

10 October 2019



HALF YEAR RESULTS FOR THE 26 WEEKS ENDED 31 AUGUST 2019
New strategy delivers digital revenue and profit growth

| £m | 26 weeks to 31 August 2019 | 26 weeks to 1 Sept 2018 | Change |
|---|----------------------------------|----------------------------|---------|
| Group revenue | £432.9 | £457.8 | -5.4% |
| Product revenue | £282.3 | £311.4 | -9.3% |
| Financial services revenue | £150.6 | £146.4 | +2.9% |
| Statutory operating profit / (loss) | £14.7 | £(28.3) | +151.9% |
| Adjusted EBITDA ¹ | £54.1 | £52.0 | +4.0% |
| Statutory profit / (loss) before tax | £18.8 | £(27.1) | +169.4% |
| Adjusted profit before tax ² | £31.8 | £30.6 | +3.9% |
| Statutory EPS | 4.95p | (9.14)p | +154.2% |
| Adjusted EPS ² | 8.87p | 8.37p | +6.0% |
| Interim dividend (p per share) | 2.83p | 2.83p | 0.0% |
| Core net debt ³ | 67.5 | 30.5 | +121.3% |
| Overall net debt ⁴ | 481.6 | 420.5 | +14.5% |

¹ Adjusted EBITDA is defined as operating profit, excluding exceptionals, with depreciation and amortisation added back. The directors believe that adjusted EBITDA represents the most appropriate measure of the Group's underlying trading performance.

² Defined as excluding exceptionals and fair value movement on financial instruments.

³ Excludes debt securitised against receivables (customer loan book) of £658.0m (H1 FY19: £677.6m), and lease liabilities.

⁴ Total liabilities from financing activities less cash, excluding lease liabilities.

Results Highlights

Transformation continues with 84% of product revenue now digital

- Simply Be 97.6%, Jacamo 97.2%, JD Williams 79.6%, Ambrose Wilson 57.6%
- Product revenue excluding stores and USA down 6.2%

Continued digital revenue growth in Womenswear and Menswear

- Ambrose Wilson up 10.5%, Jacamo up 6.6%, JD Williams up 4.0%, Simply Be up 4.0%

Group gross margin decreased by 70bps to 53.5%

- Product gross margin down 190bps at 51.5% in a highly promotional market
- 140bps increase in financial services gross margin to 57.4%

Delivery of sustainable operating efficiencies

- 9.5% decline in operating expenses driven by a more targeted and data-led approach to marketing, removal of physical stores and USA costs and embedding efficiencies across the Group

Growth in adjusted EBITDA and adjusted profit before tax

- Adjusted EBITDA increased 4.0% to £54.1m
- Adjusted PBT increased 3.9% to £31.8m and statutory PBT increased 169.4% to £18.8m

Final customer redress provision following 29 August 2019 deadline

- Previously announced exceptional charge of £25.0m

Steve Johnson, Chief Executive, said:

"We announced our new strategy in May to return N Brown to sustainable profit growth and we have made good progress over the first half of the year."

"In particular, we have delivered on our strategy of growing digital revenue across Simply Be, JD Williams, Jacamo and Ambrose Wilson. This has been achieved by taking a more targeted approach to marketing and customer recruitment. The retail environment remains heavily promotional, but we are concentrating on continuing to improve our customer proposition and ensuring we operate as efficiently as possible, which has led to an increase of 4% in adjusted EBITDA for the period. We remain focussed on implementing our plans and the Board's full year expectations are unchanged."

Meeting for analysts and investors:

Management is hosting a presentation for analysts and investors today at 9.30am. Please contact Nbrown@mhpc.com for further information. A live webcast of the presentation will be available at: www.nbrown.co.uk.

For further information:

N Brown Group

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About N Brown Group:

N Brown is a top 10 UK clothing & footwear digital retailer. We are size inclusive, focusing on the needs of underserved customer groups – size 20+ and age 50+. We offer an extensive range of products, predominantly clothing, footwear and homewares, and our financial services proposition allows customers to spread the cost of shopping with us. We are headquartered in Manchester where we design, source and create our product offer and we employ over 2,400 people across the UK.

Next reporting date

The next reporting date is the Q3 trading statement on 16 January 2020.

PERFORMANCE REVIEW

Review of the last six months

We are six months into a year of transition for the business, as we begin to implement our new strategy and make the required changes to our business model and ways of working. We have made good progress and the necessary building blocks for success are being put in place. In the last six months, we have delivered combined digital growth of 5.0% in our Womenswear and Menswear brands and grown adjusted EBITDA by 4.0%.

In the last six months we have spent a substantial amount of time working on the future of our brand portfolio. We now have a clear and actionable market segmentation and are finalising the strategic direction for JD Williams, Simply Be, Ambrose Wilson and Jacamo as well as each of the product brands. Significant progress has been made and we will announce the final plans at the full year results.

Our ambition is to deliver profitable digital growth whilst generating sustainable free cash flow. This will enable us to bring down net debt, invest in the business and deliver shareholder returns. We now have a clear path to returning to free cash flow growth as we have passed the PPI deadline and have an agreement in principle or have settled all legacy old tax cases which will have, combined, accounted for a cash outflow of c.£200m in the last five financial years.

Our new strategy is oriented around the five pillars set out in May and we have made good progress under each of these component parts in the last six months.

1. We will focus on the UK

Strategic Objective: Maximise the UK core market before leveraging our international opportunity

We have focused our UK business around four core Brands, including a clear and new approach to Ambrose Wilson. In the first half of the year, we delivered digital growth of 4.6% on our three Womenswear Brands (Simply Be +4.0%, JD Williams +4.0% and Ambrose Wilson +10.5%). Menswear (Jacamo) has delivered 6.6% digital growth. Importantly, we are now an 84% digital business which represents a four percentage point increase from the 80% delivered in the previous financial year.

We have invested more in our Womenswear and Menswear brands in the last six months. We launched new campaigns for JD Williams, Simply Be and Jacamo, brought in new specialist fashion agency partners and have raised production quality. We have also focused our investment on established channels such as TV and Press, and newer brand building channels for us such as outdoor media.

In the UK we have completely relaunched our social media strategy and, whilst it is still early days, the results are encouraging. On Jacamo we relaunched the Instagram feed with entirely new content and this has generated good early results. This demonstrates the potential of social media channels as this is, increasingly, where our customers are engaging.

We closed down our International division and exited marketing directly to the USA, removing an unprofitable part of our business. This has enabled us to re-deploy key skills to support the UK business. We now have a clear and single minded focus on the UK.

2. We will simplify the business to improve the customer experience

Strategic Objective: A crisper, clearer brand proposition for our customers

In the last six months, we have moved to an agile way of delivering improvements to the customer experience to streamline digital user experience. We now have over 125 colleagues within our IT department working in 20 squads. This has enabled us to deliver improvements including changing our size guides from being desktop to being mobile and a crisper navigation structure on the Simply Be app. We have good momentum in this area, and we look forward to delivering more improvements in the next six months and beyond.

Our recently opened Hyphen Interactive Live Photo (HILP) photography studio is beginning to transform our ecommerce photography capabilities and has contributed to the cost efficiencies delivered in the period.

In November we will launch our automated returns facility at our warehouse in Shaw. This investment will deliver benefits to the customer through faster refunds, better stock availability and improved presentation of items returned to stock. It will also deliver operational benefits, by removing 66% of receiving and sortation activity.

3. We will deliver better products for our customers

Strategic Objective: Increase the number of customers, purchase frequency and basket size

We have placed the customer at the heart of decision-making across the business and have focused on understanding our customers' views on our product. In particular, we have taken learnings from digital product reviews and through weekly 'blind tasting' sessions of our products vs. competitors. The strongest feedback we receive about our products is from our customers and we have now ensured that listening to our customers is more deeply embedded in our culture.

