20 April 2016

**FULL YEAR RESULTS FOR THE 52 WEEKS ENDED 27 FEBRUARY 2016**

**DOUBLE-DIGIT PROFIT GROWTH IN H2**

N Brown Group Plc, the leading multi-channel, specialist fit fashion retailer today announces results for the full year to 27 February 2016.

**Financial highlights:**

- Total group revenue +3.5% to £866.2m (FY15: £837.2m)
- Product revenue +4.1% and Financial Services revenue +2.1%
- Product gross margin -20bps, at the top end of guidance, and Financial Services gross margin +20bps
- Underlying operating profit excluding exceptionals -1.3% to £92.6m (FY15: £93.8m)
- Underlying profit before tax* -2.0% yoy to £84.5m (FY15: £86.2m), in line with expectations
- H2 underlying profit before tax* +11.0% to £49.5m
- Statutory profit before tax -7.8% to £72.2m (FY15: £78.3m), reflecting exceptional costs largely incurred in the first half
- Adjusted** earnings per share from continuing operations 24.02p (FY15: 24.61p)
- Statutory earnings per share from continuing operations 19.45p (FY15: 21.84p)
- Proposed final dividend flat year on year at 8.56p, taking full year dividend to 14.23p, also unchanged on last year
- Net debt £289.7m (FY15: £246.6m)
- As announced in February we have restated our debtor impairment provision following a review of the application of IAS39

**Underlying is defined as excluding exceptionals, unrealised FX movement and the impact of the IAS39 restatement*
***Adjusted is defined as excluding exceptionals and unrealised FX movement*

**Operational highlights:**

- Transformation from direct mail-led to digital-first retailer continues:
    - Online penetration 65%, +6ppts yoy
    - Online revenue up 15% yoy
    - Online penetration of new customers up 7ppts to 72%
    - 66% of all traffic from mobile devices

- Power Brands performing very strongly, with Power Brand revenue up 10.0%, driven by further improvements to our product offering and innovative digital marketing campaigns:
    - Power Brands active customers +6.9%
    - JD Williams Brand product revenue +4.7% to £151.2m
    - Simply Be product revenue +15.6% to £103.9m
    - Jacamo product revenue +14.6% to £62.8m
- USA revenue +29% (+20% constant currency) and dollar profit made in H2
- Financial Services back into growth in H2; FCA application progressing
- Fit 4 the Future systems transformation project on track

**Angela Spindler, Chief Executive, said:**

*"It has been a very busy year for N Brown as we continue to transform the way we operate as a fashion retailer – from being mail-order led, to a business that puts digital first. We are mid-way through this journey and are delighted to see the benefits coming through, importantly delivering 11% profit growth in the second half of the year.*

*"This progress is being driven by a clear focus on our three fashion Power Brands – JD Williams, Simply Be and Jacamo. Revenue from these brands is up 10% year-on-year and almost two-thirds of sales are now online, reflecting our digital focus. We are taking decisive actions to improve the performance of our Traditional segment which remains an important, profitable part of the Group.*

*"We continue to roll-out our systems investment programme, 'Fit 4 the Future', and all areas of the business are focused on ensuring this lands on time and with minimal disruption. So far we are very pleased with our progress and we remain on track and within budget.*

*"Looking forward, whilst we face challenging market conditions for the fashion sector overall, and trading since the year end has been subdued, we remain confident in our ability to make further progress this year. This is based on the strong appeal of our specialist fit proposition, continuous improvement in the customer experience and changes in customer shopping behaviour, driven by targeted marketing."*

**Andrew Higginson, Chairman, said:**

*"The Board is pleased with today's results, particularly against the backdrop of significant ongoing transformation within the business.*

*"This year will be a very important one for the Group. Our new IT platform will be implemented, bringing necessary and significant improvements to all areas of our business. However experience suggests that a programme of this scale will bring some unexpected bumps in the road. A huge amount of effort has gone into planning and preparing to mitigate these risks.*

*"Our Group is strong, with loyal customers and good margins. Once delivered, Fit 4 the Future will give us the robust platform we need for growth in the future".*

**Meeting for analysts and investors:**
Management is hosting a presentation for analysts and investors 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.

**About N Brown Group:**
N Brown Group plc is a leading multi-channel, specialist fit, fashion retailer offering customers an extensive range of products in clothing, footwear and homewares.

The Group has 140 years of experience in home shopping and is focused on its core mantra of 'Fashion that Fits'. The Group is transforming from being direct mail-led to digital-first, and two-thirds of revenues now come online. Its portfolio of trusted retail brands - including its three Power Brands; JD Williams, Simply Be and Jacamo – all serve a specific niche consumer group which have historically been poorly served on the high street. Other brands include Fashion World, Marisota, House of Bath, Figleaves and High & Mighty.

N Brown is headquartered in Manchester where it designs, sources and creates its product offer, and employs over 2,800 people across the UK.

**Next reporting date**
The next reporting date is our Q1 trading statement on 16 June 2016.

**For further information:**


| | |
|---|---|
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## CEO REVIEW

### Overview

The transformation of our business model from direct mail-led to digital-first continues apace, and we are particularly pleased with the strong online metrics we are delivering, with online penetration at a new record 65%.

Our performance in FY16 was in line with expectations, with strong 11% profit growth achieved in H2, as we annualised a number of changes made to the business in FY15. We had a good Christmas period and for the first time were able to be truly agile in our trading approach, particularly for our digital brands.

In late February we announced that we would be restating our debtor impairment provisions as a consequence of a review of the application of IAS 39; the year on year movement of the restated provisions has resulted in an increase to profit before tax in both FY16 and FY15 of £3.8m and £2.0m respectively. Further details are on page 12. Importantly, this change in the technical interpretation of this accounting standard has no effect on the way in which we have operated or will operate our business.

The 7.8% decline in statutory PBT reflects exceptional costs of £17.2m, predominantly in H1, as a result of the closure of our clearance stores, re-organisation costs and VAT related legal and professional fees. The Board has decided to hold the final dividend flat on last year.

### Our strategy

Our vision is to be the universally loved experts in fashion that fits, helping our customers look and feel amazing through our trusted family of fashion brands.

We operate in attractive market niches - plus-size and age 50-plus - which we believe to be under-served by the fashion industry overall, providing our customers with high quality and competitive product offerings, fit-specialism and a strong delivery proposition. We are predominantly focused on three Power Brands - JD Williams, Simply Be and Jacamo - which we expect to continue to grow as a proportion of our overall business.

We are mid-way through a significant transformation which will allow us to deliver sustainable, profitable growth over the long term, driven by our four strategic foundations:

- Product – Fantastic quality and fit fashion, home ranges, and relevant financial services
- Price – Great prices and flexible ways to pay
- People – Obsessed with customers, enriched with data and powered by technology
- Place – Whatever you want, wherever you are, whenever you want it, we make it easy

We have already fundamentally changed the way we operate as a business - from a direct mail-led, to a digital-first model. This has required very significant programmes of change in three main areas: people, process and systems.

