

N Brown Group plc  
Annual Report & Accounts 2014

# Fashion that fits – anytime, anywhere

SATURDAY



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02/08/2014

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COMPANIES HOUSE

## Our 4 customer centric segments

## And our 3 power brands

Mature Females

JD  
Williams

Marisota<sup>®</sup>

Julipa

HOUSE OF BATH  
HOME OF INSPIRATION

Younger Females

SimplyBe  
fashion

Males

Jacamo

Premier  
MAN

HIGH  
MIGHTY

Specialist

 figleaves.com

GRAY&OSBOURN

# A big year for our customers

**2014 has been a big year for N Brown. Not just in terms of figures, sales and brands, but in terms of our customers. The last twelve months have seen us deliver the goods to more than four million happy customers, putting us in the top five for customer satisfaction in the UK's retail industry. By putting our customers at the heart of our business we've been able to give them more of what they want, when and where they want it.**

Technology has played a massive part in this. As the digital world continues to open up even more new and exciting opportunities, we've been setting new standards (as well as fashions) for people to follow. By embracing the technology available to us we've been able to deliver an even faster and more flexible service – and our customers have responded to this, helping to make it our most profitable year to date.

We've also focused a lot of our efforts on understanding how we can use our portfolio of brands to appeal to a greater cross section of the population. For young women we have Simply Be, which has become our brand with the most potential; for older women we have JD Williams – now our biggest brand; and for men we have Jacamo, which is our fastest growing brand. House of Bath has also achieved excellent results, with growth up 25%, and is definitely one to watch.

Together these brands have helped us deliver fast fashion to a massive percentage of the UK and take our place in the top quartile of the FTSE 250. Combined with new dual-fascia Simply Be and Jacamo stores opening, optimised mobile sites, click & collect, and next day delivery, we're proud to say it's been the biggest year in our history. And that deserves a big thanks to everyone involved.

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# Financial Highlights 2014

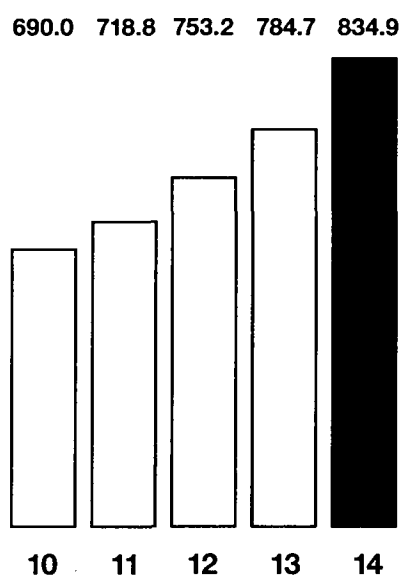
Revenue	£834.9m	£784.7m
Operating profit	£107.0m	£102.2m
Adjusted profit before taxation*	£100.1m	£95.1m
Profit before taxation	£97.3m	£96.4m
Adjusted earnings per share**	27.88p	28.15p
Earnings per share	27.09p	28.51p
Dividends per share	14.23p	13.68p
Net assets	£485.3m	£446.0m
Net asset value per share	171.2p	157.4p
Gearing	44%	42%

\* Excluding fair value adjustments to financial instruments.

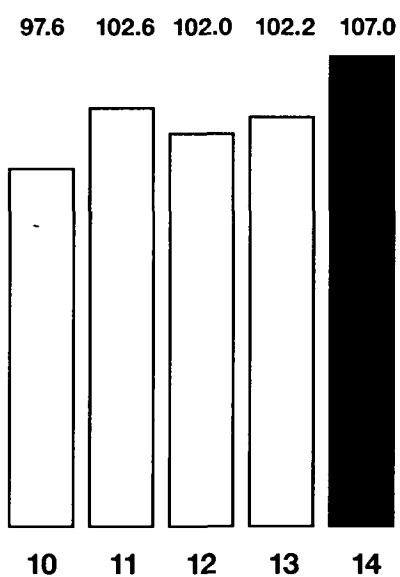
\*\* See note 11 on page 66.

# 5 year history

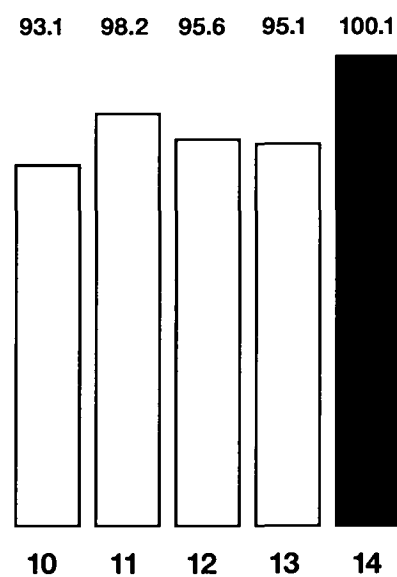
Revenue –  
Continuing operations (£m)



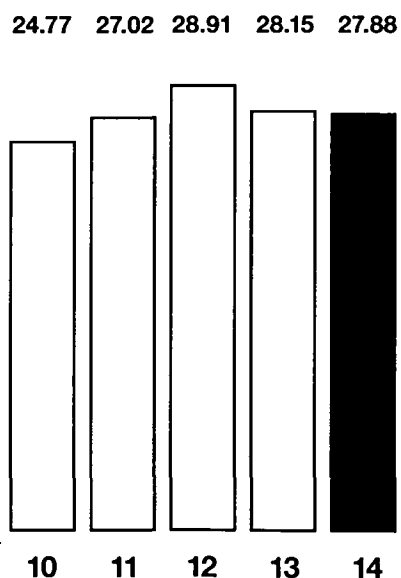
Operating profit –  
Continuing operations (£m)