We have made good progress in improving our branded portfolio to complement our own label ranges offering our customers an improved proposition. In September we launched Sea-Salt, Joules and Hobbs as new brands for JD Williams and in October, we are launching Tommy Hilfiger and Calvin Klein as new brands for Jacamo. Monsoon, Oasis, Lacoste and Lyle & Scott will also expand their product offer across JD Williams, Simply Be and Jacamo.

We have continued to drive further innovation through our market-leading body scanning technology and 3D design & product development to deliver continued fit improvements. We now have a much better understanding of our customers' shape, having scanned over 1,000 to date. This has fundamentally changed our approach to fit, moving it forward as a competitive differentiator.

We also selected our first clothing ranges using virtual technology which enabled us to design and select hundreds of styles in less than two weeks. This will drive sustainable cost efficiencies as it will significantly reduce our development time and negate the need for sample production.

4. We will trade smarter with Data

Strategic Objective: Improve operating efficiency and customer targeting

We have built good foundations in the last six months as enhanced use of our rich data has continued to improve customer insight in our business. We have moved to customer lifetime value ("CLTV") investment models in our digital marketing strategy to drive a more sustainable financial outcome. We have also adopted a data led approach to media spend, which has helped accelerate the business to be 84% digital.

We are at an early stage in trading smarter with data, but we have built good foundations and continue to develop our own in-house capability and bring new talent into the business.

5. We will inspire colleagues toward further delighting our customers

Strategic Objective: Better engaged colleagues will deliver an improved customer experience

We have introduced our new Vision, Mission and Purpose into the business, whilst also refreshing our company Values. We launched these to our colleagues to give them a clearer indication of the direction the business is heading in, and how we behave. The process has been developed bottom up, not top down, and is an important step in creating an engaged and dynamic culture.

We have also aligned all colleagues to the same reward framework of EBITDA growth, digital sales growth, customer satisfaction, financial services arrears and employee engagement. This means everyone across the organisation is both remunerated and incentivised around the same goals which is a significant step forward.

We have also improved the capabilities around the business to support the new strategy. In the last six months a Chief Brand Officer, Operations Director and Strategy Transformation Director have joined the business.

Outlook

We have made good progress focusing on profitable digital growth in the first half of the year despite the challenging and competitive external environment. Whilst mindful of the continued challenging macro-economic environment and significant uncertainties surrounding Brexit, we remain focused on driving sustainable digital revenue, profit and free cashflow growth to deliver improved shareholder value and the Board's full year expectations are unchanged.

FINANCIAL REVIEW

| £m | H1 FY20 | H1 FY19 | Change |
|------------------------------|--------------|--------------|--------------|
| Revenue | | | |
| JD Williams | 75.7 | 78.6 | -3.7% |
| Simply Be | 60.9 | 59.7 | +2.0% |
| Ambrose Wilson | 23.2 | 27.1 | -14.4% |
| Womenswear | 159.8 | 165.4 | -3.4% |
| Menswear | 32.4 | 30.7 | +5.5% |
| Product brands | 88.1 | 102.8 | -14.3% |
| Product revenue ¹ | 280.3 | 298.9 | -6.2% |
| US revenue | 2.0 | 5.6 | -64.3% |
| Stores | - | 6.9 | -100% |
| Total product revenue | 282.3 | 311.4 | -9.3% |
| Financial services revenue | 150.6 | 146.4 | +2.9% |
| Group revenue | 432.9 | 457.8 | -5.4% |

1. Product revenue excluding stores and USA

Revenue

Group revenue declined 5.4% to £432.9m, driven by product revenue declining 9.3% and financial services

revenue increasing by 2.9%.

Product revenue

Product revenue declined as a result of the continued managed decline of the legacy offline business, the shift in focus away from USA and the impact of the closure of our store portfolio in the prior year. Excluding stores and USA, product revenue was down 6.2%.

Womenswear revenue was down 3.4% in the period as we continue to scale back unprofitable marketing and offline recruitment, however in-line with our digital growth strategy Womenswear digital revenue increased 4.6% in the half. JD Williams revenue was down 3.7% but displayed good growth in digital revenue with a 4.0% increase compared to the previous period. Simply Be grew revenue by 2.0% during the period excluding stores and reported a 4.0% growth in digital revenue compared to the prior period. Simply Be's performance continues to reflect our ongoing transition to customer lifetime value modelling in this financial year. Ambrose Wilson revenue was down 14.4% but our focus has been on growing its digital revenue which increased 10.5% in the period. Menswear, which is the Jacamo brand, increased revenue by 5.5% and delivered digital revenue growth of 6.6% in the period.

The Group's transformation to a leading digital retailer continues, with digital sales now accounting for 84% of product revenue, an increase of 4 percentage points in the last six months and 8 percentage points over the last 12 months. In the last six months digital revenue grew by 1.5% compared to H1 FY19 and was ahead by 5.0% for our Womenswear and Menswear brands combined. As the Group focuses more of its resources on growing its digital revenues, it expects a continued double-digit decline in offline revenue in the second half of this financial year.

Product brands revenue declined 14.3% in the period with digital revenue down 5.7%. Strength in digital revenue growth at Oxendales, +21.6% and Figleaves +15.5% was more than offset by the managed decline of House of Bath, Premier Man and High & Mighty.

Financial services revenue

Financial services revenue increased 2.9% to £150.6m. Revenue was lower in the second quarter as a result of proactive measures undertaken on the implementation of credit limit increases and affordability assessments. In the half, interest payments were up 5.2% reflecting management initiatives such as risk-based pricing. This increase was offset by a 17.6% reduction in other fees and income reflecting continued improvements in the quality of the loan book.

| £m | H1 FY20 | H1 FY19 | Change |
|--|--------------|--------------|----------------|
| Product gross profit | 145.3 | 166.4 | -12.7% |
| <i>Product gross margin %</i> | <i>51.5%</i> | <i>53.4%</i> | <i>-190bps</i> |
| Financial services gross profit | 86.5 | 81.9 | +5.6% |
| <i>Financial services gross margin %</i> | <i>57.4%</i> | <i>56.0%</i> | <i>+140bps</i> |
| Group gross profit | 231.8 | 248.3 | -6.6% |

| | | | |
|--|----------------|----------------|----------------|
| <i>Group gross profit margin</i> | 53.5% | 54.2% | -70bps |
| Warehouse & fulfilment costs | (39.9) | (42.4) | -5.9% |
| Marketing & production costs | (78.4) | (84.4) | -7.1% |
| Admin & payroll costs | (59.4) | (69.5) | -14.5% |
| Total operating costs | (177.7) | (196.3) | -9.5% |
| Adjusted EBITDA¹ | 54.1 | 52.0 | +4.0% |
| <i>Adjusted EBITDA¹ margin %</i> | 12.5% | 11.4% | +110bps |
| Depreciation & amortisation | (14.4) | (14.9) | -3.4% |
| Operating profit before exceptionals | 39.7 | 37.1 | +7.0% |
| <i>Operating profit before exceptionals margin %</i> | 9.2% | 8.1% | +110bps |
| Net Finance costs | (7.9) | (6.5) | +21.5% |
| Adjusted profit before tax² | 31.8 | 30.6 | +3.9% |
| Exceptional items | (25.0) | (65.4) | -61.8% |
| Fair value adjustments to financial instruments | 12.0 | 7.7 | +55.8% |
| Statutory profit /(loss) before tax | 18.8 | (27.1) | +169.4% |
| Adjusted earnings per share (p per share) | 8.87p | 8.37p | +6.0% |
| Statutory earnings per share (p per share) | 4.95p | (9.14)p | +154.2% |
| Interim dividend (p per share) | 2.83p | 2.83p | 0.0% |

1. Adjusted EBITDA is defined as operating profit, excluding exceptionals, with depreciation and amortisation added back. The directors believe that adjusted EBITDA represents the most appropriate measure of the Group's underlying trading performance.

