Services	259.6	254.3
<b>Analysis of cost of sales – Home shopping total</b>	<b>(383.6)</b>	(369.8)
Product	(265.7)	(253.9)
Financial Services	(117.9)	(115.9)
<b>Gross profit – Total</b>	<b>482.6</b>	467.4
Product gross margin	56.2%	56.4%
Financial Services gross margin	54.6%	54.4%
Warehouse and fulfilment costs	(76.7)	(73.9)
Marketing and production costs	(161.7)	(154.7)
Depreciation and amortisation costs	(25.2)	(21.2)
Other administration and payroll costs	(122.6)	(121.8)
Exceptional items (see note 7)	(17.2)	(12.6)
Segment result & operating profit - Home Shopping	79.2	83.2
<b>Investment income</b>	–	0.1
<b>Finance costs</b>	<b>(8.1)</b>	(7.7)
<b>Fair value adjustments to financial instruments</b>	<b>1.1</b>	2.7
<b>Profit before taxation</b>	<b>72.2</b>	78.3

Given the significant change being implemented across our business as we become a digital-first, product-led, specialist-fit fashion retailer, we have sought to enhance our income statement disclosure in several ways:

- changing the allocation of certain cost lines from product gross margin to operating costs, to bring our disclosure more in line with typical retail practice.
- splitting the gross margin performance of Product and Financial Services.
- enhancing our operating cost disclosure to provide further clarity, moving from two categories – Distribution and Sales & Administration costs, to four – Warehouse & Fulfilment, Marketing & Production, Depreciation & amortisation, Other admin & payroll.

All the prior year comparatives have been adjusted accordingly.

	2016 £m	2015 (restated see note 2) £m
<b>Analysis of product revenue by brand</b>		
JD Williams	151.2	144.4
Simply Be	103.9	89.9
Jacamo	62.8	54.8
<b>Power brands</b>	<b>317.9</b>	289.1
Traditional segment	136.0	143.9
Secondary brands	152.7	149.9
<b>Total product revenue - Home shopping</b>	<b>606.6</b>	582.9
<b>Analysis of product revenue by category</b>		
Ladieswear	250.8	248.6
Menswear	82.0	81.4
Footwear	63.8	60.7
Home & gift	210.0	192.2
<b>Total product revenue - Home shopping</b>	<b>606.6</b>	582.9

The Group has one significant geographical segment, which is the United Kingdom. Revenue derived from international markets amounted to £31.9m (2015, £30.2m) and they incurred operating losses of £0.1m (2015, £1.3m). All segment assets are located in the UK, Ireland and the US.

The analysis above is in respect of continuing operations.

For the purposes of monitoring segment performance, all assets and liabilities are allocated to the sole business segment, being Home Shopping, with the exception of current and deferred tax assets and liabilities. There are no impairments of goodwill, intangible assets or tangible assets in the current period (2015, £nil).

	2016 £m	2015 (restated see note 2) £m
<b>Other information</b>		
Capital additions	58.7	63.3
Capital disposals	(2.4)	(0.1)
Depreciation and amortisation	(25.2)	(23.0)
Brand impairment	–	(8.0)
<b>Balance sheet</b>		
Total segment assets	914.8	854.6
Total segment liabilities	(434.7)	(399.2)
Segment net assets	480.1	455.4
Unallocated assets	9.2	7.2
Unallocated liabilities	(13.3)	(12.6)
Consolidated net assets	476.0	450.0

## 5 Discontinued operations

Following a review of the business and its future profit potential, the board decided in January 2015 to close the Gray & Osbourn catalogue business. The business was disclosed as a discontinued operation in the 2015 financial statements. The process is ongoing and has continued into the current financial period. The results of the discontinued operation were as follows.

	2016 £m	2015 £m
Revenue	4.3	14.5
Expenses	(5.0)	(17.5)
Brand impairment	–	(8.0)
	(0.7)	(11.0)
Attributable tax credit	0.1	0.6
Net loss attributable to discontinued operations	(0.6)	(10.4)

The effect of the contribution of the discontinued operations on the Group's cash flows have not been disclosed as they are not considered to be significant.

## 6 Profit for the period

	2016 £m	2015 (restated see note 2) £m
<b>Profit for the period has been arrived at after charging/(crediting):</b>		
Net foreign exchange losses/(gains)	1.5	(2.4)
Depreciation of property, plant and equipment	6.0	8.0
Loss/(profit) on disposal	0.7	(0.1)
Amortisation of intangible assets	19.2	15.0
Cost of inventories recognised as expense	270.9	263.4
Staff costs	83.0	89.3
Auditor's remuneration for audit services	0.3	0.3
Doubtful debts recognised as an expense	110.3	109.0
Brand impairment	–	8.0



## NOTES TO THE GROUP ACCOUNTS

CONTINUED

### 6 Profit for the period (continued)

Amounts payable to KPMG LLP and their associates by the Group in respect of non-audit services were £0.5m (2015, Deloitte LLP, £1.9m).

A more detailed analysis of auditor's remuneration is provided below:

	2016 £m	2015 £m
Audit of these Group financial statements	0.1	0.1
Amounts receivable by the company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the company	0.2	0.2
Audit-related assurance services	–	–
Tax advisory services	–	1.9
All other services	0.5	–
<b>Total</b>	<b>0.8</b>	<b>2.2</b>

Fees in relation to audit related assurance services totalled £40,000 (2015, Deloitte LLP, £30,000).

Fees payable to the company's auditor for the audit of the company's annual accounts were £15,000 (2015, Deloitte LLP, £10,000).

A description of the work of the audit committee is set out in the Corporate Governance Statement on pages 56 to 58 and includes an explanation of how auditor objectivity and independence is safeguarded when non audit services are provided by the auditor.

### 7 Exceptional items

	2016 £m	2015 £m
Strategy costs	7.6	5.6
VAT related costs	1.6	7.0
Clearance store closure costs	8.0	–
	<b>17.2</b>	<b>12.6</b>

Strategy costs incurred in 2016 related to Group re-organisation costs and outsourcing of IT maintenance. In 2015 these costs related to the outsourcing of our call centre.

The VAT related costs in 2016 are legal and professional fees related to ongoing disputes with HMRC. In 2015 these charges related to a potential settlement with HMRC in respect of VAT recovery on bad debts written off over a number of years.

In 2016 we closed our retail clearance stores, in line with our strategy to become digital first. The exceptional costs of £8.0m relate to stock write downs, onerous lease provisions and other related closure costs.

### 8 Staff costs

	2016 Number	2015 Number
The average monthly number of employees (including executive directors) was:		
Distribution	1,091	1,109
Sales and administration	1,848	2,268
	<b>2,939</b>	<b>3,377</b>
Their aggregate remuneration comprised	2016 £m	2015 £m
Wages and salaries	71.3	74.2
Social security costs	6.5	7.5
Other pension costs (see note 30)	3.0	5.5
Share options costs (see note 29)	2.2	2.1
	<b>83.0</b>	<b>89.3</b>

Details of individual directors' remuneration is disclosed in the remuneration report on page 75.

### 9 Investment income

	2016 £m	2015 £m
Interest on bank deposits	–	0.1

## 10 Finance costs

	2016 £m	2015 £m
Interest on bank overdrafts and loans	8.0	7.5
Net pension finance charge (see note 30)	0.1	0.2
	8.1	7.7

## 11 Tax

Recognised in the income statement	2016 £m	2015 (restated see note 2) £m
<b>Current tax</b>		
Charge for the period	13.6	15.9
Adjustments in respect of previous periods	(0.2)	0.7
	13.4	16.6
<b>Deferred tax</b>		
Origination and reversal of temporary timing differences	5.1	0.2
Reduction in tax rate	(1.2)	–
	3.9	0.2
Tax expense (continuing)	17.3	16.8
Tax from discontinued operations	(0.1)	(0.6)
<b>Total tax expense</b>	17.2	16.2

UK corporation tax is calculated at 20.08% (2015, 21.17%) of the estimated assessable profit for the period. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. The deferred tax assets and liabilities at 2016 has been calculated based on these rates.