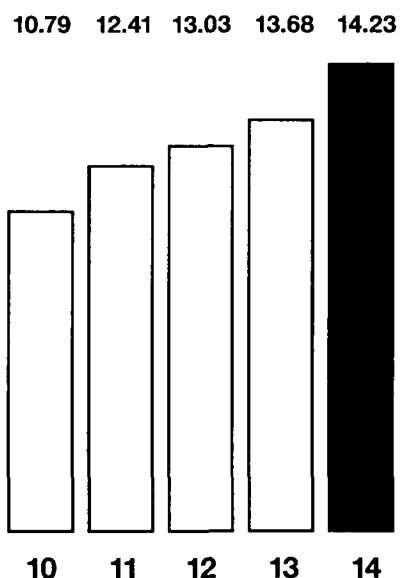
Pre-tax profit\* –  
Continuing operations (£m)



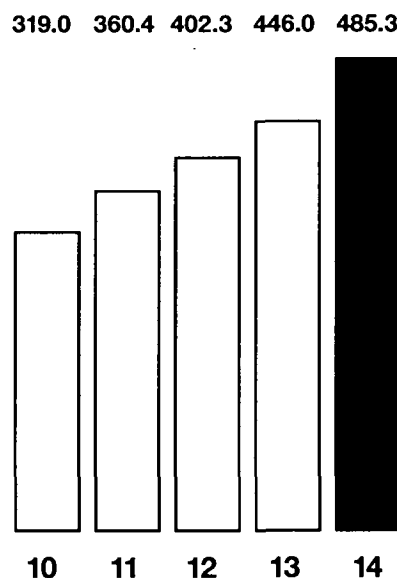
Adjusted earnings per share\*\*  
– Continuing operations (p)



Dividends per share (p)



Net assets (£m)



\* Excluding fair value adjustments to financial instruments.

\*\* See note 11 on page 66.

## The power of four

It might only seem like a small change, but dividing our business into four distinct customer groups – younger women, older women, men and specialist – has made a massive difference.

Four brands in particular, Simply Be, JD Williams, Jacamo and Figleaves stand out in these categories, helping us deliver the goods to customers all over the country.

**Over 4m**  
satisfied customers  
this year

**64%**  
of first orders  
are now placed  
online

## Hitting the high street

Online has been a great source of success for us, but this has been complemented by new stores taking the high street by storm. We now have eight dual fascia Simply Be and Jacamo stores in major cities around the UK, with plans for more on the way. If we're going to put our customers at the heart of our business, we need to keep our brands fresh in their minds.

**35%**  
like for like  
increase in sales  
in our stores

## Growing the network

Simply Be now has the biggest selection of clothing for size 20+ in the UK fashion market, and that hasn't gone unnoticed by its fans. They now have over 170,000 Facebook followers – an increase of 150% from last year, and Twitter followers are up a huge 213% to 48,000; more than any other UK plus size brand.

## Whoever, wherever, whatever, whenever

People are busier than ever these days – so much to do, so little time. By optimizing all our sites for mobile and tablet devices, we can let them order whatever they like, wherever they are. On the train, in a restaurant, at the football – they'll always be in touch with the latest trends.

## Big names for the big brands

Our celebrity designers have continued to raise the profile of our brands through their range of fresh ideas and cutting-edge designs. Freddie Flintoff continues to stand tall for Jacamo, Dani Minogue's exclusive 'Project D' range attracted new fans for Simply Be, as did Gok Wan's shapewear range, which raised eyebrows all over the UK.

Currently  
more than  
**40%**  
of our web  
traffic comes  
from mobile  
devices

2014 has seen  
Jacamo grow  
by  
**22%**

## **Bigger, better, faster**

Giving our customers more ways to shop has been one of the key factors in this year's success, but giving them more ways to receive is equally as important. Next day delivery has given them more freedom, especially in the run-up to Christmas, and Click & Collect outlets give them the flexibility to fit in with their working lives.

**Click & Collect  
is now available  
from over 3,500  
parcel shops**

We are pleased to report that the group delivered a robust performance in 2013/14 and has made a good start to the new financial year. We have grown profits during a period of major transition in the business as we begin to implement our new strategy for growth, including accelerating our investment in new markets and maintaining high levels of customer recruitment across our existing customer segments and brands.

We are encouraged by the early performance we are seeing in our US business and with our programme of new store openings in the UK as part of the development of our multi-channel offering and we are confident in the renewed growth from the actions we are taking in our core JD Williams business. We are now applying what we learned in the early stages of our entry into the US market and resumed a faster rate of expansion there during the second half of the year. The roll-out of Simply Be/Jacamo stores has also gone well as we move towards our target of 25 stores nationally across the UK. We believe these new activities can be significant growth drivers for the group in the medium term.

### Financial Results

	£m 2014	£m 2013	%
Revenue	834.9	784.7	+6.4
Operating profit	107.0	102.2	+4.7
Adjusted profit before taxation	100.1	95.1	+5.3
Statutory profit before taxation	97.3	96.4	+0.9
Adjusted earnings per share (p)	27.88	28.15	-1.0

Total group revenue increased by 6.4% to £834.9m and 6.3% on a like-for-like basis, excluding the non-comparable periods for newly opened stores.

Gross margin reduced by 0.3% for the year as a whole despite a second half improvement in overall margin which came from the reduced bad debt ratio of 7.5% of sales. This was achieved largely following the introduction of new fraud elimination processes and credit policy rule changes on high value electrical products, introduced in the third quarter.

Operating profit was up by 4.7% to £107.0m, after accounting for losses of £6.2m (2013, £6.1m) from the investment in international trading and the Simply Be/Jacamo stores.