The majority of the people and process changes are now complete including, but not limited to, a new operating board, an in-house design team, new buying and merchandising processes, much stronger digital marketing capabilities, an in-house digital centre of excellence and outsourced contact centre management, creative production functions and IT Services.

This coming year is a key one for our systems investment programme, called 'Fit 4 the Future', the main outputs of which go live early in the calendar year 2017. The investment we are making will give us a new, more agile, global web platform; new financial services systems allowing us to offer a far more personalised product offering to both existing and new customers; and a new planning tool allowing us to buy more efficiently and reduce markdowns.

The KPIs around online penetration and conversion that we are reporting today demonstrate the progress we are making with our digital-first model, and give us cause for real confidence.

There remains much to do to complete our transformation but we are excited about the opportunities that lie ahead.

**KPI performance**

At our half year results we introduced a list of granular KPIs which we feel best allow external stakeholders to judge our progress against our strategy. This list is below. Following feedback we have decided to give further disclosure on Power Brands, and therefore are now providing the absolute number of active customer accounts as below (as opposed to only its growth).

| | FY16 | FY15 | % change |
|---|---|---|---|
| **CUSTOMERS** | | | |
| Active customer accounts | 4.14m | 4.05m | +2.2% |
| Power Brand active customer accounts | 2.00m | 1.87m | +6.9% |
| % Growth of our most loyal customers* | -0.4% | +1.0% | -140bps |
| Customer satisfaction rating** | 85.8% | 85.9% | -10bps |
| **PRODUCT** | | | |
| Ladieswear market share, size 16+ | 4.0% | 4.0% | - |
| Menswear market share, chest 44"+ | 1.7% | 1.5% | +20bps |
| Group returns rate (rolling 12 months) | 27.4% | 28.6% | -120bps |
| **DIGITAL** | | | |
| Online penetration | 65% | 59% | +6ppts |
| Online penetration of new customers | 72% | 65% | +7ppts |
| Conversion rate | 5.8% | 5.8% | - |
| % of traffic from mobile devices | 66% | 56% | +10ppts |
| **FINANCIAL SERVICES** | | | |
| Arrears rate (>28 days) | 10.9% | 10.3% | +60bps |
| Provision rate (restated) | 15.6% | 16.1% | -50bps |
| New credit recruits (Rollers)*** | 136k | 133k | +2% |

** Defined as customers who have ordered in each of the last four seasons*
***UK Institute of Customer Service survey (UKICS)*
****Last six months, rounded figures. Rollers are those customers who roll a credit balance.*
*Market shares are calculated using internal and Kantar data, 24 weeks ending 14th February*

**Customers**

Our active customer file increased by 2.2% over the year. In line with our strategy of growing our Power Brands ahead of our Traditional and Secondary brands, Power Brands active customers grew by 6.9% year on year, and now exceed two million customer accounts.

Our most loyal customers shop more frequently with us, across a range of categories and, as with any retailer, are our most profitable customers. This group of customers (defined as those who have ordered at least one item in each of the last four seasons) was marginally down in the period, as a result of the headwind of our Traditional segment. We are taking actions to improve performance here.

We are very proud of our results in the Institute of Customer Service surveys, where we continue to be ranked third in the UK retail sector behind only Amazon and John Lewis. Our score of 85.8% is over 4ppts higher than the retail sector average.

**Product**

We saw a flat market share in Ladieswear (16+); within this, we gained share in younger Womenswear, driven by Simply Be, and saw a small decline in the older age groups as a result of the underperformance of our Traditional segment. We are pleased to report a 20bps increase in Menswear (44"+) market share, which was driven by Jacamo.

We have made further strides in improving our products. Our new in-house design team has been an important part of ensuring we are offering our customers cohesive, on trend product collections. We continue to expand this team, with recruits in Footwear, Accessories, Menswear and a dedicated print designer all recently joining.

Another area of focus from a product perspective is expanding our offering of third-party brands, which is typically extended to larger sizes on an exclusive basis. We view these relationships as mutually beneficial – brands benefit from our industry-leading fit capabilities, and we are able to offer our customers even greater choice. Our ranges with Sprinkle of Glitter and Coast continue to perform particularly strongly, and in the last six months we have launched collections from Scarlet & Jo, Studio 8 by Phase 8, Eden Row and Luke.

In March, we launched our first homewares range with JD Williams brand ambassador Lorraine Kelly, building on the success of her Womenswear and footwear ranges. The range consists of interior accessories across two trend collections and includes bedlinens, lighting, soft furnishings and home accessories

A measure of customer satisfaction with our products, in our view, is our returns rate and during the period this improved by 120bps to 27.4%. Product mix (the relative outperformance of Homewares and Menswear), further improvements to our product quality and fit, and the increase in cash customers all contributed to the decline in our returns rate, in roughly equal measure.

Inventory clearance across the industry is moving online at a pace, and as a result of this dynamic we closed our clearance stores in H1. We are developing new online clearance tools, and will be taking the opportunity to leverage these capabilities, and de-risk our balance sheet, by reducing our aged inventory position during the course of FY17.

## Digital

Online is our largest customer channel by some distance, and we have worked very hard over the past year to transform into a digital-first retailer, prioritising online in every business process, whilst trying to preserve the traditional part of our Group. There are also efficiencies when comparing the online and offline parts of our business, such as higher basket sizes and lower costs of marketing and order processing.

We delivered a very encouraging performance online throughout FY16, with online revenue up 15% and online active customer numbers up 13% yoy.

Online penetration, that is the proportion of sales which were generated online, stood at 65% for the year as a whole, a 6ppts increase on last year. The online penetration of new customers, a leading indicator for the group overall, was 72%, up 7ppts. Mobile devices (smartphones and tablets) now account for two-thirds of our online traffic, an increase of 10ppts. Within this, we have seen a 65% increase in smartphone sessions, and this is now the leading device type by traffic. We continue to optimise our already strong mobile proposition.

Our conversion rate was flat at 5.8%, significantly above the industry average. Within this, the conversion rate for all three device types (PC, smartphone and tablet) increased significantly, with the overall rate affected by the naturally lower conversion rate experienced on mobile devices due to consumers’ tendency to use these for browsing activity in addition to purchasing. Our abandonment rate was reduced by over 4% yoy for each device type, and over 2% overall, a very pleasing result.

To further drive our digital capabilities we are launching an innovation incubator this summer, called JDWorks. This will connect us with digital start-up companies, across the world, to accelerate our adoption of new ideas and technologies. In turn, the start-ups will benefit from all that we have to offer as one of the UK’s leading multichannel retailers.

## Financial Services

Financial services performed well during FY16 and continues to be an important enabler of our business. Financial Services revenue was up 2.1% to £259.6m. This includes the £19.0m increase to revenue as a result of the IAS39 restatement (FY15: £19.2m).

Credit arrears (>28 days) stood at 10.9% for FY16, an increase of 60bps from 10.3% last year, driven by new customer recruitment. As previously announced and discussed in detail on page 12, we restated our debtor impairment provision due a review of the application of IAS39. On this restated basis the provision rate was 18.3% in FY14 and 16.1% in FY15. In FY16 this provision rate improved further to 15.6%. The improving trend is a direct result of the work we have done over the past two years to both tighten our credit policies and help customers in financial difficulties, putting them on payment plans to rehabilitate them. In FY17 we expect both our provision rate and our arrears rate to reflect increased levels of customer recruitment and therefore to increase slightly.