An additional reduction to 17% (effective from 1 April 2020) was announced in the budget on 16 March 2016. This will reduce the company's future current tax charge accordingly.

The charge for the period can be reconciled to the profit per the income statement as follows:

	2016 £m	2015 (restated see note 2) £m
<b>Profit before tax from continuing operations:</b>	72.2	78.3
Tax at the UK corporation tax rate of 20.08% (2015, 21.17%)	14.5	16.4
Effect of change in deferred tax rate	(1.2)	–
Tax effect of expenses that are not deductible in determining taxable profit	0.4	0.5
Effect of different tax rates of subsidiaries operating in other jurisdictions	(0.7)	(0.8)
Tax effect of adjustments in respect of previous periods	4.3	0.7
<b>Tax expense for the period</b>	17.3	16.8

In addition to the amount charged to the income statement, tax movements recognised directly through equity were as follows:

	2016 £m	2015 £m
Tax recognised in other comprehensive income		
Deferred tax – retirement benefit obligations	2.5	0.3
<b>Tax charge in the statement of comprehensive income</b>	2.5	0.3
Tax recognised in equity		
Current tax – share based payments	(0.2)	(0.8)
Deferred tax – share based payments	1.7	1.9
<b>Tax charge in the statement of changes in equity</b>	1.5	1.1

## NOTES TO THE GROUP ACCOUNTS

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### 11 Tax (continued)

The Group has on-going discussions with HMRC in respect of open taxation positions. The calculation of the Group's potential liabilities or assets in respect of these involves a degree of estimation and judgement in respect of items whose tax treatment cannot be finally determined until resolution has been reached with HMRC or, as appropriate, through a formal legal process. Issues can, and often do, take a number of years to resolve. The amounts recognised or disclosed are derived from the Group's best estimation and judgement and, where appropriate, legal counsel's opinion has been sought. However the inherent uncertainty regarding the outcome of these means eventual realisation could differ from the accounting estimates and therefore impact the Group's results and cash flows.

### 12 Dividends

	2016 £m	2015 £m
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the 52 weeks ended 28 February 2015 of 8.56p (2014, 8.56p) per share	24.2	24.0
Interim dividend for the 52 weeks ended 27 February 2016 of 5.67p (2015, 5.67p) per share	16.0	16.0
	40.2	40.0
Proposed final dividend for the 52 weeks ended 27 February 2016 of 8.56p (2015, 8.56p) per share	24.2	24.1

The proposed final dividend is subject to approval by shareholders at the annual general meeting and has not yet been included as a liability in these financial statements.

### 13 Earnings per share

The calculations of the basic and diluted earnings per share is based on the following data:

	2016 £m	2015 (restated see note 2) £m
Earnings		
Earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity holders of the parent	54.3	51.1
Number of shares ('000s)	2016 Number	2015 Number
Weighted average number of ordinary shares for the purposes of basic earnings per share	282,316	281,612
Effect of dilutive potential ordinary shares:		
Share options	245	856
Weighted average number of ordinary shares for the purposes of diluted earnings per share	282,561	282,468
	2016 £m	2015 (restated see note 2) £m
Earnings from continuing operations		
Net profit attributable to equity holders of the parent	54.3	51.1
Adjustments to exclude loss for the period from discontinued operations	0.6	10.4
Earnings from continuing operations for the purpose of basic earnings per share	54.9	61.5
Fair value adjustment to financial instruments (net of tax)	(0.9)	(2.1)
Exceptional items (net of tax)	13.8	9.9
Adjusted earnings for the purposes of adjusted earnings per share	67.8	69.3

The denominators used are the same as those detailed above for basic and diluted earnings per share from continuing and discontinued operations.

	2016 Pence	2015 Pence
From discontinued operations		
Basic	(0.22)	(3.69)
Diluted	(0.21)	(3.68)

## 14 Intangible assets

	Brands £m	Software £m	Customer Database £m	Total £m
<b>Cost</b>				
At 1 March 2014	16.9	162.9	1.9	181.7
Additions	–	48.0	–	48.0
At 28 February 2015	16.9	210.9	1.9	229.7
Additions	–	45.8	–	45.8
<b>At 27 February 2016</b>	<b>16.9</b>	<b>256.7</b>	<b>1.9</b>	<b>275.5</b>
<b>Amortisation</b>				
At 1 March 2014	–	106.5	1.9	108.4
Charge for the period	–	15.0	–	15.0
Impairment charge for the period	8.0	–	–	8.0
At 28 February 2015	8.0	121.5	1.9	131.4
Charge for the period	–	19.2	–	19.2
<b>At 27 February 2016</b>	<b>8.0</b>	<b>140.7</b>	<b>1.9</b>	<b>150.6</b>
<b>Carrying amount</b>				
<b>At 27 February 2016</b>	<b>8.9</b>	<b>116.0</b>	<b>–</b>	<b>124.9</b>
At 28 February 2015	8.9	89.4	–	98.3
At 1 March 2014	16.9	56.4	–	73.3

Assets in the course of construction included in intangible assets at the year end total £55.3m (2015, £40.6m), of which £50.8m relates to the Fit 4 the Future project (2015, £17.0m). No amortisation is charged on these assets. All software additions relate to internal development.

### Impairment testing of Software intangible assets

The Group is currently undertaking a Systems transformation project. Fit 4 the Future, Elements of Fit 4 the Future are not yet available for use therefore management have conducted impairment testing as at 27 February 2016. The recoverable amount has been based on the present value of future cashflows using the following key assumptions:

Cash flows over the seven year useful economic life of the asset represent management's best estimate of future cash flows as at 27 February 2016, and are based upon the Group's forecasts for 2017 – 2023.

The main assumptions underlying the cashflows relate to improvements in buying, marketing and credit management due to the use of an integrated platform as well as changes in costs due to reductions in finance time, and will be driven by exploitation of the Group's new IT platform and further investments made during 2017. Cash flows into perpetuity have not been incorporated into the calculation for prudence, however the asset is expected to generate economic benefit for the Group significantly past 2023. A pre-tax discount rate of 8% has been used in the forecast, consistent with the Brand impairment testing performed. The analysis performed calculates that the recoverable amount of the assets exceeds their carrying value and as such, no impairment was identified. It is on this basis, that management do not consider an impairment to exist at 27 February 2016. No reasonably possible change in a key assumption on which management has based its determination of the assets recoverable amount would cause the assets carrying amount to exceed its recoverable amount.

The amortisation periods for intangible assets are:

	Years
F4F Development Project	7
Software	5
Customer Database	5

### Impairment testing of Brand intangibles

The brand names arising from the acquisition of High and Mighty, Slimma, Fingleaves, Diva and Dannimac are deemed to have indefinite lives as there are no foreseeable limits to the periods over which they are expected to generate cash inflows and are subject to annual impairment tests.

As a result of the decision to close the Gray & Osbourn catalogue business in 2015 the carrying value of the brand was permanently impaired to a value of £nil.

The carrying value of the brand names have been determined from a value in use calculation. The key assumptions for this calculation are those regarding the discount rates, growth rates and the forecast cash flows.