Excluding the impact of fair value adjustment to financial instruments, profit before taxation was up 5.3% to £100.1m (2013, £95.1m). Including these adjustments, profit before taxation was £97.3m (2013, £96.4m), up 0.9%.

Adjusted earnings per share were down at 27.88p (2013, 28.15p), due to a higher tax charge of 22.0% (2013, 17.6%). The board is proposing a final dividend of 8.56 pence per share, up 4.0% on last year, giving a total dividend for the year of 14.23 pence up by 4.0%, and covered 1.96 times.

Net borrowings at 1 March 2014 increased to £213.7m (2013, £188.7m) due to further investment in the receivables book, which generates our financial services revenue.

Net finance costs fell from £7.1m to £6.9m, covered 15.5 times by operating profit. Gearing has increased from 42% to 44% on net assets which have risen by 8.8% to £485.3m (2013, £446.0m).

### Trading Highlights

During the year all of our consumer facing segments performed in line with our expectations and we continued to improve our customer service levels. The focus on consumer segments has enabled us to reinvigorate our offer and optimise more effectively our marketing investment. The fastest growth was seen within the male segment, which grew by 13% and the younger female segment which grew by 9%.

The mature female segment continued to improve with 3% growth in the year.

Revenue grew in all our major product categories as we continued to broaden our ranges. The fastest growth came from our increasingly differentiated home offer where sales grew by 12%, despite the reduced electrical sales arising out of the credit policy changes introduced in the second half of the year. This category is now focused on our "Famous Five" ranges which include bedding, home décor, homewares, outdoor living and family gifts, and accounts for 31% of group revenue. Footwear and menswear grew by 10% and 5% respectively. Ladieswear, which is a major part of our future growth strategy, and a significant opportunity for the business going forward, grew by 3% during the year.

The continued investment in our websites has driven online penetration to 58% of revenue. Online remains our priority channel and 40% of our sessions are now on mobile devices marking a significant change in the way our customers shop.

As reported at the interim results, we elected to pause our expansion into the US market during the third quarter. We have now resumed a faster rate of customer recruitment and we are applying what we've learned so far to the next stage of expansion. We have strengthened the team, taken the decision to focus on the Simply Be opportunity exclusively and based on the strength of our gross margin, begun to invest more in digital marketing, tailored ranges and website and service developments. The revenue for the full year grew by 21% to £10m and customer numbers

are up 28%. Losses were up £1.7m to £4.7m as we continue to invest in this key geography.

During September 2013 we opened two Simply Be/Jacamo stores in Leeds and Derby to bring our number of stores to nine, eight of which are dual facia. The like-for-like sales from these stores were up 35% in the year, and they are now contributing positively to trading profit before central overheads. It is our intention to roll-out a further seven stores by October this year, and we have already found a site on Oxford Street, which opens in September. These stores are helping to build brand awareness and we believe are ahead of our competitors in terms of multi-channel services offered in store. They are responsible for an online "halo" sales benefit in the 45 minute drive time radius around each store of 7% and 3% for Simply Be and Jacamo respectively, compared to those areas without a store.

In February 2014 we changed our check-out processes across the business to make it easier for new customers to pay by cash at the point of sale if they wished to do so. Our testing highlighted that we would achieve additional sales and improve cashflow from this initiative, and whilst it is early in the process the signs of success in this area are positive with 30% of new orderers to date on all channels completing their transaction on a cash basis at higher gross margins. Most of these orders relate to fashion items.

In February we described our systems infrastructure development programme, which is designed to simplify our business and to create the foundations for our multi-national, multi-channel expansion plans. We have signed agreements with our chosen partners and have now moved on to the systems design phase. It is likely that we will achieve some reporting benefits later in the current year, but the positive financial impacts on our growth will be seen in the year ended 2016 and beyond.

### **Board Composition**

In July 2013 Angela Spindler joined N Brown Group as Chief Executive and has already made a very positive contribution to the group. Her vision for the future of the business was laid out in February this year and I am delighted with the progress she has made in such a short time in shaping and pursuing the group's new strategy. She is already driving the many changes required to achieve our objectives.

John McGuire retired in March 2014 having been a non-executive director since 2005, and Anna Ford will retire from the board in July 2014 after 5 years' service as a non-executive director. I would like to thank them for their contribution to N Brown's success over the years and wish them well for the future.

### **Financial Reporting Calendar**

We have reviewed our approach to financial reporting and consequently made some changes in line with what is now best practice in the listed retail sector. Going forward, we will report our financial results in the normal way and with similar timings to our current approach. Additionally, we will issue pre-close trading updates at the end of each half year and also Interim Management statements covering the first and third quarters shortly after the end of those trading periods. One consequence of these changes is that we will cease the issue of current trading statements covering short periods at our financial results – an approach which is now routine across our industry. Consistent with this new approach, these results therefore do not include a current trading statement. Our first quarter IMS will now be issued in June, some weeks earlier than previously.

### **Outlook**

We are stepping up the pace of change in the business in pursuit of our strategic ambitions. I am pleased to report that the team has made good early progress with the implementation of our plans to

accelerate growth by building on the core strengths of the group.

Consequently the board remains confident in the outlook for the business, and we believe that the strategy in place will enable us to achieve our expectations in the year ahead and beyond. I would like to thank all stakeholders in the business and in particular the staff for all of their hard work and dedication throughout the year.



**Andrew Higginson**

# Delivering Growth across all our Customer Segments & Product Categories

Our consistent performance in terms of revenue growth has been delivered again this year with like-for-like sales up 6.3% and total group turnover up 6.4% to £834.9m. Our strategic initiatives of Simply Be and Jacamo store roll-out and our expansion into the USA have added to our momentum. However, in absolute terms the biggest drivers of growth were our young female and male consumer segments which delivered £23m and £16m of revenue growth respectively.