Our aim is to grow two key customer bases – customers who utilise their account (internally termed our 'rollers') and cash customers, who pay immediately on a credit or debit card. Currently half of new customers opt to open a credit account, and half are cash customers. Whilst less profitable, cash customers generate attractive returns, and are important in terms of driving our growth, broadening our appeal and enabling us to gain economies of scale. Once our new financial services offering is live we will aim to convert some of our new and existing cash customers to account customers; this is not currently a focus given our relatively inflexible offering.

At the half year results we reported an increase in new credit customer recruits who roll a balance, the first such increase for three years. We are pleased to report that this trend has continued, up 2% in H2. This is a slowdown on the figure reported in H1, however, primarily as a result of tightened fraud rules in H2. We continue to believe that the primary driver of an increase in new credit customers is our improved product proposition.

Over Christmas we ran a small trial on a few of our brands offering 0% interest to new customers. The initial results of this trial are positive, although we need to assess the behaviour of customers who took up the offer over the course of the current season before we will be able to fully judge the result.

Our new Financial Services Director Steve Johnson joined in February and is already making a significant contribution in improving and modernising our operations. We are assessing our approach to data capture and processes, and believe there are changes we could make to not only improve our efficiency, but also the customer experience.

The Credit release of Fit 4 the Future goes live from Autumn 2016, with the main brands moving onto the new credit platform in early calendar 2017. The new platform will allow us to charge variable APRs for the first time, as well as offer promotional interest free periods and other new credit products. This will broaden our appeal and further enable future growth.

In common with the wider industry, we are now regulated by the FCA, having historically being regulated by the OFT. Our FCA application is progressing in line with expectations.

## <u>Performance by brand</u>

### New revenue by brand categorisation

In order to clearly show the performance of our business and brands, we have moved revenue from Ambrose Wilson out of the JD Williams group, as we no longer plan to migrate this title into JD Williams. We have also realigned our revenue breakdown outside of the Power Brands into two groups – Traditional segment and Secondary brands. The Traditional segment consists of Ambrose Wilson, House of Bath, Premier Man and Julipa, and our main Secondary brands are Fashion World, Figleaves, Marisota and High & Mighty. This new categorisation is shown in the table on page 13.

**JD Williams**
The JD Williams brand continues to perform well, as the improvements we are making to our products, our PR activity and our digital marketing campaigns continue to yield strong results. This season we significantly extended the menswear range within JD Williams, which is called Williams and Brown, and performance has exceeded expectations. Our JD Williams VIP scheme, first launched in May 2015 and offered to our most loyal JD Williams customers, continues to drive encouraging results in both frequency of spend and customer retention.

In February, on the eve of London Fashion Week, we hosted a JD Williams fashion show dedicated to females over 50 in partnership with the London College of Fashion. This was live-streamed onto JDWilliams.co.uk and received significant press coverage, further building brand awareness.

JD Williams' product revenue was £151.2m in FY16, up 4.7% yoy. For the JD Williams brand specifically there were some very pleasing digital metrics, with online penetration up 6ppts to 51%, and, importantly, online penetration of new customers up 13ppts to 65%.

**Simply Be** product revenue was up 15.6% yoy to £103.9m. The online penetration of Simply Be is 89%, and 97% of new customer orders (excluding stores). We continue to improve our digital marketing expertise and social engagement, championing size inclusivity and body confidence. Our new SS16 campaign has been very well received and we are excited about the global growth opportunity that Simply Be represents.

**Jacamo** product revenue was up 14.6% to £62.8m. Online penetration stands at 90%, and 97% of new customer orders (excluding stores). We have made significant product improvements during the quarter, focused particularly on broadening the brand appeal, the styling of the product range and the fit of our smaller sizes, which has resulted in strong sales and an encouraging reduction in the returns rate of these sizes.

**Traditional segment**
Whilst not a future growth driver, the traditional segment remains relevant to the Group's overall portfolio. We have loyal customers who we know well, and long-established internal skillsets and capabilities in serving these customers. It is an attractive and accessible market, underserved by other retailers, and we generate a good financial return. In addition, our central approach to running our portfolio of brands means that operating these traditional titles is highly efficient for us.

As we have previously announced, our traditional titles have seen a disappointing revenue performance during FY16, with revenue down 5.5%. We believe that we could serve these customers better, and have therefore taken a number of actions to improve performance. These actions include establishing a dedicated marketing team, changing our approach to promotions and giving a renewed focus on ensuring our product offering inspires and delights these customers. The low online penetration of this segment means that it is likely to take until the Autumn season before performance is improved, although we are confident that the actions we are taking will yield results.

**<u>Investing in new systems and infrastructure</u>**

**Fit 4 the Future**

Our systems transformation project, Fit 4 the Future, is progressing well. During the half we launched our Simply Be Euro website (the first phase of our Global Multi-channel release) and Powercurve (the foundation of our Credit release). Both launches were on-time and results continue to be encouraging.

Fit 4 the Future is the largest project of its kind ever undertaken by the Group, and as such there are inevitably risks associated, but we continue to do everything possible to ensure that risks and business disruption are minimised and the future benefits of the investment are maximised. Both the cost of the project, and the benefits we expect to generate as a result (including cost reductions, increased demand, improved margin and cost avoidance), are unchanged. We expect these benefits to start to ramp up from FY18 onwards. As previously disclosed, some of these benefits will be reinvested back into the business.

The timetable for Fit 4 the Future remains unchanged to that announced as part of our Q3 trading statement in January. This August we plan to start the roll-out of our new web platform and new financial services systems, initially to the USA, and then to a number of our smaller UK brands in September. Our main brands will move onto the new systems in early 2017, after peak trading.

Next month, in May, the roll-out of the first phase of our Planning transformation will be completed, giving us improved tools for assortment and range planning. This will allow us greater visibility, control and consistency. The second phase of the Planning release, which will give us item-level forecasting tools, improving markdown efficiency, will go live in early 2017.

**Major Warehouse extension**

We are pleased to report that the warehouse extension at our main Warehouse facility, in Shaw, is now complete and in the process of coming on stream. The project was completed on time and to budget. The new facility has doubled our through-put, ensuring we continue to operate efficiently. Importantly it will also materially improve our next day availability.

**<u>International</u>**

**USA**

We are pleased with our performance in the USA, with revenue of £14.3m, up 29% year on year and 20% in constant currency terms. We reduced the operating loss significantly, from £2.5m last year to £1.0m this year.

In H2 we made a profit for the first time on a constant currency basis, of $0.2m compared to a loss of $0.9m in H2 FY15. This marks an important milestone for our USA operations. The significant improvement year on year was driven by a combination of factors, including the loyalty of our customer base, continued marketing efficiency, a small amount of financial income as a result of our relationship with Alliance Data, an improvement in promotional efficiency and a small change to our delivery offering.