2. Defined as excluding exceptionals and fair value movement on financial instruments.

Reconciliation of Operating profit to adjusted EBITDA (£m)

| £ | H1 FY20 | H1 FY19 | Change |
|----------------------------------|-------------|---------------|----------------|
| Operating profit / (loss) | 14.7 | (28.3) | +151.9% |
| Exceptional items | 25.0 | 65.4 | -61.8% |
| Depreciation & amortisation | 14.4 | 14.9 | -3.4% |
| Adjusted EBITDA | 54.1 | 52.0 | +4.0% |

Gross margin

The Group's gross margin was 53.5%, down 70bps compared to H1 FY19. This was as a result of a 140bps improvement in the financial services gross margin to 57.4%, offset by a 190bps decline in the product gross margin rate to 51.5%.

Product gross margin declined as a result of the highly promotional market, strategic decisions taken to exit the USA and the impact of store closures in the prior year. Financial services gross margin increased due to the continued improvement in the quality of the loan book.

Operating costs before exceptionals

We made good progress in the first half on operating expenses before exceptionals which decreased by

9.5%.

Marketing costs were down 7.1% year on year to £78.4m, as the Group continued to scale back offline marketing and recruitment and stopped direct marketing in the USA, consistent with the strategy of focusing on digital growth and improving marketing efficiency. The marketing costs for H1 FY20 also include absorbing a c.£4m cost from the VAT partial exemption ruling announced in November 2018. We also made strategic investment in building our brands in the period.

Admin and payroll costs decreased by 14.5% to £59.4m, driven predominantly through the impact of our store closure estate in the first half of FY19, our exit from direct marketing in the USA and sustainable Head Office efficiencies.

Warehouse and fulfilment costs decreased by 5.9% to £39.9m. This was driven by lower volumes and continued operational efficiencies.

Adjusted EBITDA

Adjusted EBITDA increased by 4.0% to £54.1m and adjusted EBITDA margin increased by 110bps to 12.5% (H1 FY19: 11.4%). Overall, operating profit before exceptional items was £39.7m, up 7.0% year on year, with operating margin increasing by 110bps to 9.2%. Statutory operating profit increased by 151.9% to £14.7m. Adjusted profit before tax was £31.8m, up 3.9% year on year as a result of the Group gross margin performance supported by continued efficiencies in our operating cost base. Due to lower exceptional costs and an improvement in unrealised FX, statutory profit before tax was £18.8m, representing a £45.9m improvement on last year.

Depreciation and Amortisation

Depreciation and Amortisation decreased by 3.4% to £14.4m largely as a result of lower depreciable assets following impairments taken in the previous financial year.

Net finance costs

Net finance costs were £7.9m, up 21.5% compared to last year primarily driven by cash outflows from exceptional items which increased net debt.

Exceptional items

As previously announced, we, in line with the wider industry, saw a significant increase in customer redress information requests and complaints in the final days leading up to, and including, the 29 August 2019 deadline. The deadline has now passed and as a result of the August spike in information requests and complaints, an additional provision for customer redress of £25.0m was made in during the first half of the year.

| £m | H1 FY20 | H1 FY19 |
|--|---------|---------|
| Customer Redress | 25.0 | 22.4 |
| Store Closure | - | 22.0 |
| Impairment of intangible assets & brands | - | 18.3 |
| External costs in relation to tax | - | 2.7 |

| | | |
|--------------------------------|------|------|
| Total exceptional costs | 25.0 | 65.4 |
|--------------------------------|------|------|

Taxation

The effective underlying rate of corporation tax is 20.0% (H1 FY19: 21.7%). The overall tax charge is £4.7m (H1 FY19: £1.1m credit).

Earnings per share

Adjusted earnings per share was 8.87p (H1 FY19 earnings per share: 8.37p). Statutory earnings per share was 4.95p (H1 FY19: (9.14)p).

Dividend

The Board is declaring an interim dividend of 2.83p per share which is flat on last year's interim dividend.

Financial services

Compared to the same period last year the provision rate decreased by 460bps due to an underlying improvement in the quality of the loan book and the disposal of some high-risk payment debt which was sold at a better rate than the book value.

| £m | 31 Aug 2019 | 1 Sept 2018 | Change |
|------------------------------|--------------------|--------------------|---------------|
| Gross customer loan balances | 658.0 | 677.6 | -2.9% |
| IFRS 9 bad debt | (78.2) | (111.9) | -30.1% |
| IFRS 9 provision ratio | 11.9% | 16.5% | -460ps |
| Net Customer Loan Balances | 579.8 | 565.7 | +2.5% |

Balance Sheet and Cash Flow

Capital expenditure was £21.9m (H1 FY19: £17.9m). Inventory levels at the period end were down 1.2%, to £97.1m (H1 FY19: £98.3m) and 2.7% lower than at the end of the previous financial year as a result of tighter stock management.

Gross trade receivables decreased by 2.9% to £658.0m (H1 FY19: £677.6m) driven by a small debt sale in the period.

Net cash generated from operations (excluding taxation) was £29.7m compared to a £22.3m outflow last year, principally driven by the £40.4m reduction in exceptional costs and improvements in working capital. After funding capital expenditure, finance costs, taxation and dividends, net debt increased from £467.9m at year end to £481.6m. The £579.8m net customer loan book significantly exceeds this net debt figure.

The Group continues to have access to financing facilities totalling £652.5m, made up of a securitisation facility of £500m which is committed to May 2021, an RCF of £125m which is committed to September 2021 and an overdraft of £27.5m.

The Group's balance sheet is underpinned by its customer loan book, which at 31 August 2019 was £658.0m on a gross basis and £579.8m on a net basis, calculated under IFRS9.

Core debt, which is defined as the amount drawn on the Group's RCF less cash was £67.5m, which means the Group's leverage is 0.5x on a net debt/EBITDA basis for the last 12 months EBITDA.

The Group's defined benefit pension scheme has a surplus of £24.4m (H1 FY19: £23.8m surplus). The small increase in the surplus is as a result of general market changes in asset returns during the year.

VAT partial exemption

The Group has been in a long running dispute with HMRC with respect to the VAT treatment of certain marketing and non-marketing costs and the allocation of those costs between our retail and credit business.

The case in respect of marketing costs was heard by the first tier tribunal in May 2018 with a draft decision being issued in November 2018 which was published in March 2019. Since this date the Group has been in discussions with HMRC to settle this matter and we now have an agreement in principle. At this stage however, there is no indication that the provision held at 2 March 2019 in respect of FY19 and earlier periods will need to materially change.

As at 31 August 2019, the Group holds a provision of £7.9m (£6.6m at 2 March 2019) in respect of this matter, with the increase since year end arising due to the Group having not yet been assessed in relation to the quarter ended May 2019. For the quarter ended 31 August 2019, it is envisaged that the final settlement for this quarter will be in line with the amounts paid to date, so no further provision is required.

FX sensitivity

For the remainder of FY20 we have hedged 100% of our net purchases at a blended rate of \$/£1.36. At a rate of \$/£1.30, and before any mitigating actions or changes in annual requirements, this would result in a c.£0.9m PBT tailwind compared to FY19 (hedged rate \$/£1.33).

For FY21 we have, to date, hedged 69% of our anticipated net purchases at a blended rate of \$/£1.32. At a rate of \$/£1.25, and before any mitigating actions or changes in annual requirements, this would result in a c.£3.0m PBT headwind compared to FY20. Every five cents move from this rate in our unhedged position would result in a PBT sensitivity of c.£1.4m.