## NOTES TO THE GROUP ACCOUNTS

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### 14 Intangible assets (continued)

The Group prepares cash flow forecasts based on the most recent three year financial budgets approved by management and thereafter extrapolates cash flows in perpetuity (with 2.7% growth assumed) to reflect that there is no foreseeable limit to the period over which cash flows are expected to be generated. The rate used to discount the forecast pre-tax cash flows is 8.0% (2015, 7.4%). The directors consider that the value in use calculation has sufficient headroom above the carrying value of the brand names.

Sensitivity analysis has been performed with both the growth rate and discount rate adjusted by +7%, and under these sensitivities significant headroom is maintained.

The carrying value in relation to Gray & Osbourn is £nil (2015, £nil), £7.1m (2015, £7.1m) for Figleaves and for High and Mighty is £1.0m (2015, £1.0m). Whilst the directors do not consider that either brand name is impaired as at the balance sheet date, should there be a downturn in future or forecasted cashflows, then there is a risk of impairment to these brand names.

### 15 Property, plant and equipment

	Land and Buildings £m	Fixtures and Equipment £m	Total £m
<b>Cost</b>			
At 1 March 2014	46.2	116.2	162.4
Additions	7.0	8.3	15.3
Disposals	–	(0.1)	(0.1)
At 28 February 2015	53.2	124.4	177.6
Additions	–	12.9	12.9
Disposals	–	(2.4)	(2.4)
<b>At 27 February 2016</b>	<b>53.2</b>	<b>134.9</b>	<b>188.1</b>
<b>Accumulated depreciation and impairment</b>			
At 1 March 2014	11.3	87.9	99.2
Charge for the period	0.9	7.1	8.0
Eliminated on disposals	–	(0.1)	(0.1)
At 28 February 2015	12.2	94.9	107.1
Charge for the period	0.9	5.1	6.0
Eliminated on disposals	–	(1.7)	(1.7)
<b>At 27 February 2016</b>	<b>13.1</b>	<b>98.3</b>	<b>111.4</b>
<b>Carrying amount</b>			
<b>At 27 February 2016</b>	<b>40.1</b>	<b>36.6</b>	<b>76.7</b>
At 28 February 2015	41.0	29.5	70.5
At 1 March 2014	34.9	28.3	63.2

Assets in the course of construction included in property, plant and equipment at the year end date total £13.4m (2015, £3.1m), and in land and buildings total £7.0m (2015, £7.0m). No depreciation has been charged on these assets.

At 27 February 2016, the Group had not entered into any contractual commitments for the acquisition of property, plant and equipment (2015, £nil).

### 16 Subsidiaries

A list of all investments in subsidiaries, including the name, country of incorporation, proportion of ownership interest is given in note 35 to the Company's separate financial statements.

### 17 Inventories

	2016 £m	2015 £m
Finished goods	100.4	93.7
Sundry stocks	1.1	1.1
	<b>101.5</b>	94.8

A net charge of £12.1m (2015, £9.1m) has been made to the income statement in respect of written down inventories.

There was no inventory pledged as security for liabilities in the current or prior period.

## 18 Trade and other receivables

	2016 £m	2015 (restated see note 2) £m
Amount receivable for the sale of goods and services	624.7	627.9
Allowance for doubtful debts	(97.6)	(100.9)
	527.1	527.0
Other debtors and prepayments	26.3	22.5
	553.4	549.5

Trade receivables are measured at amortised cost.

The average credit period given to customers for the sale of goods is 222 days (2015 restated, 230 days). Interest is charged at 58.7% (2015, 58.7%) on the outstanding balance. Where there is objective evidence of financial difficulty, a provision of estimated irrecoverable amounts is determined by reference to past default experience. A provision is held for all trade receivables that reach the trigger point of 56 days past due. For customers who find themselves in financial difficulties, the Group may offer revised payment terms to support the customer, encouraging customer rehabilitation and thereby maximising long term returns. However as the customer is not meeting their original payment terms a provision is held for these receivables. Generally, receivables over 150 days past due are written off in full.

Before accepting any new customer, the Group uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Credit limits and scores attributed to customers are reviewed every 28 days. The credit quality of trade receivables that are neither past due nor impaired, with regard to the historical default rate has remained stable.

	2016 £m			2015 (restated see note 2) £m		
	Trade receivables	Trade receivables on payment arrangements	Total trade receivables	Trade receivables	Trade receivables on payment arrangements	Total trade receivables
Ageing of trade receivables						
Current – not past due	406.6	94.2	500.8	409.1	97.8	506.9
0 – 28 days – past due	41.9	14.0	55.9	39.3	16.7	56.0
29 – 56 days – past due	20.8	5.0	25.8	18.8	6.1	24.9
57 – 84 days – past due	14.4	3.4	17.8	12.5	4.0	16.5
85 – 112 days – past due	10.2	2.6	12.8	8.9	3.1	12.0
Over 112 days – past due	8.5	3.1	11.6	7.8	3.8	11.6
Gross trade receivables	502.4	122.3	624.7	496.4	131.5	627.9
Allowance for doubtful debts	(32.4)	(65.2)	(97.6)	(29.5)	(71.4)	(100.9)
Net trade receivables	470.0	57.1	527.1	466.9	60.1	527.0

The carrying amount of trade receivables whose terms have been renegotiated but would otherwise be past due totalled £93.1m at 27 February 2016 (2015, £97.1m). Interest income recognised on trade receivables which have been impaired was £41.7m (2015 as restated, £43.7m).

	2016 £m	2015 (restated see note 2) £m
Movement in the allowance for doubtful debts		
Balance at the beginning of the period	100.9	115.2
Amounts charged net to the income statement	110.3	109.0
Net amounts written off	(113.6)	(123.3)
Balance at the end of the period	97.6	100.9

The concentration of credit risk is limited due to the customer base being large and unrelated and comprising 1.3 million (2015, 1.3 million) customers. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

## NOTES TO THE GROUP ACCOUNTS

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### 18 Trade and other receivables (continued)

'Other debtors and prepayments' includes a net VAT debtor, comprising the VAT liability which arises from day to day trading, together with amounts in relation to matters which are in dispute with HMRC. The Group continues to be in discussion with HMRC in relation to the VAT consequences of the allocation of marketing costs between our retail and credit businesses. At this stage it is not possible to determine how the matter will be resolved. However within our year end VAT debtor is an asset of £21.7m which has arisen as a result of cash payments made under protective assessments raised by HMRC. Based on legal counsel's opinion, we believe that we will recover this amount in full from HMRC and we are engaged in a legal process to do so.

Other debtors and prepayments do not include impaired assets. The maximum exposure to credit risk at the reporting date is the carrying value of each class of asset. The Group does not hold any collateral over these balances.

### 19 Bank overdraft and loans

	2016 £m	2015 £m
Bank loans	335.0	287.0
The borrowings are repayable as follows:		
Within one year	–	7.0
In the second year	–	280.0
In the third to fifth year	335.0	–
Amounts due for settlement after 12 months	335.0	280.0

All borrowings are held in sterling.

	2016 %	2015 %
The weighted average interest rates paid were as follows:		
Bank overdrafts	2.0	2.0
Bank loans	2.4	2.4

The principal features of the Group's borrowings are as follows:

- Bank overdrafts which are nil at the current and prior year ends are repayable on demand, unsecured and bear interest at a margin over bank base rates.
- The Group has a bank loan of £250m (2015, £250m) secured by a charge over certain 'eligible' trade debtors (current and 0–28 days past due) of the Group and is without recourse to any of the Group's other assets. The facility has a current limit of £280m for which finance costs are linked to US commercial paper rates which is committed until August 2020.