In March 2016 we launched the JD Williams brand in the USA and, whilst early days, the initial performance has been very encouraging.

Our new international web platform goes live in the USA in August. This will give us much improved personalisation tools and a more agile site from an operations perspective. Until this platform is live we will remain in cautious expansion mode in the USA, with a focus on further improving customer loyalty, building brand awareness and increasing profitability. We will share our plans for global expansion early next year.

**Ireland**

Our Ireland business delivered a good performance in FY16, with revenue growth of 4% in constant currency terms. We have a well-established and loyal customer file in Ireland, and, encouragingly, the revenue growth in FY16 was also driven by new customers, who are responding well to our improved product offering. In sterling terms Ireland revenues were £13.4m in FY16, down 7% year on year.

**Stores**

Stores remain a small part of our overall Group, although we see them as an important enabler of our overall growth strategy. Sales from our store estate were up 18% to £27.0m. The operating loss was £1.0m versus £0.8m last year. There remains more to do in terms of improving the efficiency of our store estate.

We have 14 dual-fascia Simply Be and Jacamo stores. Our long-term strategy here is unchanged – we plan to ultimately have 25 stores in total, covering 85% of the population. We continue to see a positive halo effect from our store portfolio and they are also important in terms of serving customers and building brand awareness.

**FY17 Guidance**

We are providing guidance for FY17, which is as follows:

- Product gross margin -50bps to -150bps driven by buying in gains, more than offset by FX headwind, clearance of aged inventory and tactical price activity to drive share growth in a challenging market
- Financial Services gross margin +50bps to -50bps, with the ongoing improvement in our credit book broadly offset by the impact of new customer recruitment
- Group operating costs up 2% to 4% (excluding Depreciation & Amortisation)
- Depreciation & Amortisation £29-30m
- Net interest £8-9m
- Capex £38-40m
- Tax rate c.20%
- Exceptional costs of c.£2m linked to our ongoing tax disputes with HMRC

## Current trading and outlook

Trading since the year end has been subdued, with sales lower year on year. This is the result of two factors. Firstly, the industry backdrop has been more challenging since January. Secondly, we adjusted our marketing approach this season, shifting from large TV campaigns to a more phased approach across the half, with increased investment in digital channels. This new approach delivers a better ROI on our marketing investment when viewed across the season as a whole. We expect, therefore, to see performance strengthen over the half.

From a non-trading perspective, FX rates represent a significant challenge year on year. At the current $/£ exchange rate, and taking into account our hedging position, there is a c.£3m PBT headwind in FY17; this is included within the above Product gross margin guidance. More detail on the sensitivity of profits to movements in FX are on page 15. We have also decided to undertake a one-off exercise to clear legacy aged inventory this year, enabled by our new online clearance tools. This investment is also reflected in the product gross margin guidance we have provided today.

Overall, we remain confident in our ability to make further progress this year. This is based on the strong appeal of our specialist fit proposition, continuous improvement in the customer experience and changes in customer shopping behaviour, driven by targeted marketing.

## FINANCIAL RESULTS

### IAS 39 restatement

As referred to previously, we have restated our debtor impairment provision as a result of a review of the application of IAS39. Unless otherwise stated, the following financial results and commentary is inclusive of the impacts as a result of the restatement.

For reference, on a restated basis H1 FY16 Financial Services revenue was £126.1m (reported figure prior to restatement impact: £116.6m) and H1 FY15 £126.6m.

### Revenue performance

Total continuing Group revenue was +3.5% to £866.2m.

Product revenue increased by 4.1% to £606.6m. Financial Services revenue increased by 2.1% to £259.6m (FY15: £254.3m).

Revenue performance by quarter was as follows:

| % yoy growth | Q1 (13wks) | Q2 (13wks) | Q3 (18wks) | Q4 (8wks) |
|---|---|---|---|---|
| Product | +4.3% | +7.9% | +4.3% | -3.5% |
| Financial Services | -1.9% | +1.0% | +3.7% | +8.1% |
| Continuing Revenue | +2.5% | +5.8% | +4.1% | +0.2% |

The performance in Q4, which is a short period consisting of just 8 weeks, is relatively unchanged from that reported in Q3 when the FY15 comparative figures are taken into account. In FY15 Q4 product revenue was +6.7% and Financial Services -8.8%.

Revenue performance by brand is shown below; as discussed above, we have changed our categorisation to more clearly show externally the performance of our brands.

| £m | **FY16** | **FY15** | **Change** |
|---|---:|---:|---:|
| JD Williams | 151.2 | 144.4 | +4.7% |
| Simply Be | 103.9 | 89.9 | +15.6% |
| Jacamo | 62.8 | 54.8 | +14.6% |
| **Power Brands** | 317.9 | 289.1 | +10.0% |
| Traditional Segment | 136.0 | 143.9 | -5.5% |
| Secondary Brands | 152.7 | 149.9 | +1.9% |
| **Product total** | 606.6 | 582.9 | +4.1% |
| **Financial Services** | 259.6 | 254.3 | +2.1% |
| **Total continuing revenue** | **866.2** | **837.2** | **+3.5%** |
| Gray & Osbourn (discont.'d) | 4.3 | 14.5 | -70.3% |

The performance of both our Power Brands and our Traditional segment is discussed on page 8. Secondary Brands revenue was up 1.9%, a pleasing result. Within this we saw a particularly good result in Fashion World driven by new product ranges.

In line with our strategy of focusing our efforts and marketing spend on our Power Brands, revenue from our Traditional and Secondary Brands combined accounted for 47.6% of product revenue, down 280bps versus last year.

Revenue by category was as follows:

| £m | **FY16** | **FY15** | **Change** |
|---|---:|---:|---:|
| Ladieswear | 250.8 | 248.6 | +0.9% |
| Menswear | 82.0 | 81.4 | +0.7% |
| Footwear | 63.8 | 60.7 | +5.2% |
| Home & Gift | 210.0 | 192.2 | +9.3% |
| Product total | 606.6 | 582.9 | +4.1% |
| Financial Services | 259.6 | 254.3 | +2.1% |
| Continuing Revenue | 866.2 | 837.2 | +3.5% |

Ladieswear revenue was up 0.9%, with the headwind of our Traditional segment partially offsetting strong growth in both JD Williams and Simply Be. Menswear revenue was up 0.7%, with an improving trend through the year; H1 revenue was down 2.9%, whilst H2 was up 4.5%. Footwear saw strong growth of 5.2% driven by improvements in our products and pricing architecture.

Home and Gift revenue was up 9.3%, with H2 growth below the level recorded in H1 as a result of tougher comparatives and a more subdued performance of House of Bath. Our strategy in Home remains unchanged – we aim to recruit new customers to our Fashion offering, but then see customers using their account to also buy Homewares. Within Homewares we focus on our "Famous Five" categories given their higher gross margin (these are Furniture, Gifting, Home Textiles, Kitchen and Home Décor, and Outdoor Living and Christmas). Famous Five categories were up by 12% yoy, with a particularly strong performance in Furniture.