It is pleasing to report that all consumer segments delivered growth in the year.

In the mature segment classic fashion brand Julipa was the star performer up nearly 30% vs. last year. House of Bath was also strong at over 25% ahead year on year. It is encouraging to see a return to growth in JD Williams, however, at just 1% ahead we see this as an opportunity.

In the younger female segment Simply Be performed strongly, up 9% year on year and in the male segment Jacamo was a stand-out performer, up 21%.

	Revenue £m	% of Total	% Change
Mature Female	364	44	+3
Young Female	277	33	+9
Male	140	17	+13
Specialist	54	6	+2
<b>Total</b>	<b>835</b>	<b>100</b>	<b>+6</b>

All product categories also grew in the year with the best performance coming from Home & Gift and Footwear. Clothing sales were impacted in the second half by the very mild weather which affected the sales of product

bought for the Autumn/Winter season. Sales for the full year were diluted by a flat performance from some large categories in mid-life ladies fashion – casuals, knitwear and outerwear. That said, we grew share in our key categories of mens and ladies plus size clothing.

In the mature female segment we saw good growth in our main in-house ladieswear brand Joanna Hope (+7%). In younger female clothing, Fast Fashion ranges sold extremely well (+46%). The brand Joe Browns was also a strong performer up 20%.

	Revenue £m	% of Total	% Change
Ladieswear	372	45	+3
Footwear	92	11	+10
Menswear	108	13	+5
Home & Gift	263	31	+12
<b>Total</b>	<b>835</b>	<b>100</b>	<b>+6</b>

In traditional menswear, which accounts for over 50% of sales, performance was diluted with the category only up 4% on the year. Younger ranges were stronger, up 8%.

# Top 5

## in UK retail for customer satisfaction

Home and gift sales have been bolstered by improvements in the housing market with Homewares and Furniture being strong growth categories, as was gifting, where demand was up 27% year on year. The House of Bath brand within Home also performed well in the year, up 25%. As a result of credit policy changes, Home & Gift sales though strong, were £9 million lower as a consequence.

In ladies footwear younger styles were strongest, up 20% year on year. We were particularly successful in wide calf fitting boots. Men's footwear grew by 16%, with most growth coming from Jacamo customers.

### Gross Margin and Credit

The overall gross margin rate for the year was down 30bps year on year. This is a marked improvement on the first half where margin was down 80bps. Product margin was down 20bps, impacted by the sales mix in favour of Home & Gift and diluted in the second half by a higher rate of markdown and promotional activity to support sales and sell-through following a weather related poor start to the autumn/winter season.

The ratio of bad debt to sales was 8.1% for the year, which was in line with last year. However, this reduced from 8.8% in the first half to 7.5% in the second half. This reflected our product related credit policy changes impacting high risk, low margin home & gift categories such as high value electricals and electronics. We expect future sales and margin benefits to flow from these changes.

# Over 25% increase

## in demand using next day delivery

### Attracting and Delighting More Customers

Our active customer file has increased to seven million, which is up 3.7% year on year and reflects sustained investment in recruitment with 24% of demand coming from new customers. Our investment is also reflected in customer retention noting that the most effective recruitment channel is online marketing, including paid search.

We actively track the long term value of all our customers and take this back to the type of recruitment activity that first enticed them to order – this allows us to optimise spend for long term profitability.

Continued development of a tailored, segmental marketing strategy is clearly enabling growth through more targeted and relevant communications, and this will develop further as we combine analytics with online tools to deliver real time personalisation.

Improving the shopping experience for our customers is a key focus for the business as it correlates so closely with commercial success. In the multi-channel world this requires us to measure ourselves and track our performance across many dimensions including the web experience, in-store service, size availability, the speed and reliability of our delivery service and overall value for money. Our latest aggregate score from the UK Institute of Customer Service gives us a satisfaction index of 84.1 which puts us in the top five of UK multi-channel retailers and well above the overall index of 77.9.

# Biggest choice

## for size 20+ in UK fashion

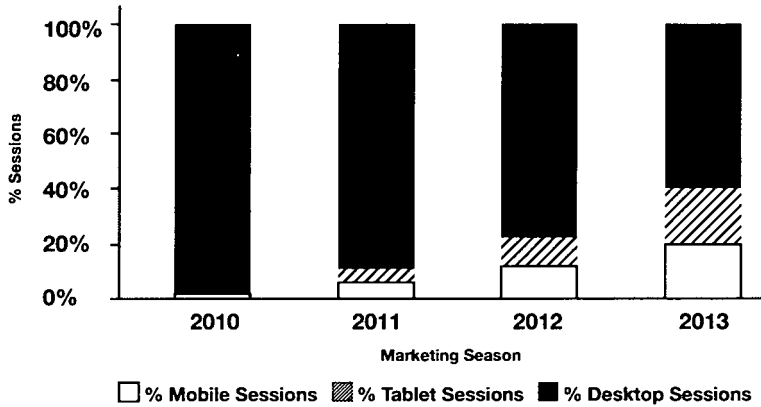
During the year we have made numerous improvements to our overall service proposition for customers. For example: we have virtually halved our web page load speeds, making us industry leading in this regard; we have simplified and improved the check-out process; we have introduced a "Click and Collect" service from 3,000 parcel shops across the country; we have provided mobile tablet devices to store colleagues in our new stores allowing them to better serve our in-store customers; we have significantly improved our next day service which now offers an 8pm cut-off and accounts for over 28% of demand, at the same time standard delivery service has improved to 3.2 days on average. We will continue to drive service improvements and track our progress on customer satisfaction.