FY20 Guidance

We are providing the following updated guidance for FY20:

| | New guidance | Previous guidance |
|---------------------------------|--------------------------|--------------------------|
| Product gross margin | -50bps to -150bps | flat to -100bps |
| Financial services gross margin | flat to +100bps | flat to -100bps |
| Group operating costs | -3.5% to -5.5% | -2.5% to -4.5% |
| Depreciation & Amortisation | £31m to £33m | £31m to £33m |
| Net interest | £18m to £19m | £17m to £18m |
| Tax rate | 20% to 21% | 20% to 21% |
| Capex | c.£35 to £40m | c.£35 to £40m |
| FY20 year-end net debt | £470m to £490m | £440m to £460m |

**Unaudited consolidated income statement
for the 26 weeks ended 31 August 2019**

| | | 26 weeks to 31 August 2019 | 26 weeks to 31 August 2019 | 26 weeks to 31 August 2019 | 26 weeks to 01 Sept 2018 | 26 weeks to 01 Sept 2018 | 26 weeks to 01 Sept 2018 |
|---|-------------|--|--|---|--|--|---|
| | | Before exceptional items £m | Exceptional items (Note 5) £m | Total £m | Before exceptional items £m | Exceptional items (Note 5) £m | Total £m |
| | Note | | | | | | |
| Revenue | | 296.3 | - | 296.3 | 327.9 | - | 327.9 |
| Credit account interest | 4 | 136.6 | - | 136.6 | 129.9 | - | 129.9 |
| Total revenue | 4 | 432.9 | - | 432.9 | 457.8 | - | 457.8 |
| Cost of sales | | (138.6) | - | (138.6) | (146.9) | - | (146.9) |
| Impairment losses on customer receivables | 4 | (64.4) | - | (64.4) | (68.3) | - | (68.3) |
| Profit on sale of customer receivables | 4 | 1.9 | - | 1.9 | 5.7 | - | 5.7 |
| Gross profit | 4 | 231.8 | - | 231.8 | 248.3 | - | 248.3 |
| Operating profit/ (loss) | 4 | 39.7 | (25.0) | 14.7 | 37.1 | (65.4) | (28.3) |
| Finance costs | | (7.9) | - | (7.9) | (6.5) | - | (6.5) |
| Profit / (Loss) before fair value adjustments to financial instruments | | 31.8 | (25.0) | 6.8 | 30.6 | (65.4) | (34.8) |
| Fair value adjustments to financial instruments | 6 | 12.0 | - | 12.0 | 7.7 | - | 7.7 |
| Profit /(Loss) before taxation | | 43.8 | (25.0) | 18.8 | 38.3 | (65.4) | (27.1) |
| Taxation | 7 | (8.8) | 4.1 | (4.7) | (8.3) | 9.4 | 1.1 |
| Profit / (Loss) for the period | | 35.0 | (20.9) | 14.1 | 30.0 | (56.0) | (26.0) |
| Earnings / (Loss) per share from continuing operations | | | | | | | |
| Basic | 8 | | | 4.95p | | | (9.14)p |
| Diluted | 8 | | | 4.93p | | | (9.14)p |

**Unaudited consolidated statement of comprehensive income
for the 26 weeks ended 31 August 2019**

**26 weeks to 31
August 2019**

**26 weeks to 01
Sept 2018**

| | £m | £m |
|---|--------------|---------------|
| Profit / (Loss) for the period | 14.1 | (26.0) |
| Items that will not be classified subsequently to profit or loss: | | |
| Actuarial (losses) / gains on defined benefit pension schemes | (0.8) | 3.7 |
| Tax relating to items not reclassified | (0.1) | (0.6) |
| | <u>(0.9)</u> | <u>3.1</u> |
| Items that may be reclassified subsequently to profit or loss: | | |
| Exchange differences on translation of foreign operations | (1.5) | (0.2) |
| | <u>11.7</u> | <u>(23.1)</u> |
| Total comprehensive income / (expense) for the period attributable to equity holders of the parent | | |

Unaudited consolidated balance sheet
As at 31 August 2019

| | Note | As at 31 August 2019 £m | As at 01 Sept 2018 £m | As at 02 March 2019 £m |
|----------------------------------|------|-------------------------------|-----------------------------|------------------------------|
| Non-current assets | | | | |
| Intangible assets | 10 | 150.6 | 141.1 | 145.2 |
| Property, plant & equipment | 11 | 60.6 | 60.8 | 59.4 |
| Right of use assets | 1 | 5.9 | - | - |
| Retirement benefit surplus | | 24.4 | 23.8 | 23.9 |
| Deferred tax assets | | 15.5 | 14.5 | 18.8 |
| | | <u>257.0</u> | <u>240.2</u> | <u>247.3</u> |
| Current assets | | | | |
| Inventories | | 97.1 | 98.3 | 99.8 |
| Trade and other receivables | 12 | 619.5 | 632.0 | 621.0 |
| Derivative financial instruments | 6 | 10.4 | 1.7 | - |
| Cash and cash equivalents | | 58.0 | 27.5 | 43.7 |
| | | <u>785.0</u> | <u>759.5</u> | <u>764.5</u> |
| Total assets | | <u>1,042.0</u> | <u>999.7</u> | <u>1,011.8</u> |
| Current liabilities | | | | |
| Bank overdraft | | (0.5) | (3.0) | (11.4) |
| Provisions | 13 | (35.1) | (46.9) | (24.8) |
| Trade and other payables | 14 | (126.6) | (134.8) | (140.9) |
| Lease liability | 1 | (2.0) | - | - |
| Derivative financial instruments | 6 | - | - | (1.5) |
| Current tax liability | | (5.4) | (0.7) | (7.1) |
| | | <u>(169.6)</u> | <u>(185.4)</u> | <u>(185.7)</u> |
| Net current assets | | <u>615.4</u> | <u>574.1</u> | <u>578.8</u> |
| Non-current liabilities | | | | |
| Bank loans | | (539.1) | (445.0) | (500.2) |

| | | | | |
|--------------------------------------|---|----------------|---------|---------|
| Lease liability | 1 | (5.7) | - | - |
| Deferred tax liabilities | | (16.4) | (12.4) | (14.5) |
| | | (561.2) | (457.4) | (514.7) |
| Total liabilities | | (730.8) | (642.8) | (700.4) |
| Net assets | | 311.2 | 356.9 | 311.4 |
| Equity | | | | |
| Share capital | | 31.4 | 31.4 | 31.4 |
| Share premium | | 11.0 | 11.0 | 11.0 |
| Own shares | | (0.3) | (0.2) | (0.3) |
| Foreign currency translation reserve | | 1.3 | 1.9 | 2.8 |
| Retained earnings | | 267.8 | 312.8 | 266.5 |
| Total equity | | 311.2 | 356.9 | 311.4 |

Unaudited consolidated cash flow statement
For the 26 weeks ended 31 August 2019

| | 26 weeks to 31 Aug 2019 £m | 26 weeks to 01 Sept 2018 £m | 52 weeks to 02 March 2019 £m |
|--|---|--|---|
| Net cash inflow / (outflow) from operating activities | 28.4 | (24.2) | (37.1) |
| Investing activities | | | |
| Purchase of property, plant and equipment | (3.5) | (1.6) | (3.4) |
| Purchase of intangible assets | (18.4) | (16.3) | (32.9) |
| Net cash used in investing activities | (21.9) | (17.9) | (36.3) |
| Financing activities | | | |
| Interest paid | (7.9) | (7.4) | (15.4) |
| Dividends paid | (12.1) | (24.2) | (32.2) |
| Increase in bank loans | 39.4 | 43.0 | 95.2 |
| Purchase of shares by ESOT | (0.2) | - | - |
| Proceeds on issue of shares held by ESOT | - | - | (0.1) |
| Net cash from financing activities | 19.2 | 11.4 | 47.5 |
| Net increase/(decrease) in cash and cash equivalents | 25.7 | (30.7) | (25.9) |
| Opening cash and cash equivalents | 32.3 | 58.2 | 58.2 |
| Closing cash and cash equivalents | 58.0 | 27.5 | 32.3 |