The Group also has unsecured bank loans of £85m (2015, £37m) drawn down under a medium term bank revolving credit facility, of £125 million, which is committed until September 2020.

- All borrowings are arranged at floating rates, thus exposing the Group to cash flow interest rate risk. The Group may use derivatives such as interest rate swaps where appropriate to manage this risk. None have been used in the current or prior year. Based on weighted average interest rates and the value of bank loans at 27 February 2016 the estimated future interest cost per annum until maturity would be £2.3m (2015, £2.0m).

At 27 February 2016, the Group had available £90m (2015, £83m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

Note 21 summarises the objectives and policies for holding or issuing financial instruments and similar contracts, and the strategies for achieving those objectives that have been followed during the period.

There is no material difference between the fair value and book value of the Group's borrowings.

## 20 Derivative financial instruments

At the balance sheet date, details of outstanding forward foreign exchange contracts that the Group has committed to are as follows:

	2016 £m	2015 £m
Notional amount – Sterling contract value	21.5	33.9
Fair value of asset recognised	2.2	1.1

Changes in the fair value of assets/liabilities recognised, being non-hedging currency derivatives, amounted to a credit of £1.1m (2015, credit of £2.7m) to income in the period.

The financial instruments that are measured subsequent to initial recognition at fair value are all grouped into Level 2 (2015, same).

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices).

There were no transfers between Level 1 and Level 2 during the year (2015, same).

## 21 Financial instruments

### Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 19, cash and cash equivalents disclosed in note 26 and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 24 to 25 and the Statement of Changes in Equity.

### Gearing ratio

The gearing ratio at the year end is as follows:

	2016 £m	2015 £m
Debt	335.0	287.0
Cash and cash equivalents	45.3	40.4
Net Debt	289.7	246.6
Equity	476.0	450.0
Gearing ratio	61%	55%

Debt is defined as long and short-term borrowings, as detailed in note 19.

Equity includes all capital and reserves of the Group attributable to equity holders of the parent.

### Externally imposed capital requirement

The Group is not subject to externally imposed capital requirements.

### Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2.

### Financial risk management objectives

The financial risks facing the Group include currency risk, credit risk, liquidity risk and cash flow interest rate risk. The Group seeks to minimise the effects of certain of these risks by using derivative financial instruments to hedge these risk exposures as governed by the Group's policies. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.



## NOTES TO THE GROUP ACCOUNTS

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### 21 Financial instruments (continued)

#### Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

It is the policy of the Group to enter into forward foreign exchange contracts to cover specific foreign currency payments for the purchase of overseas sourced products. Group policy allows for these exposures to be hedged for up to three years ahead. At the balance sheet date, details of the notional value of outstanding US dollar forward foreign exchange contracts that the Group has committed to are as follows:

	2016 £m	2015 £m
Less than 6 months	17.5	14.7
6 to 12 months	4.0	13.4
12 to 18 months	–	5.8
	<b>21.5</b>	<b>33.9</b>

Forward contracts outstanding at the period end are contracted at US dollar exchange rates ranging between 1.51 and 1.58.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2016 £m	2015 £m	2016 £m	2015 £m
Euro	5.7	1.1	7.1	7.3
US dollar	13.7	9.8	–	0.9

#### Foreign currency sensitivity analysis

The following table details the Group's hypothetical sensitivity to a 10% increase and decrease in sterling against the relevant foreign currencies. The sensitivity rate of 10% represents the director's assessment of a reasonably possible change. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit before tax.

	Euro Currency Impact		US Dollar Currency Impact	
	2016 £m	2015 £m	2016 £m	2015 £m
Income statement				
Sterling strengthens by 10%	0.2	(0.6)	0.5	0.8
Sterling weakens by 10%	0.6	0.7	(2.4)	(1.0)

#### Categories of financial instruments

	2016 £m	2015 £m
<b>Financial assets</b>		
Cash and bank balances	45.3	40.4
Derivatives at fair value through profit and loss – held for trading	2.2	1.1
Loans and receivables	527.1	527.0
	<b>574.6</b>	<b>568.5</b>
<b>Financial liabilities</b>		
Derivatives at fair value through profit and loss – held for trading	–	–
Amortised cost	403.7	(357.3)
	<b>403.7</b>	<b>(357.3)</b>

#### Interest rate risk management

The Group is exposed to interest rate risk, as entities in the Group borrow funds at floating interest rates. Where appropriate, exposure to interest rate fluctuations on indebtedness is managed by using derivatives such as interest rate swaps.

### Interest rate sensitivity analysis

If interest rates had increased by 0.5% and all other variables were held constant, the Group's profit before tax for the 52 weeks ended 27 February 2016 would have decreased by £1.4m (2015, £1.4m).

This sensitivity analysis has been determined based on exposure to interest rates at the balance sheet date and assuming the net debt outstanding at the year end date was outstanding for the whole year.

### Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. Investments of cash surpluses, borrowings and derivative financial instruments are made through banks which are approved by the board.

All customers who wish to trade on credit terms are subject to credit verification procedures, supplied by independent rating agencies. Customer debtor balances are monitored on an ongoing basis and provision is made for estimated irrecoverable amounts. The concentration of credit risk is limited due to the customer base being large and unrelated.

### Liquidity risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages liquidity risk by maintaining adequate banking and borrowing facilities and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in note 19 is a description of additional undrawn facilities that the Group has at its disposal and details of the Group's remaining contractual maturity for its non-derivative financial liabilities.

The following are the contractual maturities of financial liabilities, including estimated interest payments:

	2016 Carrying Amount £m	2016 Contractual Cash flows £m	2016 1 year or less £m	2016 1 to <2 years £m	2016 2 to <5 years £m	2016 5 years and over £m
<b>2016</b>						
<b>Non derivative financial liabilities</b>						
Secured bank loans	(335.0)	(371.3)	(7.9)	(7.9)	(355.5)	–
Trade payables	(68.7)	(68.7)	(68.7)	–	–	–
<b>Derivative financial liabilities</b>						
Forward exchange contracts						
Inflow	2.2	2.2	2.2	–	–	–
	<b>(401.5)</b>	<b>(412.1)</b>	<b>(68.8)</b>	<b>(2.3)</b>	<b>(341.0)</b>	<b>–</b>
	2015 Carrying Amount £m	2015 Contractual Cash flows £m	2015 1 year or less £m	2015 1 to <2 years £m	2015 2 to <5 years £m	2015 5 years and over £m
<b>2015</b>						
<b>Non derivative financial liabilities</b>						
Secured bank loans	(287.0)	(294.6)	(14.0)	(280.6)	–	–
Trade payables	(70.3)	(70.3)	(70.3)	–	–	–
<b>Derivative financial liabilities</b>						
Forward exchange contracts						
Inflow	1.1	1.1	1.1	–	–	–
	<b>(356.2)</b>	<b>(363.8)</b>	<b>(83.2)</b>	<b>(280.6)</b>	<b>–</b>	<b>–</b>

### Fair value of financial instruments

Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

The carrying amounts of financial assets and financial liabilities recorded at the amortised cost in the financial statements approximate to their fair values, with the exception of trade receivables.

As discussed in Note 18, where a customer finds themselves in financial difficulty, we may offer revised payment terms. This maximises long term returns to the business, but may not maximise the present value of the receivable. Therefore, the Group believes the amortised cost does not reflect the fair value of these receivables, which we have calculated as £554.0m.