### Developing our Multichannel Capabilities

Online sales now account for 58% of overall demand. This is up from 55% last year. The shift in our marketing spend reflects the growing appeal and influence of digital marketing techniques with customers across all our consumer segments. In the year we have reduced spend on paper from 33% to 25% of our overall marketing budget and diverted investment into online recruitment and retention activities. We have increased our emails by 70% year on year and the open rate of promotional emails has increased by 8%.

These are targeted emails based on customer product preferences and lifestyles. These highly targeted campaigns are driven from analytics

## Chief Executive's Review



**40% of  
web traffic  
coming from  
mobile devices**

and are all device optimised which is driving the improved customer response.

The migration of our business to the online channel is being fuelled by the growth in traffic from mobile devices. This now accounts for 40% of web traffic with over half of that coming from tablets. During the year we optimised our websites for tablet devices and smartphones. As a result of improvements our conversion levels by device have increased year on year.

Device	% of traffic converting to demand	
	2013	2014
Desktop	7.1	7.9
Tablet	4.5	5.0
Smartphone	3.5	3.6

We have also improved search and navigation across sites and increased our online selling capabilities through product sequencing flexibility, improved affinity selling and extended personalised recommendation capabilities. We have also enhanced the online user experience with more frequent and relevant content changes and richer images, making our sites more interesting and inspiring for customers to browse.

Ahead of our systems upgrade which is discussed further below, we continue to invest in improving our web proposition. In 2014 we plan to further improve copy and images, develop our product recommendation and personalisation tools plus make the customer checkout journey even simpler.

### Implementing our Strategy

The fourth quarter has seen us begin to implement elements of our strategy which underpin our ambition to be: "The leading global retailer famous for making shopping for fashion easy and enjoyable regardless of size."

**To be the leading global retailer  
famous for making shopping for fashion easy  
and enjoyable, regardless of size**



### Pay by Debit/Credit Card

In February we introduced the option for customers to pay at point of order by debit or credit card, an important step in broadening our customer appeal and making our proposition more contemporary. It is too soon to conclude on the impact of this however early evidence reinforces expectations that this will introduce incremental customers to the business.

### *“Famous Five” in Home & Gift*

Since last October we have been implementing our “Famous Five” strategy in our Home & Gift categories focusing our marketing efforts on categories which are differentiated and most relevant to our target customers: Homewares, Bedding, Home Decor, Outdoor Living and Gifts. These actions have driven additional sales of the Famous Five categories. Over the course of the next financial year we are confident that sales will be further fuelled by these target categories. We are seeing particularly strong momentum in homewares and family gifts.

### *Re-launch of JD Williams*

Delivering growth from our core brand of JD Williams, and its sister titles in the mature customer segment, is key to achieving our future growth ambitions. This is particularly dependent on our mature female fashion offer, which is the biggest segment of our business. All consumer dynamics emphasise this strategic opportunity – an aging population, increasing dress sizes and a growing propensity for fashion home shopping. During the second half we have reduced the line-up of titles from seven to three with further migration to come in the first half of 2014. This should ensure that when we re-launch the JD Williams brand in the autumn, we can focus our advertising on one key brand with a primary objective to attract new customers, whilst retaining the loyalty of our existing large base.

The project to make the brand more contemporary in terms of the product range and presentation is well underway. The improvements will also reflect in adjusted stock phasing to improve the percentage of newness throughout the season. For launch we will also be adjusting the range/price mix to improve value for money for customers. The initiative will be supported by an investment in marketing, both direct response to drive increases in new customer numbers, and also in brand awareness to establish longer term health of JD Williams and attract a broader range of customers.

### *International – USA*

In terms of the year’s performance, customer numbers grew by 28% in spite of a reduction in recruitment activity between August and November. This was due to poor second order rates in the first half which we addressed by making service improvements, including tracked shipping, which launched in November. Since then second order rates have improved by 10% and are rising and we have resumed a faster rate of customer recruitment. Full year sales were up 21% year on year.

We have adjusted our strategy to exclusively focus on the “fashion focused larger sized female” in the US market using our Simply Be brand. We estimate that this market is worth \$6bn and is currently poorly served. Our Simply Be plan for the USA is to tailor our ranges to that target audience, invest some of our strong product margin in better pricing and promotions and deliver on-going service and web experience improvements.

Our marketing focus is also shifting to “digital first” and we are also planning above the line campaigns to drive brand awareness. Customer retention will be underpinned by introducing a credit offer which also has an in-built loyalty scheme offering unique savings. This will be delivered via a third party, and will launch later in the summer. The new team to drive this key strategic initiative is now largely in place and operational.

Due to unfavourable economics associated with returns levels in Germany in the second half we took the decision to close the German website. German customers can still shop from the UK website. The sales impact was small, around £1.2m for the year, as we have not been marketing in Germany for over 12 months. As a result, Germany broke even for the year.

### *Simply Be & Jacamo Stores as Multi-channel Hubs*

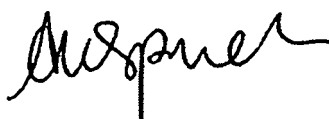
Our aim is to have 25 stores across the UK giving 85% of the population physical access to our Jacamo and Simply Be brands. We now have nine stores having opened a further two this year, in Leeds and Derby, both of which are performing in line with model expectations.

Our stores have a rich set of multi-channel capabilities including Click & Collect, in-store kiosks, and tablet-enabled service support from our colleagues. We are also successfully signing up customers for credit accounts, data capture shows that store customers go on to be multi-channel customers and are our most profitable group. The halo effect on online sales in store catchments is 5%.

We plan to open a further seven stores by October which includes a flagship store on Oxford Street in September.