**Gross margin**

Product

Product COGS were £265.7m in FY16, compared to £253.9m in FY15. Product gross margin was 56.2%, down 20bps yoy, towards the top of the guidance range. This was driven by the price re-calibration exercise previously disclosed, which impacted H1 gross margin, partially offset by promotional efficiency and bought-in margin gains. H2 gross margin increased by 90bps to 54.7%.

Financial Services

Our gross bad debt was £110.3m (FY15: £109.0m). This bad debt charge, combined with a small number of direct financial services costs, resulted in a Financial Services gross margin of 54.6%, up 20bps yoy (FY15: 54.4%). The improvement was driven by lower write-offs as a consequence of the improved quality of the debtor book. As previously guided, H2 Financial Services gross margin was down year on year.

**Operating performance**

| £m | **FY16** | **FY15** | **Change** |
|---|---:|---:|---:|
| Product revenue | 606.6 | 582.9 | +4.1% |
| Financial Services revenue | 259.6 | 254.3 | +2.1% |
| **Group Revenue** | 866.2 | 837.2 | +3.5% |
| Product gross margin | 56.2% | 56.4% | -20bps |
| Financial Services gross margin | 54.6% | 54.4% | +20bps |
| **Group Gross Profit** | **482.6** | **467.4** | **+3.3%** |
| **Group Gross Margin %** | **55.7%** | **55.8%** | **-10bps** |
| Warehouse & fulfilment | (76.7) | (73.9) | +3.8% |
| Marketing & production | (161.7) | (154.7) | +4.5% |

| | | | |
|---|---|---|---|
| Admin & payroll | (122.6) | (121.8) | +0.7% |
| Depreciation & amortization | (25.2) | (21.2) | +18.9% |
| **Operating Profit*** | **96.4** | **95.8** | |
| Operating Margin | 11.1% | 11.4% | |
| IAS39 restatement credit | 3.8 | 2.0 | |
| **Underlying Operating Profit*** | **92.6** | **93.8** | **-1.3%** |
| **Underlying Operating Margin** | **10.7%** | **11.2%** | **-50bps** |

**Operating profit before exceptionals, continuing basis*

Warehouse and Fulfilment costs increased by 3.8% to £76.7m. This was driven primarily by volumes, although these were partially offset by lower fuel costs and efficiency savings.

The 4.5% increase in marketing and production costs was driven by a continued shift into digital channels. Whilst marketing and production costs as a percentage of sales increased, this is skewed by the outsourcing of our creative production function, which resulted in some costs effectively being transferred from payroll into this cost category; this accounted for approximately half of the increase as a percentage of revenue.

Admin and payroll costs continue to be managed tightly, broadly flat at £122.6m, with these costs falling by 3% in H2 specifically. Depreciation and amortisation increased by 18.9% as a result of the investments we have made into the business.

Overall, operating profit before exceptional items was £96.4m. This includes a £3.8m credit (FY15: credit £2.0m) as a result of the IAS39 restatement. Excluding these credits, FY16 operating profit was £92.6m (FY15: £93.8m). In H2, operating profit (prior to IAS39 restatement) increased by 10.7% to £53.8m (FY15: £48.6m).

**Net finance costs**

Net finance costs were £8.1m compared to £7.6m last year, as a result of a higher debt position.

**FX sensitivity guide**

Every 0.05 rate move in $/£ (for instance 1.45 to 1.40) represents approximately a £1m impact on PBT. We are significantly less exposed to movements in the €/£ exchange rate, with each 0.05 move representing approximately a £0.3m PBT impact.

**Exceptional items**

Exceptional costs totalled £17.2m, of which £14.0m was incurred in H1. The split of these costs is shown below.

| £m | FY16 |
|---|---|
| Strategy costs (re-organisation) | 7.6 |
| VAT related legal & professional costs | 1.6 |
| Clearance store closure costs | 8.0 |
| Total exceptional costs | 17.2 |

**Discontinued operation – Gray & Osbourn**

As previously announced, the Board decided to close the Gray & Osbourn catalogue business in January 2015. Given the decision to close this business it is now classified as a discontinued operation. The loss after tax from this business was £0.6m (FY15: loss of £10.4m).

**Taxation**

The effective rate of corporation tax for the year is 23.9% (FY15: 21.5%). The FY16 rate was impacted by an adjustment relating to historical periods in respect of outstanding items with HMRC. The tax charge for the year was £17.3m (FY15, £16.8m) which meant that profit from continuing operations was £54.9m (FY15 £61.5m).

**Earnings per share**

Adjusted earnings per share from continuing operations were 24.02p (FY15: 24.61p)**.** Earnings per share from continuing operations were 19.45p (FY15: 21.84p).

**Dividends**

The Board proposes a final dividend of 8.56p, flat year on year, taking the full year dividend to 14.23p, also unchanged on last year. This is covered 1.7 times (FY15: 1.7 times).

**Capital expenditure**

Capitalised expenditure for the year was £58.7m (FY15: £63.3m). The majority of this investment was on our systems transformation programme Fit 4 the Future, with a further £12m spent on the final stage of our warehouse extension.

**Balance Sheet and Cash Flow**

Inventory levels at the year-end increased by 7.1% to £101.5m (FY15: £94.8m) driven primarily by the timing of the new season intake.

Trade receivables decreased by 0.5% to £624.7m (FY15: £627.9m). The reduction in the provision from £100.9m to £97.6m reflects the improvement in customer arrears profiles.

The group’s defined benefit pension scheme has moved from a deficit of £3.3m last year to a surplus of £10.8m. The movement predominately arises from an actuarial gain of £12.5m as a result of an increase in corporate bond yields and a fall in the markets expectations of inflation.

Net cash generated from operations was £86.9m compared to £93.8m last year. After funding capital expenditure, finance costs, taxation and dividends, net debt increased by £43.1m to £289.7m (FY15: £246.6m).  Gearing levels increased from 55% to 61%.

## Unaudited condensed consolidated income statement

| Continuing operations | Note | 52 weeks to 27-Feb-16 Before exceptional items £m | 52 weeks to 27-Feb-16 Exceptional items (Note 5) £m | 52 weeks to 27-Feb-16 Total £m | 52 weeks to 28-Feb-15 £m *restated** |
|---|---|---|---|---|---|
| **Revenue** | 4 | **866.2** | **-** | **866.2** | 837.2 |
| **Operating profit** | 4 | **96.4** | **(17.2)** | **79.2** | 83.2 |
| Investment income | | **-** | **-** | **-** | 0.1 |
| Finance costs | | **(8.1)** | **-** | **(8.1)** | (7.7) |
| **Profit before fair value adjustments to financial instruments** | | **88.3** | **(17.2)** | **71.1** | 75.6 |
| Fair value adjustments to financial instruments | 7 | **1.1** | **-** | **1.1** | 2.7 |
| **Profit before taxation** | | **89.4** | **(17.2)** | **72.2** | 78.3 |
| Taxation | 8 | **(20.7)** | **3.4** | **(17.3)** | (16.8) |
| **Profit for the period from continuing operations** | | **68.7** | **(13.8)** | **54.9** | 61.5 |
| Loss for the year from discontinued operations | 6 | **(0.6)** | **-** | **(0.6)** | (10.4) |
| **Profit attributable to equity holders of the parent** | | **68.1** | **(13.8)** | **54.3** | 51.1 |
| | | | | | |
| **Adjusted earnings per share from continuing operations** | 9 | | | | |
| Basic | | | | **24.02 p** | 24.61 p |
| Diluted | | | | **23.99 p** | 24.53 p |
| **Earnings per share from continuing operations** | 9 | | | | |
| Basic | | | | **19.45 p** | 21.84 p |
| Diluted | | | | **19.43 p** | 21.77 p |
| **Earnings per share from continuing and discontinued operations** | 9 | | | | |
| Basic | | | | **19.23 p** | 18.15 p |
| Diluted | | | | **19.22 p** | 18.09 p |