## NOTES TO THE GROUP ACCOUNTS

CONTINUED

### 22 Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting periods.

	Debtor Impairment provision £m	Share based payments £m	Accelerated tax depreciation £m	Retirement benefit obligations £m	Other £m	Total £m
At 1 March 2014 – restated see note 2	4.9	3.8	(7.0)	0.8	(1.4)	1.1
Credit/(charge) to income	(0.9)	0.5	(0.2)	0.1	0.3	(0.2)
Charge to equity	–	(1.9)	–	(0.3)	–	(2.2)
At 28 February 2015 – restated see note 2	4.0	2.4	(7.2)	0.6	(1.1)	(1.3)
Credit/(charge) to income	(1.4)	0.4	(3.2)	–	0.3	(3.9)
Charge to equity	–	(1.7)	–	(2.5)	–	(4.2)
<b>At 27 February 2016</b>	<b>2.6</b>	<b>1.1</b>	<b>(10.4)</b>	<b>(1.9)</b>	<b>(0.8)</b>	<b>(9.4)</b>

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2016 £m	2015 (restated see note 2) £m
Deferred tax assets	3.9	7.2
Deferred tax liabilities	(13.3)	(8.5)
	(9.4)	(1.3)

At the balance sheet date, the Group has unused tax losses of £0.1m (2015, £0.1m) and capital losses of £4.4m (2015 £4.4m) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams within the relevant subsidiary.

### 23 Trade and other payables

	2016 £m	2015 £m
Trade payables	68.7	70.3
Other taxes and social security	–	5.0
Other creditors	0.4	0.4
Accruals and deferred income	30.6	33.2
	99.7	108.9

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 25 days (2015, 30 days).

The Group has financial risk management policies in place to ensure that all payables are paid within agreed credit terms.

### 24 Share capital

	2016 Number	2015 Number	2016 £m	2015 £m
<b>Allotted, called-up and fully paid</b>				
Ordinary shares of 111 <sup>1</sup> / <sub>99</sub> p each				
At 27 February 2016 & 28 February 2015	283,429,454	283,429,454	31.3	31.3

The company has one class of ordinary shares which carry no right to fixed income.

## 25 Own shares

	2016 £m	2015 £m
Balance at 28 February 2015	0.3	0.5
Additions	0.4	0.2
Issue of own shares on exercise of share options	(0.5)	(0.4)
<b>Balance at 27 February 2016</b>	<b>0.2</b>	<b>0.3</b>

The own shares reserve represents the cost of shares in N Brown Group plc held by the N Brown Group plc Employee Share Ownership Trust to satisfy options under the Group's various share benefit schemes (see note 29).

At 27 February 2016 the employee trusts held 897,018 shares in the company (2015, 1,370,506).

## 26 Cash and cash equivalents

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

A breakdown of significant cash and cash equivalent balances by currency is as follows:

	2016 £m	2015 £m
Sterling	44.9	38.5
Euro	1.8	1.5
US Dollar	(1.4)	0.4
	<b>45.3</b>	<b>40.4</b>

## 27 Contingent liabilities

Parent Company bank overdrafts which at 27 February 2016 amounted to £13.0m (2015, £49.4m) have been guaranteed by certain subsidiary undertakings.

## 28 Operating lease arrangements

	2016 £m	2015 £m
Minimum lease payments under operating leases recognised as an expense for the period	9.8	8.0

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2016 £m	2015 £m
Within one year	1.4	0.3
In the second to fifth years inclusive	18.9	20.8
After five years	6.0	11.0
	<b>26.3</b>	<b>32.1</b>

Operating lease payments represent rentals payable by the Group for certain buildings, plant and equipment and motor vehicles.

The Group's operating leases include stores, certain buildings, plant and equipment and vehicles. These have varying terms, restrictions and renewal rights. The commercial terms of the Group's operating leases vary, however they commonly include either market rent review or an index linked rent review. The timing of when rent reviews take place differs for each lease.

## NOTES TO THE GROUP ACCOUNTS

CONTINUED

### 29 Equity settled share based payments

The remuneration report on pages 64 to 79 contains details of management and sharesave options/awards offered to employees of the Group.

Details of the share options/awards outstanding during the period are as follows:

Option scheme	Option price in pence	Exercise period	Number of shares 2016	Number of shares 2015
<b>Option scheme</b>				
2010 Savings related scheme	189 – 420	August 2016 – February 2021	1,139,126	1,462,239
2010 Executive scheme	211 – 459	May 2009 – August 2024	776,000	1,380,799
Unapproved executive scheme	211 – 459	May 2009 – August 2024	719,077	1,296,532
<b>Long-term incentive scheme awards</b>				
June 2012	–	June 2015 – December 2015	–	891,609
July 2013	–	July 2016 – December 2016	579,981	579,981
August 2013	–	August 2016 – February 2017	151,834	151,834
August 2014	–	August 2017 – July 2024	872,955	872,955
June 2015	–	June 2018 – June 2025	1,098,723	–
<b>Deferred annual bonus scheme awards</b>				
May 2013	–	May 2015 – November 2015	–	89,133
May 2014	–	May 2016 – November 2016	32,559	32,559
May 2015	–	May 2017 – November 2017	1,562	–

Movements in share options are summarised as follows:

	2016		2015	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at the beginning of the period	4,139,570	2.80	5,073,664	2.53
Granted during the period	527,372	2.98	807,176	4.09
Forfeited during the period	(1,398,491)	2.73	(1,257,659)	2.81
Exercised during the period	(634,248)	1.46	(483,611)	2.07
<b>Outstanding at the end of the period</b>	<b>2,634,203</b>	<b>3.20</b>	<b>4,139,570</b>	<b>2.80</b>
<b>Exercisable at the end of the period</b>	<b>349,820</b>	<b>2.51</b>	<b>456,542</b>	<b>2.38</b>

Options were exercised on a regular basis throughout the period and the weighted average share price during this period was 331 pence (2015, 426 pence). The options outstanding at 27 February 2016 had a weighted average remaining contractual life of 4.4 years (2015, 5.1 years). The aggregate estimated fair values of options granted in the period is £629,348 (2015, £851,009).

Movements in management share awards are summarised as follows:

	2016		2015	
	Number of share awards	Weighted average exercise price £	Number of share awards	Weighted average exercise price £
Outstanding at the beginning of the period	2,618,071	–	2,747,414	–
Granted during the period	1,100,285	–	905,514	–
Forfeited during the period	(953,150)	–	(328,656)	–
Exercised during the period	(27,592)	–	(706,201)	–
<b>Outstanding at the end of the period</b>	<b>2,737,614</b>	<b>–</b>	<b>2,618,071</b>	<b>–</b>
<b>Exercisable at the end of the period</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

The awards outstanding at 27 February 2016 had a weighted average remaining contractual life of 6.7 years (2015, 4.0 years).

The fair value of management and sharesave options/awards granted is calculated at the date of grant using a Black-Scholes option pricing model. The inputs into the Black-Scholes model are as follows:

	2016	2015
Weighted average share price at date of grant (pence)	339	441
Weighted average exercise price (pence)	97	193
Expected volatility (%)	27.7 – 34.2	26.0 – 36.2
Expected life (years)	2.5 – 5.5	2.5 – 5.5
Risk-free rate (%)	0.9	1.2
Dividend yield (%)	4.2	3.4

Expected volatility was determined by calculating the historical volatility of the Group's share price over a period equivalent to the expected life of the option. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The Group recognised total expenses of £2.2m and £2.1m related to equity-settled share based payment transactions in 2016 and 2015 respectively.

### 30 Retirement benefit schemes

#### Defined contribution schemes

The Group operates defined contribution retirement benefit schemes for all qualifying employees.