Reconciliation of operating profit to net cash from operating activities

| | 26 weeks to 31 Aug 2019 £m | 26 weeks to 01 Sept 2018 £m | 52 weeks to 02 March 2019 £m |
|--|---|--|---|
| Profit /(Loss) for the period | 14.1 | (26.0) | (58.3) |
| Adjustments for: | | | |
| Taxation charge | 4.7 | (1.1) | 0.8 |
| Fair value adjustments to financial instruments | (12.0) | (7.7) | (4.5) |
| Finance costs | 7.9 | 6.5 | 14.3 |
| Depreciation of property, plant and equipment | 2.6 | 2.6 | 4.9 |
| Loss on disposal of store assets | - | 5.7 | 5.0 |
| Loss on disposal of intangible assets | - | - | 0.7 |
| Impairment of intangible assets | - | 17.8 | 17.8 |
| Impairment of property, plant and equipment | - | - | 1.5 |
| Amortisation of intangible assets | 11.8 | 12.3 | 25.2 |
| Share option charge | 0.2 | 0.1 | 0.1 |
| Operating cash flows before movements in working capital | 29.3 | 10.2 | 7.5 |
| Decrease in inventories | 2.8 | 12.3 | 10.8 |
| Increase in trade and other receivables | (0.3) | (46.1) | (34.0) |
| (Decrease) / increase in trade and other payables | (13.5) | 4.1 | 5.6 |

| | | | |
|---|---|--------------------------------------|---------------------------------------|
| Increase / (Decrease) in provisions | 12.2 | (2.3) | (24.4) |
| Pension obligation adjustment | (0.8) | (0.5) | (0.5) |
| Cash generated / (used in) by operations | 29.7 | (22.3) | (35.0) |
| Taxation paid | (1.3) | (1.9) | (2.1) |
| Net cash inflow / (outflow) from operating activities | 28.4 | (24.2) | (37.1) |
| Changes in liabilities from financing activities | 26 weeks to 31 Aug 2019 £m | 26 weeks to 01 Sept 2018 £m | 52 weeks to 02 March 2019 £m |
| Loans and borrowings balance brought forward | 500.2 | 405.0 | 405.0 |
| Changes from financing cashflows | | | |
| Net proceeds from loans and borrowings | 38.8 | 43.0 | 94.1 |
| Increase in loans and borrowings due to interest | 0.6 | - | 1.1 |
| Loans and borrowings balance carried forward | 539.6 | 448.0 | 500.2 |

**Unaudited consolidated statement of changes in equity
for the 26 weeks ended 31 August 2019**

| | Share Capital | Share premium | Own shares | Foreign currency translation reserve | Retained earnings | Total |
|---|------------------|------------------|---------------|---|----------------------|--------------|
| | £m | £m | £m | £m | £m | £m |
| Changes in equity for the 26 weeks to 1 September 2018 | | | | | | |
| Balance at 3 March 2018 | 31.4 | 11.0 | (0.2) | 2.1 | 415.3 | 459.6 |
| Adjustment on initial application of IFRS 9 (net of tax) | - | - | - | - | (55.5) | (55.5) |
| Balance at 3 March 2018 (restated) | 31.4 | 11.0 | (0.2) | 2.1 | 359.8 | 404.1 |
| Total comprehensive income for the period | | | | | | |
| Loss for the period | - | - | - | - | (26.0) | (26.0) |
| Other items of comprehensive income for the period | - | - | - | (0.2) | 3.1 | 2.9 |
| Total comprehensive loss for the period | - | - | - | (0.2) | (22.9) | (23.1) |
| Transactions with owners recorded directly in equity | | | | | | |
| Equity dividends | - | - | - | - | (24.2) | (24.2) |
| Share option charge | - | - | - | - | 0.1 | 0.1 |
| Tax on items recognised directly in equity | - | - | - | - | - | - |
| Total contributions by and distributions to the owners | - | - | - | - | (24.1) | (24.1) |
| Balance at 1 September 2018 | 31.4 | 11.0 | (0.2) | 1.9 | 312.8 | 356.9 |
| Adjustment on initial application of IFRS 15 (net of tax) | - | - | - | - | (1.5) | (1.5) |
| Total comprehensive income for the period | | | | | | |
| Loss for the period | - | - | - | - | (32.3) | (32.3) |
| Other items of comprehensive income for the period | - | - | - | 0.9 | (4.1) | (3.2) |
| Total comprehensive income for the period | - | - | - | 0.9 | (36.4) | (35.5) |
| Transactions with owners recorded directly in equity | | | | | | |
| Equity dividends | - | - | - | - | (8.0) | (8.0) |
| Issue of own shares by ESOT | - | - | (0.1) | - | - | (0.1) |
| Share option charge | - | - | - | - | - | - |
| Tax on items recognised directly in equity | - | - | - | - | (0.4) | (0.4) |
| Total contributions by and distributions to the owners | - | - | (0.1) | - | (8.4) | (8.5) |
| Balance at 2 March 2019 | 31.4 | 11.0 | (0.3) | 2.8 | 266.5 | 311.4 |
| Total comprehensive income for the period | | | | | | |
| Profit for the period | - | - | - | - | 14.1 | 14.1 |
| Other items of comprehensive income for the period | - | - | - | (1.5) | (0.9) | (2.4) |
| Total comprehensive income for the period | - | - | - | (1.5) | 13.2 | 11.7 |
| Transactions with owners recorded directly in equity | | | | | | |
| Equity dividends | - | - | - | - | (12.1) | (12.1) |
| Issue of own shares by ESOT | - | - | - | - | - | - |
| Share option charge | - | - | - | - | 0.2 | 0.2 |
| Tax on items recognised directly in equity | - | - | - | - | - | - |
| Total contributions by and distributions to the owners | - | - | - | - | (11.9) | (11.9) |
| Balance at 31 August 2019 | 31.4 | 11.0 | (0.3) | 1.3 | 267.8 | 311.2 |

Notes to the unaudited consolidated financial statements
For the 26 weeks ended 31 August 2019

1. Basis of preparation

This condensed set of consolidated interim financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU. They do not include all the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 2 March 2019. The annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

The comparative figures for the year ended 2 March 2019 are extracted from the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditor and delivered to the Registrar of Companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Significant increase in credit risk

A financial asset is considered to have experienced a significant increase in credit risk since initial recognition where there has been a significant increase in the remaining lifetime probability of default of the asset. As a general indicator, credit risk is deemed to have increased significantly since initial recognition if based on the Group's quantitative modelling the remaining lifetime probability of default is determined to have increased by more than 250% of the corresponding amount estimated on initial recognition. As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 28 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which the minimum payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

New accounting standards, interpretations and amendments adopted by the Group

IFRS 16 Leases

The Group has adopted IFRS 16 in the period using the modified retrospective approach. The Group elected to use the transitional practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option, for lease contracts for which the underlying asset is of low value and the exemption to apply a single discount rate over all leases with similar characteristics. Included in the contracts being transitioned to IFRS 16 are the store portfolio which is in the process of being exited. The Group has elected to offset the onerous lease provision held in respect of the store portfolio against the right-of-use asset.

IFRS 16 impacts the presentation of the Group consolidated financial statements introducing a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a corresponding lease liability representing its obligation to make lease payments. Right-of-use assets are depreciated on a straight line over the shorter of estimated useful life and the lease term.

The effect of IFRS 16 adoption is as follows:

Impact on the statement of financial position as at 3 March 2019:

- Right-of-use assets of £6.6m were recognised and presented separately in the statement of financial position.
- Additional lease liabilities of £9.5m were recognised and included under Interest bearing loans and borrowings.

For the six months ended 31 August 2019:

- Depreciation expense increased by £0.7m relating to the depreciation of additional assets recognised.

- Rent expense decreased by £0.8m relating to previous operating leases derecognised.
- Finance costs relating to interest expense on additional lease liabilities recognised and income tax expense have moved by less than £0.1m.
- Cash outflows from operating activities decreased by £0.1m.

Impact on the statement of financial position as at 31 August 2019:

- Right-of-use assets amounted to £5.9m.
- Lease liabilities amounted to £7.7m, of which £2m expire within 1 year.

IFRIC 23 Uncertainty over Income Tax Treatments

The Group is required to adopt IFRIC 23 Uncertainty over Income Tax Treatments from 1 January 2019. It is therefore applicable to the Group for the year ending 29 February 2020.

The Group has assessed the impact of the adoption of IFRIC 23 and concluded that it should not have any impact on the tax provisions currently held by the Group.