**2015 figures have been restated - see note 1.*

## Unaudited condensed consolidated statement of comprehensive income

| | **52 weeks to 27-Feb-16 £m** | 52 weeks to 28-Feb-15 £m *restated** |
|---|---|---|
| **Profit for the period** | **54.3** | 51.1 |
| **Items that will not be reclassified subsequently to profit or loss** | | |
| Actuarial gains on defined benefit pension schemes | **12.5** | 1.4 |
| Tax relating to items not reclassified | **(2.5)** | (0.3) |
| | **10.0** | 1.1 |
| **Items that may be reclassified subsequently to profit or loss** | | |
| Exchange differences on translation of foreign operations | **0.8** | (0.9) |
| **Total comprehensive income for the period attributable to equity holders of the parent** | **65.1** | 51.3 |

**2015 figures have been restated - see note 1.*

## Unaudited condensed consolidated balance sheet

| | Note | **27-Feb-16** **£m** | 28-Feb-15 £m *restated** | 01-Mar-14 £m *restated** |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Intangible assets | 10 | **124.9** | 98.3 | 73.3 |
| Property, plant & equipment | 11 | **76.7** | 70.5 | 63.2 |
| Retirement benefit surplus | | **10.8** | - | - |
| Deferred tax assets | | **3.9** | 7.2 | 9.7 |
| | | **216.3** | 176.0 | 146.2 |
| **Current assets** | | | | |
| Inventories | | **101.5** | 94.8 | 89.9 |
| Trade and other receivables | 12 | **553.4** | 549.5 | 536.6 |
| Current tax asset | | **5.3** | - | - |
| Derivative financial instruments | 7 | **2.2** | 1.1 | - |
| Cash and cash equivalents | | **45.3** | 40.4 | 45.3 |
| | | **707.7** | 685.8 | 671.8 |
| **Total assets** | | **924.0** | 861.8 | 818.0 |
| **Current liabilities** | | | | |
| Bank loans | | **-** | (7.0) | (9.0) |
| Trade and other payables | | **(99.7)** | (108.9) | (98.0) |
| Derivative financial instruments | 7 | **-** | - | (1.6) |
| Current tax liability | | **-** | (4.1) | (9.6) |
| | | **(99.7)** | (120.0) | (118.2) |
| **Net current assets** | | **608.0** | 565.8 | 553.6 |
| **Non-current liabilities** | | | | |
| Bank loans | | **(335.0)** | (280.0) | (250.0) |
| Retirement benefit obligation | | **-** | (3.3) | (4.2) |
| Deferred tax liabilities | | **(13.3)** | (8.5) | (8.6) |
| | | **(348.3)** | (291.8) | (262.8) |
| **Total liabilities** | | **(448.0)** | (411.8) | (381.0) |
| **Net assets** | | **476.0** | 450.0 | 437.0 |
| **Equity** | | | | |
| Share capital | | **31.3** | 31.3 | 31.3 |
| Share premium account | | **11.0** | 11.0 | 11.0 |
| Own shares | | **(0.2)** | (0.3) | (0.5) |
| Foreign currency translation reserve | | **1.8** | 1.0 | 1.9 |
| Retained earnings | | **432.1** | 407.0 | 393.3 |
| **Total equity** | | **476.0** | 450.0 | 437.0 |

**2014 & 2015 figures have been restated - see note 1.*

## Unaudited condensed consolidated cash flow statement

| | **52 weeks to 27-Feb-16 £m** | 52 weeks to 28-Feb-15 £m |
|---|---|---|
| **Net cash from operating activities** | **64.5** | 73.1 |
| **Investing activities** | | |
| 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 |
| **Net cash used in investing activities** | **(58.2)** | (59.3) |
| **Financing activities** | | |
| 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 |
| **Net cash used in financing activities** | **(1.4)** | (18.7) |
| Net increase/(decrease) in cash and cash equivalents | **4.9** | (4.9) |
| Opening cash and cash equivalents | **40.4** | 45.3 |
| **Closing cash and cash equivalents** | **45.3** | 40.4 |

## Reconciliation of operating profit to net cash from operating activities

| | **52 weeks to 27-Feb-16 £m** | 52 weeks to 28-Feb-15 £m *restated** |
|---|---|---|
| **Operating profit from continuing operations** | **79.2** | 83.2 |
| **Operating (loss) from discontinued operations** | **(0.7)** | (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 |
| **Operating cash flows before movements in working capital** | **106.6** | 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 |
| **Cash generated by operations** | **86.9** | 93.8 |
| Taxation paid | **(22.4)** | (20.7) |
| **Net cash from operating activities** | **64.5** | 73.1 |

**2015 figures have been restated - see note 1.*

## Unaudited condensed consolidated statement of changes in equity

| | Share capital £m | Share premium £m | Own shares £m | Foreign currency translation reserve £m | Retained earnings £m *restated** | Total £m *restated** |
|---|---|---|---|---|---|---|
| **Changes in equity for the 52 weeks to 28 February 2015** | | | | | | |
| Balance at 1 March 2014 as previously reported | 31.3 | 11.0 | (0.5) | 1.9 | 441.6 | 485.3 |
| Effect of amendment to IAS 39 | - | - | - | - | (48.3) | (48.3) |
| **Balance at 1 March 2014 as restated** | **31.3** | **11.0** | **(0.5)** | **1.9** | **393.3** | **437.0** |
| **Total comprehensive income for the period** | | | | | | |
| Profit for the period | - | - | - | - | 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 |
| **Transactions with owners recorded directly in equity** | | | | | | |
| 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) |
| **Balance at 28 February 2015 - restated** | **31.3** | **11.0** | **(0.3)** | **1.0** | **407.0** | **450.0** |
| **Changes in equity for the 52 weeks to 27 Feb 2016** | | | | | | |
| Balance at 28 February 2015 - restated | 31.3 | 11.0 | (0.3) | 1.0 | 407.0 | 450.0 |
| **Total comprehensive income for the period** | | | | | | |
| 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 |
| **Transactions with owners recorded directly in equity** | | | | | | |
| 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) |
| **Balance at 27 February 2016** | **31.3** | **11.0** | **(0.2)** | **1.8** | **432.1** | **476.0** |

**2014 & 2015 figures have been restated - see note 1.*

## Notes to the unaudited condensed consolidated financial statements

### 1. Basis of preparation

The group's financial statements for the 52 weeks ended 27 February 2016 will be prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the EU.