The Group is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to income of £3.1m (2015, £3.3m) represents contributions payable to the schemes by the Group at rates specified in the rules of the plans. As at 27 February 2016, contributions of £0.3m (2015, £0.4m) due in respect of the current reporting period had not been paid over to the schemes.

#### Defined benefit scheme

The Group operates a defined benefit scheme, the N Brown Group Pension Fund. Under the scheme, the employees are entitled to retirement benefits based on final pensionable earnings and was closed to new members from 31 January 2002. On 29 February 2016 the scheme was closed to future accrual. A past service credit in respect of this closure has been recognised in 2016, as the company was both committed to the change, and had the right to apply the change by the balance sheet date. No other post-retirement benefits are provided. The scheme is a funded scheme and operates under UK trust law and the trust is a separate legal entity from the Group. The scheme is governed by a board of trustees. The trustees are required by law to act in the best interests of scheme members and are responsible for setting certain policies (eg investment funding) together with the Group. The scheme exposes the Group to actuarial risks such as longevity risk, interest rate risk and investment risk.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2012 by an independent qualified actuary. The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method. The principal actuarial assumptions used in determining the Group's net retirement benefit obligations at the balance sheet date were as follows:

	2016	2015
Discount rate	3.90%	3.50%
Future pension increases	2.15%	2.12%
Inflation – Retail Price Index	3.15%	3.25%
Inflation – Consumer Price Index	2.15%	2.25%
Life expectancy at age 65 (years)		
Pensioner aged 65	24.6	24.6
Non-pensioner aged 45	26.7	26.7

## NOTES TO THE GROUP ACCOUNTS

### CONTINUED

### 30 Retirement benefit schemes (continued)

Amounts recognised in income in respect of these defined benefit schemes are as follows:

	2016 £m	2015 £m
Current service cost	2.3	2.2
Past service cost	(2.4)	–
Net interest cost	0.1	0.2
	–	2.4

The actual return on scheme assets was £3.7m (2015, £21.5m).

The amount included in the balance sheet arising from the group's obligations in respect of its defined benefit retirement benefit scheme is as follows:

	2016 £m	2015 £m
Present value of defined benefit obligations	(108.1)	(120.8)
Fair value of scheme assets	118.9	117.5
Surplus/(deficit) in the scheme and liability recognised in the balance sheet	10.8	(3.3)

The surplus reflects the economic benefit at the balance sheet date, that the Group would be entitled to Group, through refund, in the event the Scheme was wound up.

Movements in the present value of defined benefit obligations were as follows:

	2016 £m	2015 £m
At 28 February 2015	120.8	100.8
Current service cost	2.3	2.2
Past service cost	(2.4)	–
Interest cost	4.2	4.3
Remeasurement (gain)/loss		
a. Effect of changes in financial assumptions	(10.1)	16.0
b. Effect of experience adjustments	(2.8)	–
c. Benefits paid	(3.9)	(2.5)
<b>At 27 February 2016</b>	<b>108.1</b>	<b>120.8</b>

Movements in the fair value of the scheme assets were as follows:

	2016 £m	2015 £m
At 28 February 2015	117.5	96.6
Interest income	4.1	4.1
Return on scheme assets excluding interest income	(0.4)	17.4
Contributions from sponsoring companies	1.6	1.9
Benefits paid	(3.9)	(2.5)
<b>At 27 February 2016</b>	<b>118.9</b>	<b>117.5</b>

The analysis of the scheme assets at the balance sheet date was as follows:

	2016		2015	
	£m	%	£m	%
Equities	33.8	28.4	37.4	31.8
Fixed-interest government bonds	14.8	12.4	18.0	15.3
Index-linked government bonds	29.1	24.5	29.5	25.1
Corporate Bonds	14.6	12.3	12.5	10.6
Property	2.2	1.9	2.1	1.8
Growth fixed income	13.2	11.1	9.7	8.3
Alternatives	10.9	9.2	6.9	5.9
Cash and cash equivalents	0.3	0.2	1.4	1.2
	118.9	100.0	117.5	100.0

Significant actuarial assumptions for the determination of the defined benefit obligation are the discount rate and inflation. An increase of 0.25% in the discount rate used would decrease the defined benefit obligation by £5.8m (2015, £7.0m). An increase of 0.25% in the inflation assumption would increase the defined benefit obligation by £4.4m (2015, £4.7m).

The above sensitivities are applied to adjust the defined benefit obligation at the end of the reporting period. Whilst the analysis does not take account of the full distribution of cash flows under the scheme, it does provide an approximation to the sensitivity of the assumptions shown. No changes have been made to the method and assumptions used in this analysis from those used in the previous period.

The scheme is funded by the group and current employee members. Funding the scheme is based on a separate actuarial valuation for funding purposes for which the assumptions may differ from the assumptions above. Funding requirements are formally set out in the Statement of Funding Principles, Schedule of Contributions and Recovery Plan agreed between the trustees and the Group.

Whilst no commitment has been made as at the balance sheet date, the Group expects to contribute £0.2m (2015, £1.8m) to the defined benefit scheme in the next financial year.

The weighted average duration of the defined benefit obligation at 27 February 2016 is approximately 24 years (2015, 24 years).

The defined benefit obligation at 27 February 2016 can be approximately attributed to the scheme members as follows:

- Active members: 0% (2015, 44%)
- Deferred members: 68% (2015, 36%)
- Pensioner members; 32% (2015, 20%)

All benefits are vested at 27 February 2016 (unchanged from 28 February 2015).

### 31 Related party transactions

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Details of remuneration paid to the Group's key management personnel are given on page 75 of the directors' remuneration report.



## COMPANY BALANCE SHEET

As at 27 February 2016	Note	2016 £m	2015 (restated see note 33) £m	2014 (restated see note 33) £m
<b>Fixed assets</b>				
Investments	35	366.0	363.8	361.7
<b>Current assets</b>				
Debtors	36	58.8	45.4	24.0
Cash and cash equivalents		0.1	0.1	0.3
		58.9	45.5	24.3
<b>Creditors</b>				
Amounts falling due within one year	37	(199.5)	(243.0)	(225.2)
<b>Net current liabilities</b>		(140.6)	(197.5)	(200.9)
<b>Total assets less current liabilities</b>		225.4	166.3	160.8
<b>Non current liabilities</b>				
Bank loans	38	(85.0)	(30.0)	(30.0)
<b>Net assets</b>		140.4	136.3	130.8
<b>Capital and reserves</b>				
Called-up share capital	39	31.3	31.3	31.3
Share premium account		11.0	11.0	11.0
Own shares	25	(0.2)	(0.3)	(0.5)
Profit and loss account		98.3	94.3	89.0
<b>Shareholders' funds</b>		140.4	136.3	130.8

The financial statements of N Brown Group plc (Registered Number 814103) were approved by the board of directors and authorised for issue on 2 June 2016.