2. Key risks and uncertainties

The potential risks and uncertainties which may impact on the Group's long-term performance are routinely monitored by the Executive Board members to ensure appropriate actions to mitigate risk are put in place where necessary. The risks which have been identified as potentially having a material impact on the performance of the Group as at H1 FY20 are as follows: Brexit; Treasury; Business Change, Product portfolio; IT Systems, Regulatory environment and Cyber-Security.

The potential impact of Brexit and the current UK political environment have been identified as key risks to the Group's performance over the short to medium term. The impact of a possible No Deal exit from the EU has potential implications for consumer confidence and therefore for the Group's bad debt and arrears positions, cost price inflation and liquidity headroom. The potential for short to medium term business disruptions from a general election or civil unrest have also been called out as possible risks.

Detailed Brexit planning began in 2018 and the Brexit Steering Group continues to map specific scenarios and drive actions to mitigate the potential risk arising from a No Deal Brexit. A review of 3rd party supplier readiness for No Deal has been completed and detailed modelling of possible No Deal scenarios (including Ireland business impacts, Inbound Logistics disruption and possible changes to migrant labour availability) are being carried out to mitigate the identified Brexit risks. However, given the high level of uncertainty and volatility surrounding Brexit, specific financial outcomes are difficult to predict with accuracy.

The Group's treasury function has been highlighted as a key risk area due to the current consumer credit and retail market environments, as well as the longer-term impact from potential, further currency fluctuations. The Group's liquidity headroom has been impacted by further financial redress provisions due in FY20 and would be additionally impacted by adverse market conditions and negative impact on customer spending as a result of Brexit uncertainty. The potential for impact on the Group's financial services arrears rates arising from deterioration in customer discretionary spending in the event of No Deal may place pressure on liquidity headroom and capital spending capacity.

Continued focus has been placed on the Group's overall hedging position to ensure appropriate cover exists over the next 18 months against adverse movements in Foreign Exchange rates, but our current hedging policy does not extend beyond 24 months.

The Group continues to drive change and improvements in technology and business processes across the business. With the uncertainty of Brexit and the accelerating pace of competition in digital retail, the Group's

change program remains a key pillar of continued success. The Group uses delivery squads which are aligned to specific products or services to focus on delivering smaller, more frequent changes which create value and deliver change to support the Group's strategic vision.

The Group's product portfolio was identified as an important area for the Group in its drive to maintain market position in the sector. Recent customer feedback indicated areas for improvement in product quality. Actions to improve product quality monitoring are being implemented in line with the Group's Strategy to focus on quality and fit.

The Group continues to mitigate the risks associated with the use of remaining legacy IT systems as well as data security risk through outsourcing IT services to a specialist IT service provider. The replacement of the Group's legacy architecture is a key focus of the continuous change program and tactical solutions continue to be implemented to mitigate risks to agility arising from older systems.

The regulatory environment remains a key consideration for the Group and continued focus is placed on meeting the expectations of the regulators. A key area of risk is FCA regulation with the SMCR requirements due to go live on 9th Dec 19.

In line with the wider Industry, we continue to enhance our focus on responsible lending. Throughout the year, we have made changes to our lending approach to ensure we adopt guidance in relation to 'affordability' and to help customers who find themselves in 'persistent debt'. We continue to monitor and reappraise our strategies and will be working through this over the next 12-24 months.

Overall, the degree of change being undertaken by the business in preparation for the new regulations remains challenging, but delivery plans are in place to meet the deadline.

Cyber Security remains a key area of focus within the Group as it continues to grow as a digital retailer. The successful completion of the Group's GDPR program has strengthened the Group's Cyber Security position and provides greater security over both new and existing cyber threats. The Group's Cyber Security team continues to design and implement security controls to strengthen Cyber Security defences across the business.

Critical judgements and key sources of estimation uncertainty

In the course of preparing the financial statements, no judgements have been made in the process of applying the Group's accounting policies, other than those involving estimations stated below, that have had a significant effect on the amounts recorded within the financial statements. The key assumptions concerning the future and other sources of estimation uncertainty at the period 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 as follows - Trade receivables, Taxation, Inventory, Regulatory, Software development costs and Brand Intangibles.

3. 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 financial position including cash flows, liquidity position, borrowing facilities and the principal risks and uncertainties relating to its business activities.

The Group continues to have access to financing facilities totalling £652.5m, made up of a securitisation facility of £500m which is committed to May 2021, an RCF of £125m which is committed to September 2021 and an overdraft of £27.5m.

The directors have carefully considered the Group's cash flows and banking covenants for the next twelve months from the date of approval of the Group's preliminary results. These have been appraised in light of the current economic climate by applying a series of stress tests. The stress tests apply a range of sensitivities to group revenue, cash collections and arrears levels; reflecting the principal risks of the business, primarily

through potential trading restrictions and penalties arising from the impact of a cyber attack, negative outcomes from delays to the Group's IT development programme and uncertainty around the impact of Brexit on consumer confidence.

After making appropriate enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence. Accordingly, they continue to adopt the going concern basis in the preparation of these financial statements.

4. Business Segments

The Group has one reportable segment in accordance with IFRS8 - Operating Segments which is the Home Shopping segment.

| Analysis of revenue | 26 weeks to 31 August 2019 £m | 26 weeks to 01 Sept 2018 £m | 52 weeks to 02 March 2019 £m |
|---|--|--|---|
| Product – total revenue | 282.3 | 311.4 | 615.8 |
| Credit account interest | 136.6 | 129.9 | 267.2 |
| Other financial services revenue | 14.0 | 16.5 | 31.4 |
| Financial services – total revenue | 150.6 | 146.4 | 298.6 |
| Revenue – Total | 432.9 | 457.8 | 914.4 |
| Product – total cost of sales | (137.0) | (145.0) | (295.0) |
| Impairment losses on customer receivables | (64.4) | (68.3) | (129.7) |
| Profit on sale of customer receivables | 1.9 | 5.7 | 10.7 |
| Other financial services cost of sales | (1.6) | (1.9) | (2.7) |
| | (64.1) | (64.5) | (121.7) |
| Cost of Sales – Total | (201.1) | (209.5) | (416.7) |
| Gross profit | 231.8 | 248.3 | 497.7 |
| Gross margin – Product | 51.5% | 53.4% | 52.1% |
| Gross margin – Financial Services | 57.4% | 56.0% | 59.2% |
| Warehouse & fulfilment | (39.9) | (42.4) | (84.0) |
| Marketing & production | (78.4) | (84.4) | (157.8) |
| Depreciation & amortisation | (14.4) | (14.9) | (30.1) |
| Other admin & payroll | (59.4) | (69.5) | (127.9) |
| Segment result & operating profit before exceptional items | 39.7 | 37.1 | 97.9 |
| Exceptional items (see note 5) | (25.0) | (65.4) | (145.6) |
| Segment result & operating profit / (loss) | 14.7 | (28.3) | (47.7) |
| Finance costs | (7.9) | (6.5) | (14.3) |
| Fair value adjustments to financial instruments | 12.0 | 7.7 | 4.5 |
| Profit / (Loss) before taxation | 18.8 | (27.1) | (57.5) |

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.

| | 26 weeks to 31 August 2019 £m | 26 weeks to 01 Sept 2018 £m | 52 weeks to 02 March 2019 £m |
|--|--|-----------------------------------|---------------------------------------|
| Analysis of product revenue by brand | | | |
| JD Williams | 75.7 | 78.6 | 159.5 |
| Simply Be | 60.9 | 59.7 | 120.1 |
| Ambrose Wilson | 23.2 | 27.1 | 51.3 |
| Womenswear | 159.8 | 165.4 | 330.9 |
| Jacamo | 32.4 | 30.7 | 64.0 |
| Menswear | 32.4 | 30.7 | 64.0 |
| Product Brands | 88.1 | 102.8 | 202.6 |
| Total excluding Stores and US Revenue | 280.3 | 298.9 | 597.5 |
| US Revenue | 2.0 | 5.6 | 11.4 |
| Stores | - | 6.9 | 6.9 |
| Total product revenue | 282.3 | 311.4 | 615.8 |

The Group has one significant geographical segment, which is the United Kingdom. Revenue derived from international markets amounted to £12.2m (HY19, £17.8m). Operating results from international markets amounted to £1.5m loss (HY19, £1.2m loss). All segment assets are located in the UK, Ireland and US.