Whilst the financial information included in this preliminary announcement has been computed in accordance with IFRS, this announcement does not itself contain sufficient information to comply with IFRS. As such, these do not constitute the group's statutory accounts and the group expects to publish full financial statements that comply with IFRS in May 2016.

As required by the Disclosure and Transparency Rules of the Financial Conduct Authority, the accounting policies and presentation adopted in the preparation of the condensed consolidated financial statements are consistent with those disclosed in the published annual report & accounts for the 52 weeks ended 28 February 2015 other than that as set out below.

***Restatement***

International accounting statement 39 ("IAS39"), in relation to the provisioning for bad and doubtful receivables, was adopted by the group in 2005 at it's 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:

| **Income statement** | **As published 28-Feb-15** | **Adjustments** | **As restated 28-Feb-15** |
|---|---|---|---|
| | **£m** | **£m** | **£m** |
| **Revenue** | 818.0 | 19.2 | 837.2 |
| **Operating profit** | 81.2 | 2.0 | 83.2 |
| **Other** | (4.9) | - | (4.9) |
| **Profit before taxation** | **76.3** | **2.0** | **78.3** |
| **Taxation** | (16.5) | (0.3) | (16.8) |
| | | - | - |
| **Profit from continuing operations** | **59.8** | **1.7** | **61.5** |
| **Loss from discontinued operations** | (10.4) | - | (10.4) |
| **Profit attributable to equity holders of the parent** | **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.

| **Balance sheets** | **As published 28-Feb-15** | **Adjustments** | **As restated 28-Feb-15** | **As published 01-Mar-14** | **Adjustments** | **As restated 01-Mar-14** |
|---|---|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** |
| 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 |
| **Total assets** | 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) |
| **Total liabilities** | (421.6) | 9.8 | (411.8) | (390.2) | 9.2 | (381.0) |
| **Net assets** | **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 |
| **Total equity** | **496.6** | **(46.6)** | **450.0** | **485.3** | **(48.3)** | **437.0** |

# Notes to the unaudited condensed consolidated financial statements

## 2. Key risks and uncertainties

There are a number of potential risks and uncertainties which could have an impact on the group's long-term performance over the next 12 months. The directors routinely monitor all risks and uncertainties taking appropriate actions to mitigate where necessary. The key risks which have been identified as potentially having a material impact on the performance of the group are as follows: business change / transformation unsuccessful; cybersecurity; regulatory environment, taxation and credit risk management.

A key risk facing the business is the successful delivery of the group's transformation project, Fit 4 for the Future. The project is due to be delivered in in the first half of calendar 2017, and the scale and scope of the transformational changes means that the success of the business in meeting its aspirations for growth and profitability is linked to the success of the project.

Business continuity plans are in place and the group has further migrated IT systems and data security risk within the business through outsourcing IT services to a specialist IT service provider.

The group continues to review and develop it's compliance with the CCA and submitted its application to the FCA for full authorisation in September 2015. Whilst the group considers that it is compliant, there is a risk that an eventual outcome may differ. The group is providing the FCA with responses to their standard requests for information.

The group continues to have a number of open taxation positions and the calculation of the group's potential taxation liabilities or assets necessarily involves a significant degree of estimisation and judgment until resolution has been resolved with HMRC or through recourse to litigation.

Finally, credit risk refers to the risk that a counter party will default on its contractual obligations resulting in a financial loss to the group. Whilst, all customers who wish to trade on credit terms are subject to credit verification procedures and the group's customer loan book continues to be tightly managed, there remains an inherent risk of bad debt write offs dependant of the ongoing profile of our customer base and new customer recruitment activities.

## 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 directors have considered carefully its cash flows and banking covenants for the next twelve months from the date of approval of the group's preliminary results. Conservative assumptions for working capital performance have been used to determine the level of financial resources available to the group 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 group has adequate resources to continue in operational existence. Accordingly, they continue to adopt the going concern basis in the preparation of the financial statements.

## Notes to the unaudited condensed consolidated financial statements

| **4. Business segment** | **52 weeks to 27-Feb-16 £m** | 52 weeks to 28-Feb-15 £m *restated** |
|---|---|---|
| **Analysis of revenue - Home shopping** | | |
| Product | **606.6** | 582.9 |
| Financial services | **259.6** | 254.3 |
| | **866.2** | 837.2 |
| | | |
| **Analysis of cost of sales - Home shopping** | | |
| Product | **(265.7)** | (253.9) |
| Financial services | **(117.9)** | (115.9) |
| | **(383.6)** | (369.8) |
| | | |
| Gross profit | **482.6** | 467.4 |
| Gross margin - Product | **56.2%** | 56.4% |
| Gross margin - Financial Services | **54.6%** | 54.4% |
| | | |
| Warehouse & fulfilment | **(76.7)** | (73.9) |
| Marketing & production | **(161.7)** | (154.7) |
| Depreciation & amortisation | **(25.2)** | (21.2) |
| Other admin & payroll | **(122.6)** | (121.8) |
| Operating profit before exceptional items | **96.4** | 95.8 |
| | | |
| Exceptional items (see note 5) | **(17.2)** | (12.6) |
| | | |
| Segment result & operating profit - Home shopping | **79.2** | 83.2 |
| | | |
| Investment income | **-** | 0.1 |
| Finance costs | **(8.1)** | (7.7) |
| Fair value adjustments to financial instruments | **1.1** | 2.7 |
| | | |
| Profit before taxation | **72.2** | 78.3 |

**2015 figures have been restated - see note 1.*

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 P&L disclosure in several ways:
(1) 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.
(2) Splitting the gross margin performance of Product and Financial services.
(3) 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.

## Notes to the unaudited condensed consolidated financial statements

**4. Business segment (continued)**

The group has one reportable segment in accordance with IFRS8 - 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.

| | **52 weeks to 27-Feb-16 £m** | 52 weeks to 28-Feb-15 £m *restated** |
|---|---|---|
| **Analysis of product revenue by brand** | | |
| JD Williams | **151.2** | 144.4 |
| Simply Be | **103.9** | 89.9 |
| Jacamo | **62.8** | 54.8 |
| **Power brands** | **317.9** | 289.1 |
| Traditional segment | **136.0** | 143.9 |
| Secondary brands | **152.7** | 149.9 |
| **Total product revenue - Home shopping** | **606.6** | 582.9 |
| | | |
| **Analysis of product revenue by category** | | |
| Ladieswear | **250.8** | 248.6 |
| Menswear | **82.0** | 81.4 |
| Footwear | **63.8** | 60.7 |
| Home & gift | **210.0** | 192.2 |
| **Total product revenue - Home shopping** | **606.6** | 582.9 |

**2015 figures have been restated - see note 1.*

The group has one significant geographical segment, which is the United Kingdom.
Revenue derived from international markets amounted to £31.9m (FY15, £30.2m) and they incurred operating losses of £0.1m (FY15, £1.3m). All segment assets are located in the UK, Ireland and US.