They were signed on its behalf by:



**Craig Lovelace**

CFO and Executive Director

## COMPANY CASH FLOW STATEMENT

For the 52 weeks ended 27 February 2016	Note	2016 £m	2015 £m
<b>Net cash outflow from operating activities</b>		(58.4)	(5.8)
<b>Investing activities</b>			
Dividends received		49.0	50.6
<b>Net cash generated by investing activities</b>		49.0	50.6
<b>Financing activities</b>			
Dividends paid		(40.2)	(40.0)
Increase in bank loans		55.0	–
Intergroup loan note interest paid		(5.8)	(5.7)
Purchase of shares by ESOT		(0.4)	(0.2)
Proceeds on issue of shares held by ESOT		0.8	0.9
<b>Net cash used in financing activities</b>		9.4	(45.0)
Net decrease in cash and cash equivalents		–	(0.2)
Cash and cash equivalents at beginning of period		0.1	0.3
<b>Cash and cash equivalents at end of period</b>		0.1	0.1

## RECONCILIATION OF OPERATING PROFIT TO NET CASH FROM OPERATING ACTIVITIES

For the 52 weeks ended 27 February 2016	2016 £m	2015 £m
<b>Operating loss</b>	<b>(1.4)</b>	(2.2)
<b>Adjustment for movements in working capital</b>		
Increase in trade and other receivables	(13.4)	(21.9)
(Decrease)/ increase in trade and other payables	(43.6)	18.3
<b>Net cash outflow from operating activities</b>	<b>(58.4)</b>	(5.8)

## COMPANY STATEMENT OF CHANGES IN EQUITY

	Share capital (note 39) £m	Share premium £m	Own Shares (restated see note 33) £m	Retained earnings (restated see note 33) £m	Total £m
<b>Changes in equity for the 52 weeks ended 27 February 2016</b>					
Balance at 28 February 2015 as previously reported	31.3	11.0	–	74.5	116.8
Effect of amendment to IFRS 2	–	–	–	18.9	18.9
Effect of amendment to treat the ESOT as a branch of the parent company	–	–	(0.3)	0.9	0.6
Balance at 28 February 2015 - restated see note 33	31.3	11.0	(0.3)	94.3	136.3
<b>Comprehensive income for the period</b>					
Profit for the period	–	–	–	41.7	41.7
Other items of comprehensive income for the period	–	–	–	–	–
Total comprehensive income for the period	–	–	–	41.7	41.7
<b>Transactions with owners recorded directly in equity</b>					
Equity dividends	–	–	–	(40.2)	(40.2)
Purchase of own shares by ESOT	–	–	(0.4)	–	(0.4)
Issue of own shares by ESOT	–	–	0.5	–	0.5
Adjustment to equity for share payments	–	–	–	0.3	0.3
Share based payment charge	–	–	–	2.2	2.2
Total contributions by and distributions to owners	–	–	0.1	(37.7)	(37.6)
<b>Balance at 27 February 2016</b>	<b>31.3</b>	<b>11.0</b>	<b>(0.2)</b>	<b>98.3</b>	<b>140.4</b>
<b>Changes in equity for the 52 weeks ended 28 February 2015</b>					
Balance at 1 March 2014 as previously reported	31.3	11.0	–	71.8	114.1
Effect of amendment to IFRS 2	–	–	–	16.8	16.8
Effect of amendment to treat the ESOT as a branch of the parent company	–	–	(0.5)	0.4	(0.1)
Balance at 1 March 2014 - restated see note 33	31.3	11.0	(0.5)	89.0	130.8
<b>Comprehensive income for the period</b>					
Profit for the period	–	–	–	42.7	42.7
Other items of comprehensive income for the period	–	–	–	–	–
Total comprehensive income for the period	–	–	–	42.7	42.7
<b>Transactions with owners recorded directly in equity</b>					
Equity dividends	–	–	–	(40.0)	(40.0)
Purchase of own shares by ESOT	–	–	(0.2)	–	(0.2)
Issue of own shares by ESOT	–	–	0.4	–	0.4
Adjustment to equity for share payments	–	–	–	0.5	0.5
Share based payment charge	–	–	–	2.1	2.1
Total contributions by and distributions to owners	–	–	0.2	(37.4)	(37.2)
<b>Balance at 28 February 2015 - restated see note 33</b>	<b>31.3</b>	<b>11.0</b>	<b>(0.3)</b>	<b>94.3</b>	<b>136.3</b>

## **NOTES TO THE COMPANY ACCOUNTS**

### **32 Significant accounting policies**

#### **Basis of accounting**

N Brown Group plc ("the Company") is a company incorporated and domiciled in the UK. These financial statements present information about the Company as an individual undertaking and not about its Group. These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101"). The amendments to FRS 101 (2014/15 Cycle) issued in July 2015 and effective immediately have been applied.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In the transition to FRS 101, the Company has made no measurement and recognition adjustments and has applied IFRS 1 whilst ensuring that its assets and liabilities are measured in compliance with FRS 101.

IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs in the transition period however none are applicable to these financial statements.

The Company is the ultimate parent undertaking of the Group and also prepares consolidated financial statements. The consolidated financial statements of N Brown Group plc are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from its registered office address.

The Company proposes to adopt the reduced disclosure framework of FRS 101 in its next financial statements. The principal accounting policies summarised below have, unless otherwise stated, been applied consistently to all periods presented in these accounts and in preparing an opening FRS 101 IFRS balance sheet at 1 March 2014 for the purposes of the transition to FRS 101.

#### **Investments**

Fixed asset investments in subsidiaries are shown at cost less provision for impairment.

#### **Bank borrowings**

Interest bearing bank loans and overdrafts are recorded at the proceeds received. Finance charges are accounted for on an accruals basis in the profit and loss account using the effective interest rate method.

#### **Taxation**

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

#### **Dividends**

Dividends receivable are recognised when the company's right to receive payment is established. Dividends payable to the Company's shareholders are recognised as a liability and deducted from shareholders' equity in the period in which the shareholders' right to receive payment is established.

#### **Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents on the basis there is right to offset.

#### **Own shares held by ESOT**

Transactions of the Company-sponsored Employee Share Ownership Trust (ESOT) are treated as being those of the Company and are therefore reflected in the company financial statements. In particular, the trust's purchases and sales of shares in the Company are debited and credited directly to equity.

### 33 Prior period restatement

N Brown plc operates Group wide equity settled share incentive schemes. Whilst the Company has no own employees of its own, it settles all share incentive schemes granted to employees of its subsidiaries. In 2016 the directors reviewed the application of IFRS 2 share based payments. In prior periods, the Group wide schemes had not been reflected in the individual accounts of N Brown Group plc. The Company accounts have been restated with the Company now recognising a credit to equity in respect of all group wide equity settled share based payment schemes. As subsidiaries are not recharged for the share based payment charge, the amount is debited to cost of investment. The impact on the balance sheet in 2015 and 2014 is shown below, described as Adjustment 1.

The Company also acts as sponsor transferring cash and selling sufficient shares to enable an employee benefit trust to meet obligations of the Group wide equity settled share incentive schemes. In prior periods, the trust was accounted for in the Group accounts only and not in the Company accounts. On the basis that the trust is merely acting as an agent of the Company, the Company accounts have been restated to account for the assets and liabilities of the trust as if they were assets and liabilities of the Company. The Company cashflow statement has been restated on the same basis. Under this treatment, the accounting in the Company accounts is the same as the accounting in the Group accounts. The impact on the balance sheet in 2015 and 2014 is shown below, described as Adjustment 2.