### **Systems Infrastructure Development**

Over the past year we have been scoping a business-wide project to redesign our processes and supporting systems infrastructure to ensure we can deliver industry leading services and operational efficiencies both now and in the future. We have selected products and partners to facilitate this and have now moved into high level design phase. We are simplifying our business and creating the foundations for omni-channel, multi-national expansion whilst retaining our product and brand propositions which we believe are relevant and scalable. We have identified significant benefits from both increased revenues and reduced costs and expect those to flow from 2016.



**Angela Spindler**

Group sales increased by 6.4% to £834.9m (2013, £784.7m) with operating profit rising by 4.7% to £107.0m (2013, £102.2m). Operating margins have fallen by 20bps from 13.0% to 12.8% analysed as follows:

Net operating margin last year	13.0%	5.3% to £100.1m (2013, £95.1m).
Impact of gross margin – Product	-20bps	The movement in the fair value of the group's forward foreign currency contracts contributed a loss of £2.8m (2013, gain of £1.3m). The fair value of these forward contracts is based on external factors which are beyond the control of management. Profit before taxation was up 0.9% to £97.3m (2013, £96.4m).
Impact of gross margin – Financial Income Yield/ Bad Debt	-10bps	
Decrease in operating costs	+10bps	
Net operating margin this year	12.8%	

The rate of gross margin was 52.7% compared with 53.0% in the previous financial year. Product gross margin rose by 40 bps in the first half but ended 20 bps down for the year. This was due to the impact of sales mix towards lower margin product in Home & Gift and a higher rate of markdown and promotional activity than expected to support sales during the autumn/winter season. The ratio of bad debts to sales of 8.1% remained flat against last year but there was a slight reduction in financial income yield. Distribution costs increased by 7.2% to £71.1m (2013, £66.3m) which was slightly above sales growth due to higher costs associated with improvements in customer service levels such as increases in next day delivery volumes. Sales and Administration costs rose from £247.6m to £262.1m, an increase of 5.9% which was below the rate of sales growth as we made variable cost savings through improved contact optimisation, internet penetration and reduced paper. The net finance charge was £6.9m compared to £7.1m last year. This reduction was a result of a lower pension finance charge of £0.2m in respect of the group's defined benefit pension scheme. The financial costs relating to the group's borrowings were flat year on year and were covered 15.5 times by operating profit. Therefore, profit before taxation and fair value adjustments to financial instruments was up by

Stock levels at the year-end increased by 3.9% to £89.9m (2013, £86.5m). Trade receivables increased by 9.5% to £577.9m (2013, £527.8m). The bad debt provision decreased to £50.2m (2013, £55.7m) which equates to 8.0% (2013, 9.5%) of gross debtors. The reduction in the provision reflects the improvement in customer arrears profiles arising from the introduction of new fraud elimination processes and credit policy rule changes.

The deficit position of the group's defined benefit pension scheme has increased to £4.2m compared to

### Taxation

The effective rate of corporation tax for the year is 22.0% (2013, 17.6%). The increase year on year is more aligned with the statutory rate, with the prior year being impacted by the tax effect of an adjustment in respect of previous periods which did not occur in the current year. The tax charge for the year is £21.4m (2013, £17.0m) which meant that profit after taxation and attributable to shareholders was down by 4.4% to £75.9m (£79.4m). The effective tax rate for the year ahead is expected to be aligned with the UK statutory rate.

### Balance Sheet and Cashflow

The balance sheet continues to grow in strength. Net assets increased by 8.8% to £485.3m at the year-end (2013, £446.0m).

Capitalised expenditure for the year was £20.8m (2013, £25.0m) which included £1.8m (2013, £5.0m) on stores. The majority of the remaining expenditure relates to our continuous investment in our online systems and infrastructure. As reported in the Chief Executive's Review we have undertaken a business-wide project to redesign our processes and supporting systems infrastructure to ensure we deliver industry leading services. We expect capital expenditure to reach £60m in the next financial year.

£3.3m at the prior year end. The movement predominately arises from a net actuarial loss of £2.7m together with service costs of £2.4m offset by contributions of £4.2m.

Net cash generated from operating activities decreased from £72.4m to £40.7m due to further investment in the receivables book and after funding capital expenditure, finance costs and dividends, net debt increased by £25.0m to £213.7m (2013, £188.7m). Gearing levels increased slightly to 44% from 42% last year.

### Key Performance Indicators

The group employs a number of key performance indicators (KPIs) to monitor progress including:

#### Financial KPI's

- Like for like sales growth – +6.3% (2013, +5.5%)
- Gross margin – 52.7% (2013, 53.0%)
- The number of customer debtor accounts and their average debtor balance, which at the year-end was 1,440,000 (2013, 1,475,000) and £409 (2013, £380) respectively.
- Operating margin – 12.8% (2013, 13.0%)
- Interest cover – 15.5 times (2013, 14.4 times)
- Adjusted earnings per share – 27.88p (2013, 28.15p)

#### Non-Financial KPI's

- Mix of sales by Customer segments and product customer groups (Please refer to the Chief Executive's Review for details)
- Proportion of online sales – 58% (2013, 55%)
- Proportion of online traffic from mobile devices – 40% (2013, 26%)
- UK Institute of Customer Service index – 84.1%
- Average online delivery lead times – 3.2 days (2013, 3.4 days)

### Treasury

There has been no change during the year to the group's banking facilities which are in place to support its ongoing trading and development

activities. The group has committed borrowings of £370m of which £259m (2013, £250m) was utilised at the year end. The primary facilities are a £250m securitisation programme through an HSBC A-1/P1 rated conduit that has a matching standby facility. This facility is in place until March 2016. Additionally, the group has two revolving credit loan facilities of £50m each with HSBC Bank plc and the Royal Bank of Scotland plc which also expire in March 2016. All current facilities in place at the year end are arranged at floating interest rates. Where appropriate, exposure to interest rate fluctuations on indebtedness may be managed by using derivatives such as interest rate swaps. There were no interest rate swaps used in the year.