5. Exceptional items

| | 26 weeks to 31 August 2019 £m | 26 weeks to 01 Sept 2018 £m | 52 weeks to 02 March 2019 £m |
|--|--|-----------------------------------|---------------------------------------|
| Customer redress | 25.0 | 22.4 | 45.0 |
| Closure costs | - | 22.0 | 22.0 |
| Impairment of tangibles, intangibles and brands | - | 18.3 | 20.0 |
| VAT debtor impairment | - | - | 49.4 |
| Other VAT matters including associated legal & professional fees | - | 2.7 | 8.9 |
| GMP equalisation adjustment | - | - | 0.3 |
| Items charged to profit / (loss) before tax | 25.0 | 65.4 | 145.6 |
| Taxation provision | - | 3.0 | 3.0 |

Customer Redress

During the previous year, a total exceptional charge of £45.0m was recognised in respect of customer redress, including a provision of £22.6m made in the second half to cover for the increased claims that the Group was expecting to receive up to the 29 August 2019 deadline. In line with wider industry experience, the volume of PPI information requests and claims received in the final days leading up to and including the 29 August 2019 deadline was significantly higher than expected and therefore was unprovided for. As at 31 August 2019, an

additional charge of £25.0m has been recognised to reflect the latest assessment of the liability, which is expected to be incurred in the current year. Further information is provided in note 13.

6. Derivative financial instruments

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

| | 26 weeks to 31 August 2019 £m | 26 weeks to 01 Sept 2018 £m | 52 weeks to 02 March 2019 £m |
|---|--|-----------------------------------|---------------------------------------|
| Notional amount – Sterling contract value | 276.8 | 161.8 | 271.4 |
| Fair value of asset recognised | 10.4 | 1.7 | - |
| Fair value of liability recognised | - | - | (1.5) |

The fair value of foreign currency derivative contracts is their market value at the balance sheet date. Market values are based on the duration of the derivative instrument together with the observable market data including interest rates, foreign exchange rates and market volatility at the balance sheet date.

The financial instruments that are measured subsequent to initial recognition at fair value are all grouped into Level 2 (FY19, 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 the liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

There were no transfers between Level 1 and Level 2 during the period (HY19, same).

7. Taxation

The taxation charge for the 26 weeks ended 2 March 2019 is based on the underlying estimated effective tax rate for the full year of 20.0%. The total statutory effective tax rate for the 12 months period is 24.9% (HY19, 4.1%).

The Group is in on-going discussions with HMRC in respect of a number of corporation tax 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 legal processes. Issues can, and often do, take a number of years to resolve.

In respect of Corporation tax, as at 31 August 2019 the Group has provided a total of £7.4m (HY19: £8.8m) for potential corporation tax future charges based upon the Group's best estimation and judgement.

The inherent uncertainty regarding the outcome of these positions means the eventual realisation could differ from the accounting estimates and therefore impact the Group's future results and cash flows. Based upon the amounts reflected in the balance sheet as at 31 August 2019, the Directors estimate that the unfavourable settlement of these cases could result in a net cash tax payment of up to £7.4m with no further charge to the income statement.

The favourable settlement of these cases would result in a repayment of tax of up to £19.8m and an associated credit to the income statement of £19.8m.

8. Earnings per share

The calculation of earnings per ordinary share is based on earnings after tax and the weighted average number

of ordinary shares in issue during the period.

The adjusted earnings per share figures have also been calculated based on earnings before items that are one-off in nature, material by size and are considered to be distortive of the true underlying performance of the business (see note 5) and certain other fair value adjustments. These have been incorporated to allow shareholders to gain an understanding of the underlying trading performance of the Group. For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares.

| Earnings for the purposes of basic and diluted earnings per share: | 26 weeks to 31 August 2019 £m | 26 weeks to 01 Sept 2018 £m | 52 weeks to 02 March 2019 £m |
|---|---|---|--|
| Total net profit /(loss) attributable to equity holders of the parent | 14.1 | (26.0) | (58.3) |
| Fair value adjustment to financial instruments (net of tax) | (9.7) | (6.2) | (3.6) |
| Exceptional items (net of tax) | 20.9 | 56.0 | 122.7 |
| Total net profit attributable to equity holders of the parent | 25.3 | 23.8 | 60.8 |
| Number of shares for the purposes of basic and diluted earnings per share: | 26 weeks to 31 August 2019 m | 26 weeks to 01 Sept 2018 m | 52 weeks to 02 March 2019 m |
| Weighted average number of shares in issue – basic | 285.1 | 284.4 | 284.4 |
| Dilutive effect of share options | 0.2 | 0.4 | 0.4 |
| Weighted average number of shares in issue – diluted | 285.3 | 284.8 | 284.8 |
| Earnings / (Loss) per share | | | |
| Basic | 4.95p | (9.14)p | (20.50)p |
| Diluted | 4.93p | (9.14)p | (20.50)p |
| Adjusted earnings per share | | | |
| Basic | 8.87p | 8.37p | 21.38p |
| Diluted | 8.87p | 8.36p | 21.35p |

9. Dividends

The directors have declared and approved an interim dividend of 2.83 pence per share (HY19 2.83p). This will be paid on 5 February 2020 to shareholders on the register at the close of business on 3 January 2020.

During H1 FY20 dividends of £12.1m relating to FY19 were paid.

10. Intangible assets

| | Brands | Software | Customer database | Total |
|---------------------------|---------------|-----------------|--------------------------|--------------|
| | £m | £m | £m | £m |
| Cost | | | | |
| As at 3 March 2018 | 16.9 | 330.9 | 1.9 | 349.7 |
| Additions | - | 15.9 | - | 15.9 |
| Disposals | - | (2.4) | - | (2.4) |
| As at 1 Sept 2018 | 16.9 | 344.4 | 1.9 | 363.2 |
| Additions | - | 17.0 | - | 17.0 |
| As at 2 March 2019 | 16.9 | 361.4 | 1.9 | 380.2 |
| Additions | - | 17.2 | - | 17.2 |

| | | | | |
|-----------------------------|-------------|--------------|------------|--------------|
| Disposals | - | - | - | - |
| As at 31 August 2019 | 16.9 | 378.6 | 1.9 | 397.4 |
| Depreciation | | | | |
| As at 3 March 2018 | 8.0 | 183.8 | 1.9 | 193.7 |
| Charge for the period | - | 12.3 | - | 12.3 |
| Disposals | - | (1.7) | - | (1.7) |
| Impairment charge | 7.1 | 10.7 | - | 17.8 |
| As at 1 Sept 2018 | 15.1 | 205.1 | 1.9 | 222.1 |
| Charge for the period | - | 12.9 | - | 12.9 |
| As at 2 March 2019 | 15.1 | 218.0 | 1.9 | 235.0 |
| Charge for the period | - | 11.8 | - | 11.8 |
| As at 31 August 2019 | 15.1 | 229.8 | 1.9 | 246.8 |
| Carrying amounts | | | | |
| As at 31 August 2019 | 1.8 | 148.8 | - | 150.6 |
| As at 2 March 2019 | 1.8 | 143.4 | - | 145.2 |
| As at 1 Sept 2018 | 1.8 | 139.3 | - | 141.1 |

Assets in the course of construction included in intangible assets at the period end total £43.5m (HY19 £27.1m). No amortisation is charged on these assets until they are available for use.

As at 31 August 2019, the Group had entered into contractual commitments for the further development of intangible assets of £7m (HY19 £2.4m) of which £1.9m (HY19 £1.0m) is due to be paid within 1 year.

11. Property, plant and equipment

Additions to tangible fixed assets during the period of £3.1m (HY19 £1.0m) primarily relate to warehousing improvement projects. Depreciation of £1.9m (HY19 £2.6m) was charged during the period. Depreciation relating to IFRS 16 right of use assets amounted to £0.7m during in the period.