	2015 As published £m	2015 Adjustment 1 £m	2015 Adjustment 2 £m	2015 As restated £m	2014 As published £m	2014 Adjustment 1 £m	2014 Adjustment 2 £m	2014 As restated £m
<b>Fixed assets</b>								
Investments	344.9	18.9	–	363.8	344.9	16.8	–	361.7
	344.9	18.9	–	363.8	344.9	16.8	–	361.7
Debtors	45.4	–	–	45.4	24.4	–	(0.4)	24.0
Cash and cash equivalents	–	–	0.1	0.1	–	–	0.3	0.3
	45.4	–	0.1	45.5	24.4	–	(0.1)	24.3
<b>Creditors</b>								
Amounts falling due in less than one year	(243.5)	–	0.5	(243.0)	(225.2)	–	–	(225.2)
Net current liabilities	(198.1)	–	0.6	(197.5)	(200.8)	–	(0.1)	(200.9)
Total assets less current liabilities	146.8	18.9	0.6	166.3	144.1	16.8	(0.1)	160.8
<b>Non current liabilities</b>								
Bank loans	(30.0)	–	–	(30.0)	(30.0)	–	–	(30.0)
Net assets	116.8	18.9	0.6	136.3	114.1	16.8	(0.1)	130.8
<b>Capital and reserves</b>								
Called-up share capital	31.3	–	–	31.3	31.3	–	–	31.3
Share premium account	11.0	–	–	11.0	11.0	–	–	11.0
Own shares	–	–	(0.3)	(0.3)	–	–	(0.5)	(0.5)
Profit and loss account	74.5	18.9	0.9	94.3	71.8	16.8	0.4	89.0
Shareholders' funds	116.8	18.9	0.6	136.3	114.1	16.8	(0.1)	130.8

### 34 Profit for the period

As permitted by section 408 of the Companies Act 2006 the company has elected not to present its own profit and loss account for the period.

N Brown Group plc reported a profit after tax for the financial period ended 27 February 2016 of £41.7m (2015, profit £42.7m) which includes dividends received of £49.0m (2015, £50.6m).

The non executive directors' remuneration was £569,000 (2015, £567,833) and seven non executive directors were remunerated (2015, nine). The executive directors were remunerated by a subsidiary company in both years. Further details are provided on page 75 of the directors' remuneration report.

The auditor's remuneration for audit services to the company of £15,000 (2015, £10,000) was borne by subsidiary undertakings.

### 35 Fixed asset investment

	2016 £m	2015 (restated see note 33) £m
Cost and net book value	366.0	363.8

## NOTES TO THE COMPANY ACCOUNTS

CONTINUED

### 35 Fixed asset investment (continued)

The company has investments in the following subsidiaries and joint ventures.

Company	Registered Office Address	Proportion held by the Group (%)
Aldrex Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100
Alexander Ross (Financial services) Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100
Ambrose Wilson Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100
Better Living Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100
Classic Combination Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100
Comfortably Yours Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100
Crescent Direct Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100
Cuss Contractors Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100
Dale House (Mail Order) Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100
Daly Harvey Morfitt Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100
DHM (Management Services) Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100
E Langfield & Co. Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100
Eunite Limited	Griffin House, 40 Lever Street, Manchester M60 6ES	100
Figleaves Global Trading Limited	Griffin House, 40 Lever Street, Manchester M60 6ES	100
Financial Services (Edinburgh) Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100
First Financial Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100
Gray & Osbourn Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100
Halwins Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100
Hammond House Investments International Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100
Hammond House Investments Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100
Hartingdon House Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100
HB Wainwright (Financial Services) Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100
Heather Valley (Woollens) Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100
Hilton Mailing Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100
Holland & Healey Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100
House of Stirling (Direct Mail) Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100
J D Williams & Co Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100
J D Williams Group Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100
J D Williams Merchandise Co Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100
JDW Finance Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100
JDW Pension Trustees Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100
Langley House Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100
Mature Wisdom Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100
Melgold Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100
NB Finance (Eire Reg)	29 Earlsfort Terrace, Dublin 2, Ireland	100
N Brown Pension Trustees Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100
N Brown Funding Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100
N Brown Group Quest Trustee Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100
N Brown Holdings Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100
N Brown No. 2 Ltd (Guernsey Reg)	St Martin's House, Le Bordage, St Peter Port, Guernsey, GY1 4AU	100
N Brown Property One Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100
N Brown Property Three Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100
N Brown Property Two Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100
NB Funding Guernsey Ltd (Guernsey Reg)	St Martin's House, Le Bordage, St Peter Port, Guernsey, GY1 4AU	100
NB Guernsey UK	Griffin House, 40 Lever Street, Manchester M60 6ES	100
NB Holdings Guernsey Ltd (Guernsey Reg)	St Martin's House, Le Bordage, St Peter Port, Guernsey, GY1 4AU	100
NB Insurance Guernsey Ltd (Guernsey Reg)	St Martin's House, Le Bordage, St Peter Port, Guernsey, GY1 4AU	100

Company	Registered Office Address	Proportion held by the Group (%)
NB Malta No1 Ltd (Malta Reg)	The Hedge Business Centre, Level 3, Triq ir - Rampa ta' San Giljan, St Julians STJ 1062, Malta	100
NB Malta No2 Ltd (Malta Reg)	The Hedge Business Centre, Level 3, Triq ir - Rampa ta' San Giljan, St Julians STJ 1062, Malta	100
Nochester Holdings (Eire Reg)	29 Earlsfort Terrace, Dublin 2, Ireland	100
Odhams Leisure Group Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100
Oxendale & Company Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100
Oxendale & Co. Ltd (Eire Reg)	Woodford Business Park, Santry, Dublin 17, Ireland	100
Reliable Collections Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100
Sander & Kay Limited	Griffin House, 40 Lever Street, Manchester M60 6ES	100
Speciality Home Shopping (US) Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100
Tagma Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100
T-Bra Limited	Griffin House, 40 Lever Street, Manchester M60 6ES	100
The Bury Boot & Shoe Co (1953) Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100
The Value Catalogue Limited	Griffin House, 40 Lever Street, Manchester M60 6ES	100
Vote It Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100
Whitfords (Bury) Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100
Whitfords (Cosytred) Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100
Whitfords (Textiles) Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100
Wingmark Ltd	Griffin House, 40 Lever Street, Manchester M60 6ES	100

### 36 Debtors

	2016 £m	2015 £m
Amounts falling due within one year:		
Amounts owed by Group undertakings	58.0	45.2
Prepayments and accrued income	0.8	0.2
	<b>58.8</b>	45.4

### 37 Creditors

	2016 £m	2015 £m
Amounts falling due within one year:		
Bank loans and overdrafts	13.0	56.4
Trade creditors	–	0.3
Amounts owed to Group undertakings	186.0	186.0
Accruals and deferred income	0.5	0.3
	<b>199.5</b>	243.0

### 38 Bank loans

	2016 £m	2015 £m
Bank overdrafts	13.0	49.4
Bank loans	85.0	37.0
	<b>98.0</b>	86.4
The borrowings are repayable as follows:		
On demand within one year	13.0	56.4
In the second year	–	30.0
In the third to fifth year	85.0	–
	<b>98.0</b>	86.4
Less: amounts due for settlement within 12 months (shown under current liabilities)	(13.0)	(56.4)
Amounts due for settlement after 12 months	<b>85.0</b>	30.0

## NOTES TO THE COMPANY ACCOUNTS

### CONTINUED

#### 38 Bank loans (continued)

The Company has unsecured bank loans of £85.0m (2015, £30.0m) drawn down under a medium term bank revolving credit facility committed until September 2020.

At 27 February 2016, the Company had available £60.0m (2015, £83.0m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

The weighted average interest rate paid were as follows:

	2016 %	2015 %
Bank overdrafts	2.0	2.0
Bank loans	1.9	1.7

#### 39 Share capital

	2016 Number	2015 Number	2016 £m	2015 £m
Allotted, called-up and fully paid Ordinary shares of 11 <sup>1</sup> /19p each				
<b>At 27 February 2016 &amp; 28 February 2015</b>	<b>283,429,454</b>	283,429,454	<b>31.3</b>	31.3

The Company has one class of ordinary share which carry no right to fixed income.

#### 40 Guarantees

Parent Company bank overdrafts which at 27 February 2016 amounted to £13.0m (2015, £49.4m) have been guaranteed by certain subsidiary undertakings.

#### 41 Related party transactions

Key Management Personnel of the Company are considered to be the Directors of the Company for the purposes of related party disclosures.

The Company's transactions with Key Management Personnel are disclosed in Note 34.