Foreign exchange requirements, primarily for the purchase of stocks denominated in US dollars may be hedged for up to three years ahead to fix the costs of sterling. This hedging activity involves the use of spot, forward and option contracts. At the year end the group had outstanding forward foreign exchange contract commitments of \$51m (2013, \$35m) with a fair value of £1.6m liability (2013, £1.2m asset).

### Accounting Standards and Going Concern

Group accounting policies reflect current accounting standards and related guidelines issued by the International Accounting Standards Board and are prepared in accordance with International Financial Reporting Standards as adopted for use in the European Union.

In determining whether the group's accounts can be prepared on a going concern basis the directors consider the group's business activities together with factors likely to affect its future development, performance, and financial position. These include cash flows, liquidity position, borrowing facilities and the principal risks and uncertainties relating to its business activities. These are set out within this report and discussed further in the Chairman's Statement and the Chief Executive's Review.

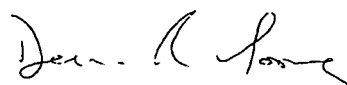
The group has considered carefully its cash flows and banking covenants for the next twelve months from the date of signing of the group's audited financial statements. These have been appraised in the light of the current economic climate. Conservative assumptions for working capital performance have been used to determine the level of financial resources available to the company and to assess liquidity risk. The key trading risk identified by the directors for these assumptions is the impact that any deterioration in the economic climate might have on the performance of the group's sales and debtor book.

The group's forecast 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 £370m which are committed until March 2016.

After making appropriate enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in the preparation of the annual report and accounts.

### Shareholder Return

The share price of 397p at the start of the year had risen to 590p at the year-end giving a market capitalisation of £1,672.2m (2013, £1,125.2m). A final dividend of 8.56p (2013, 8.23p) per share has been recommended by the board giving a total dividend for the year of 14.23p (2013, 13.68p) per share up by 4.0% and covered 1.96 times (2013, 2.06 times).



Dean Moore

## Directors and Officers

### **Angela Spindler (51)** **Chief Executive**

Appointed Chief Executive on 1 July 2013. Previously Chief Executive of The Original Factory Shop since 2009 and prior to this, Angela had roles at Coca Cola, Pedigree Masterfoods, Asda and Debenhams.

### **Dean Moore (56)** **Group Finance Director**

Appointed in 2003. Previously Group Finance Director at T&S Stores Plc and Graham Group Plc. Also held various roles with Lloyds Chemist Plc, Sketchley Plc, Blue Circle Industries and Grant Thornton.

### **Andrew Higginson (56)** **Non-executive Chairman c**

Appointed a director on 3 July 2012 and became Chairman on 1 September 2012. Having started his career in consumer products, with Unilever and Guinness, Andrew spent 22 years as an Executive Director of retail companies, first with Laura Ashley Holdings, then The Burton Group, and for fifteen years, on the Board of Tesco plc. At Tesco, he was Group Finance and Strategy Director for eleven years, then CEO of Retailing Services for four years where he was responsible for businesses including Tesco.com and Tesco Bank. He is Chairman of Poundland plc, and a non-executive director of BSkyB plc and Woolworths Holdings (South Africa).

### **Ron McMillan (61)** **Non-executive Director a, b, c**

Appointed a director on 1 April 2013. Until his retirement on 30 March 2013, he spent the whole of his career with PricewaterhouseCoopers; most recently as Deputy Chairman of PWC in the Middle East and previously as the Northern Regional Chairman of PWC in the UK. He is the Senior Independent Director and Chairman of the Audit Committee. He is also non executive director and chairman of the audit committee of 888 Holdings plc.

### **Simon Patterson (41)** **Non-executive Director a, b, c**

Appointed a director on 1 April 2013. Managing Director at Silver Lake, a leading investment firm focused on the global technology industry. He is currently a board member of Dell and Intelsat. Chairman of the Nominations Committee.

### **Fiona Laird (53)** **Non-executive Director a, b, c**

Appointed a director on 1 April 2013. Senior Vice President of Human Resources at Unilever plc. She has served in numerous human resources, compensation & benefits, labour relations, communications and change management roles globally for Unilever since joining the company in 1991. Chairman of the Remuneration Committee.

### **Anna Ford (70)** **Non-executive Director a, b, c, d**

Appointed a director on 1 March 2009. Anna retired from the BBC in 2006, after 32 years in News and Current Affairs. Previously non-executive director of J Sainsbury Plc. Honorary bencher of Middle Temple.

### **Ivan Fallon (69)** **Deputy Chairman** **Non-executive Director**

Appointed a director in 1994 and Deputy Chairman on 1 March 2009. He was previously Chief Executive of Independent News & Media (UK) until March 2010 and a leading financial journalist.

### **Lord Alliance of Manchester CBE (81)** **Non-executive Director**

Appointed a director and Chairman in 1968. Stood down as Chairman on 1 September 2012. Formerly Chairman of Coats Viyella Plc. He is also a director of a number of private companies, and was appointed a life peer in 2004.

### **Philip Harland (58)** **Company Secretary**

Joined the company in 2000. Previously a commercial lawyer in private practice in Manchester, then company secretary and associate director of legal services at GUS Home Shopping Ltd. Admitted as a solicitor in 1981.

- a Audit committee member
- b Remuneration committee member
- c Nomination committee member
- d Corporate social responsibility committee member

# The facts and figures

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## Activities and results

The directors present their annual report and audited financial statements for the year ended 1 March 2014.