Assets in the course of construction included in fixtures and equipment at H1 FY20 total £5.4m (HY19 £2.2m), and in land and buildings total £nil (HY19 £nil). No depreciation is charged on these assets until they are available for commercial use.

12. Trade and other receivables

| | 31 August 2019 | 1 Sept 2018 |
|---|-----------------------|--------------------|
| | £m | £m |
| Amounts receivable for the sale of goods and services | 658.0 | 677.6 |
| Allowance for doubtful debts | (78.2) | (111.9) |
| | 579.8 | 565.7 |
| Other debtors and prepayments | 39.7 | 66.3 |
| | 619.5 | 632.0 |
| Movement in the allowance for doubtful debts | | |
| Balance at the beginning of the period | 97.1 | 48.8 |
| Adjustment on initial application of IFRS 9 | - | 67.2 |
| Balance at the beginning of the period | 97.1 | 116.0 |
| Amounts charged to the income statement | 62.5 | 62.5 |
| Amounts written off | (81.4) | (66.6) |
| Balance at the end of the period | 78.2 | 111.9 |

Other debtors and prepayments

'Other debtors and prepayments' in the prior year included 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 of £39.7m. This year the balance comprises a net creditor (see note 14).

13. Provisions

| | Customer Redress | Store closures | Total |
|-----------------------------------|---------------------|-------------------|-------------|
| | £m | £m | £m |
| Balance at 3 March 2018 | 42.8 | 6.4 | 49.2 |
| Provisions made during the period | 22.4 | 11.0 | 33.4 |
| Provisions used during the period | (32.2) | (3.5) | (35.7) |
| Balance at 1 Sept 2018 | 33.0 | 13.9 | 46.9 |
| Provisions made during the period | 22.6 | 5.3 | 27.9 |
| Provisions used during the period | (38.2) | (11.8) | (50.0) |
| Balance at 2 March 2019 | 17.4 | 7.4 | 24.8 |
| Provisions made during the period | 25.0 | - | 25.0 |
| Provisions used during the period | (9.4) | (3.4) | (12.8) |
| Balance at 31 August 2019 | 33.0 | 4.0 | 37.0 |
| Current | 33.0 | 4.0 | 37.0 |
| Non-current | - | - | - |
| Balance at 31 August 2019 | 33.0 | 4.0 | 37.0 |

An amount of £1.9m onerous lease provision has been offset against the right-of-use assets recognised under IFRS 16, leaving net provisions of £35.1m.

Customer redress

The provision relates to the Group's liabilities in respect of costs expected to be incurred in respect of payments for historic financial services customer redress, which represents the best estimate of the known regulatory obligations, taking into account factors including risk and uncertainty.

As at 31 August 2019 the Group holds a provision of £33.0m (HY19, £33.0m) in respect of the anticipated costs of historic financial services customer redress.

In line with the wider industry, a significant increase in the volume of PPI information requests and claims received in the final days leading up to and including the 29 August 2019 deadline was experienced. As at 31 August 2019, an additional provision of £25.0m has been recognised to reflect the latest assessment of the liability.

This estimate remains subject to significant uncertainty and it is possible the eventual outcome may differ from the current estimate.

The provision is calculated using a number of key assumptions which continue to involve significant management judgement:

- Customer claims volumes - claims received but not yet processed
- Uphold rate - the proportion of claims received which the Group settles
- Average claim redress - the expected average payment to customers for upheld claims

The principal sensitivities in the redress calculation have previously been in relation to volumes of policies affected; claim rate; uphold rate and average redress amount. At H1 FY20, the key sensitivities in the redress calculation are considered to be claims upheld and average redress amount, as volumes are now known with more certainty.

| | 26 weeks to 31 August 2019 | 26 weeks to 01 Sept 2018 | 52 weeks to 02 March 2019 |
|---|---|-----------------------------|------------------------------|
| | £m | £m | £m |
| +/- 0% (FY19, 10%) in claims volumes | - | +/-2.0 | +/-1.3 |
| +/- 10% claims upheld (FY19 HY, 5% uphold rate) | +/-3.3 | +/-0.1 | +/-1.1 |
| +/- 10% in average redress amount | +/-3.3 | +/-0.6 | +/-1.3 |

Store Closures

At the end of HY19, the decision was made to close all stores and these were subsequently closed in August 2018. The provision was made in respect of onerous lease obligations (which will run to the earlier of the break clause or lease expiry for all stores) and other related store closure costs. The majority of these were settled in FY19, other than the onerous lease provision which will run to the earlier of the break clause or lease expiry for all stores. The provision is net of an estimate of potential sub-letting income.

14. Trade and other payables

| | 31 August 2019 | 1 Sept 2018 |
|------------------------------|-----------------------|-------------|
| | £m | £m |
| Trade payables | 78.6 | 99.7 |
| Other creditors | 8.5 | 0.2 |
| Accruals and deferred income | 39.5 | 34.9 |
| | 126.6 | 134.8 |

'Other creditors' include a net VAT creditor, comprising the VAT debtor which arises from day to day trading together with amounts in relation to matters which are in dispute with HMRC. The Group has been in ongoing discussions with HMRC in respect of a number of VAT 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 legal processes. Issues can, and often do, take a number of years to resolve.

In respect of VAT, excluding the issue mentioned below, the Group has provided a total of £0.8m (HY19: £3.1m) in respect of future payments which the Directors have a reasonable expectation of making in settlement of these historical positions.

In addition, and separate to the above positions, the Group has been in a long running dispute with HMRC with respect to the VAT treatment of certain marketing costs and the allocation of those costs between our retail and credit businesses.

The case in respect of marketing costs was heard by the first tier tribunal in May 2018 with a draft decision issued in November 2018 and published in March 2019.

The case has two key aspects, being attribution which is in respect of whether marketing costs can be directly attributed to product revenue or financial services income and secondly apportionment which is surrounding the allocation of marketing costs between the retail and financial services business. With respect to attribution, the judge agreed with HMRC, finding that when the Group is marketing goods it is also in effect marketing financial services, even if there is no reference to this in its marketing materials. The judge however ruled against HMRC's standard method of apportionment of costs (which is based on the proportion of total

UK revenue which is generated from product sales).

Since this date the Group has been in discussions with HMRC to settle this matter and whilst substantial progress has been made, a final binding agreement has not yet been reached.

As at 31 August 2019, the Group holds a creditor of £7.9m (£6.6m at 2 March 2019) in respect of this matter, with the increase since year end arising due to the Group having not yet been assessed in relation to the quarter ended May 2019. For the VAT quarter ended 31 August 2019, it is envisaged that the final settlement for this quarter will be in line with the amounts paid to date so no further provision is required.

Based upon the latest discussions with HMRC and external advice received by management, the Directors estimate that a favourable outcome could result in a cash outflow of £3.4m and an associated credit to the income statement of £4.5m, whilst an unfavourable outcome could result in a cash outflow of £9.9m and an associated charge to the income statement of £2.0m.

Responsibility statement of the directors in respect of the half-yearly financial report

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU
- the interim management report includes a fair review of the information required by:
 - (a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first 26 weeks of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining 26 weeks of the year; and
 - (b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first 26 weeks of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

This report was approved by the Board of Directors on 10th October 2019.

Stephen Johnson
Chief Executive

Craig Lovelace
Chief Financial Officer

INDEPENDENT REVIEW REPORT TO N BROWN GROUP PLC

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 August 2019 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated cash flow statement, the condensed consolidated statement of changes in equity and related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 August 2019 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK

FCA”).

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

The impact of uncertainties due to the UK exiting the European Union on our review

Uncertainties related to the effects of Brexit are relevant to understanding our review of the condensed financial statements. Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. An interim review cannot be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Directors’ responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Stuart Burdass
for and behalf of KPMG LLP
Chartered Accountants
1 St Peter's Square
Manchester M2 3AE
10th October 2019