**5. Exceptional items**

| | **52 weeks to 27-Feb-16 £m** | 52 weeks to 28-Feb-15 £m |
|---|---|---|
| Strategy costs | **7.6** | 5.6 |
| VAT related costs | **1.6** | 7.0 |
| Clearance store closure costs | **8.0** | - |
| | **17.2** | 12.6 |

Strategy costs incurred in FY16 related to group re-organisation costs and outsourcing of IT maintenance. In FY15. these costs related to the outsourcing of our call centre.

The VAT related costs in FY16 are legal and professional fees related to ongoing disputes disputes with HMRC. In FY15 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 H1 FY16 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.

# Notes to the unaudited condensed consolidated financial statements

### 6. 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 results of the discontinued operation, which have been included in the consolidated income and cashflow statement, were as follows:

| | **52 weeks to 27-Feb-16 £m** | 52 weeks to 28-Feb-15 £m |
|---|---|---|
| Revenue | **4.3** | 14.5 |
| Expenses | **(5.0)** | (17.5) |
| Brand impairment | **-** | (8.0) |
| Loss before tax | **(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.

### 7. Derivative financial instruments

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

| | **52 weeks to 27-Feb-16 £m** | 52 weeks to 28-Feb-15 £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 recognised, being non-hedging currency derivatives, amounted to a credit of £1.1m (FY15, credit of £2.7m) to income in the period.

The fair value of foreign currency derivatives contracts is their 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 financial instruments that are measured subsequent to initial recognition at fair value are all grouped into Level 2 (FY15, 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 (ie as prices) or indirectly (ie derived from prices). There were no transfers between Level 1 and Level 2 during the period (FY15, same).

### 8. Taxation

The effective rate of corporation tax for the year from continuing activities is 23.9% (FY15, 21.5%) reflecting additional provisions in relation to certain outstanding items with HMRC. We expect our tax rate for the year ahead to be aligned with the UK statutory rate of 20%.

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 counsels' opinion, we believe that we will recover this amount in full from HMRC and we are engaged in a legal process to do so.

The group has on-going discussions with HMRC in respect of other 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 counsels 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.

# Notes to the unaudited condensed consolidated financial statements

### 9. Earnings per share

| Earnings | 52 weeks to 27-Feb-16 £m | 52 weeks to 28-Feb-15 £m *restated** |
|---|---|---|
| Total net profit attributable to equity holders of the parent for the purpose of basic and diluted earnings per share | **54.3** | 51.1 |
| Adjustments to exclude loss for the period from discontinued operations | **0.6** | 10.4 |
| Total net profit attributable to equity holders of the parent for the purpose of basic and diluted earnings per share excluding discontinued operations | **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 |
| Total net profit attributable to equity holders of the parent for the purpose of basic and diluted adjusted earnings per share excluding discontinued operations | **67.8** | 69.3 |

| Number of shares | 52 weeks to 27-Feb-16 No. ('000s) | 52 weeks to 28-Feb-15 No. ('000s) |
|---|---|---|
| Weighted average number of shares in issue for the purpose of basic earnings per share | **282,316** | 281,612 |
| Effect of dilutive potential ordinary shares: | | |
| Share options | **245** | 856 |
| Weighted average number of shares in issue for the purpose of diluted earnings per share | **282,561** | 282,468 |

| | | |
|---|---|---|
| **Earnings per share from continuing and discontinued operations** | | |
| Basic | **19.23 p** | 18.15 p |
| Diluted | **19.22 p** | 18.09 p |
| **Earnings per share from continuing operations** | | |
| Basic | **19.45 p** | 21.84 p |
| Diluted | **19.43 p** | 21.77 p |
| **Adjusted earnings per share from continuing operations** | | |
| Basic | **24.02 p** | 24.61 p |
| Diluted | **23.99 p** | 24.53 p |
| **Earnings per share from discontinued operations** | | |
| Basic | **(0.22) p** | (3.69) p |
| Diluted | **(0.21) p** | (3.68) p |

**2015 figures have been restated - see note 1.*

## Notes to the unaudited condensed consolidated financial statements

**10. Intangible assets**

| | Brands | Software | Customer database | Total |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| **Cost** | | | | |
| 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 |
| **At 27 February 2016** | **16.9** | **256.7** | **1.9** | **275.5** |
| | | | | |
| **Amortisation** | | | | |
| 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 |
| **At 27 February 2016** | **8.0** | **140.7** | **1.9** | **150.6** |
| | | | | |
| **Carrying amounts** | | | | |
| **At 27 February 2016** | **8.9** | **116.0** | **-** | **124.9** |
| 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 (FY15, £40.6m), of which £50.8m relates to the Fit for the Future project (FY15, £17.0m). No depreciation is charged on these assets until they come into commercial use.

**11. Property, plant and equipment**

| | Land and buildings | Fixtures and equipment | Total |
|---|---|---|---|
| | £m | £m | £m |
| **Cost** | | | |
| 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) |
| **At 27 February 2016** | **53.2** | **134.9** | **188.1** |
| | | | |
| **Accumulated depreciation and impairment** | | | |
| 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) |
| **At 27 February 2016** | **13.1** | **98.3** | **111.4** |
| | | | |
| **Carrying amounts** | | | |
| **At 27 February 2016** | **40.1** | **36.6** | **76.7** |
| 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 fixtures and equipment at the year end total £13.4m (FY15, £3.1m), and in land and buildings total £7.0m (FY15, £7.0m). No depreciation is charged on these assets. until they come into commercial use.

# Notes to the unaudited condensed consolidated financial statements

### 12. Trade and other receivables

| | 27-Feb-16 | 28-Feb-15 |
|---|---|---|
| | £m | £m |
| | | *restated** |
| 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 |

**Movement in the allowance for doubtful debts**

| | | |
|---|---|---|
| Balance at the beginning of the period | **100.9** | 115.2 |
| Amounts charged to the income statement | **110.3** | 109.0 |
| Amounts written off | **(113.6)** | (123.3) |
| Balance at the end of the period | **97.6** | 100.9 |

**2015 figures have been restated - see note 1.*

# Notes to the unaudited condensed consolidated financial statements

**13. Dividends**

The final proposed dividend of 8.56 pence per share, subject to approval by shareholders, will be paid on 29 July 2016 to shareholders on the register at the close of business on 1 July 2016.

**14. Non-statutory financial statements**

The financial information set out in this announcement does not constitute the company's statutory accounts for the 52 weeks ended 27 February 2016 or the 52 weeks ended 28 February 2015. The financial information for the 52 weeks ended 28 February 2015 is derived from the statutory accounts for that year which have been delivered to the Registrar of Companies. The auditor has reported for the 52 weeks ended 28 February 2015; their report was i) unqualified, ii) did not include a reference to any matters by way of emphasis without qualifying their report and iii) did not contain a statement under s498(2) or (3) Companies Act 2006. The audit of the statutory accounts for the 52 weeks ended 27 February 2016 is not yet complete. These accounts will be finalised on the basis of the financial information presented by the directors in this preliminary announcement and will be delivered to the Registrar of Companies following the company's annual general meeting.

This report was approved by the Board of Directors on 20 April 2016.