The principal activity of the group is multi-channel retailing. The activities are more fully explained and reviewed in the Chief Executive's Review on pages 10 to 13. Group profit before taxation from continuing operations for the 52 weeks ended 1 March 2014 amounted to £97.3m (2013, £96.4m). No geographical segmentation is provided because, other than small operations in the Republic of Ireland, Germany and the United States, all activities take place in the United Kingdom.

## Strategic Report

In accordance with the Companies Act 2006 (the "Companies Act"), the company sets out in this report a review of the business of the group during the 52 weeks ended 1 March 2014 and the position of the group at the end of that period to enable shareholders to assess how the directors have performed their duty under section 172 of the Companies Act (the duty to promote the success of the company). The review also describes the principal risks and uncertainties facing the group and provides a fair review of the group's business at the end of the financial year. This information can be found within the following sections of this report, and in the Chairman's Statement, the Chief Executive's Review and the Financial Review (pages 8 to 15), all of which information is incorporated by cross-reference into this report and is deemed to form part of it.

The board oversees the development of processes to manage risks appropriately. The executive directors and operating board directors implement and oversee risk management processes and report to the board on them. The board also

identifies and reviews key business risks. Further detail can be found on page 26.

The board also monitors a number of financial and non-financial Key Performance Indicators ("KPIs"). These KPIs are detailed on page 15.

As required by the UK Corporate Governance Code 2012 (the "Code"), pages 4 to 15 provide an explanation of the basis on which the company generates value and preserves it over the long-term (its business model) and its strategy for delivering its objectives.

## Results, dividends and reserves

The financial statements set out the group's results for the year ended 1 March 2014 and are contained in pages 54 to 84.

An interim dividend of 5.67p per share (2013, 5.45p) was paid on the ordinary shares of the company on 3 January 2014. The net cost of this dividend was £15.9m (2013, £15.3m).

The directors recommend a final dividend of 8.56p per share (2013, 8.23p) for the 52 weeks ended 1 March 2014, the net cost of which will be £24.0m (2013, £23.0m). The dividend will be paid on 1 August 2014.

Movements in reserves are shown in the Statement of Changes in Equity on page 57.

## Composition of the group

During the year there were no corporate acquisitions or disposals.

## Share capital

Details of the company's issued share capital are shown in note 22 on page 75. The company has one class of ordinary shares which carry no fixed income. Each share carries the right to one vote at general meetings of the company.

The ordinary shares are listed on the Official List and are traded on the London Stock Exchange. There are no specific restrictions on the size of a holding nor on the transfer of shares which are both governed by the general provisions of the company's Articles of Association and prevailing legislation (except as set out below in the section entitled "Voting Rights and Restrictions on Transfers"). No person has any special rights over the company's share capital and all issued shares are fully paid.

Details of outstanding employee share options and the operation of the relevant schemes are shown in note 27 on page 77.

The directors have no current plans to issue shares other than in connection with employee share options.

## Annual general meeting

The annual general meeting will be held at 12:30 pm on Tuesday, 22 July 2014. The notice convening the annual general meeting will be sent to members by way of separate circular. Explanatory notes on each resolution to be proposed at the meeting will accompany the circular.

## Directors

The biographies of the current directors, are shown on page 16. With regard to the appointment and replacement of directors, the company is governed by its Articles of Association, the Code and the Companies Act.

At the 2014 annual general meeting all of the directors will retire and, with the exception of Anna Ford who is stepping down from the board, will offer themselves for re-election.

The directors who served throughout the year in review were as follows:-

Andrew Higginson	Non-executive Chairman	
Lord Alliance of Manchester CBE	Non-executive Director	
Angela Spindler	Chief Executive Officer	(appointed 1 July 2013)
Alan White	Chief Executive Officer	(resigned 31 October 2013)
Dean Moore	Finance Director	
Ivan Fallon	Non-executive Director/Deputy Chairman	
Anna Ford	Non-executive Director	
John McGuire	Non-executive Director	(resigned 31 March 2014)
Fiona Laird	Non-executive Director	(appointed 1 April 2013)
Simon Patterson	Non-executive Director	(appointed 1 April 2013)
Ron McMillan	Non-executive Director	(appointed 1 April 2013)

## Directors' Report

Details of directors' interests (beneficial and non-beneficial) in shares of the company are given in the Remuneration Report on page 48 and are deemed to be incorporated into this report by cross-reference.

The powers of the directors are described in the board terms of reference and the Corporate Governance Statement starting on page 22. The terms of reference for the board and its committees are available on the company's website ([www.nbrown.co.uk](http://www.nbrown.co.uk))

Other than a contract of service, no director had any interest in any disclosable contract or arrangements with the

company or any subsidiary company either during or at the end of the year.

### Directors' and officers' liabilities

The company's Articles of Association provide that, in so far as the law permits, every director of the company or associated company may be indemnified by the company against liability. In accordance with section 236 of the Companies Act, qualifying third party indemnity provisions are in place for the directors in respect of liabilities incurred as a result of their office, to the extent permitted by law. In addition, the group maintains insurance for directors and officers of the group, indemnifying them against certain liabilities incurred by them

whilst acting on behalf of the group. Both the insurance and indemnities applied throughout the financial year ended 1 March 2014 and through to the date of this report.

### Major shareholders

In addition to the directors' shareholdings shown in the Remuneration Report on page 48 and in accordance with Chapter 5 of the Disclosure and Transparency Rules, the following notifications had been received from holders of notifiable interests in the company's issued share capital at 23 May 2014:

	Holding	% of issued share capital
Nigel Alliance OBE	31,489,256	11.11
INVESCO Asset Management Ltd	25,767,425	9.09
Schroder Investment Management Ltd	16,718,972	5.90
Legal & General Investment Management Ltd	9,379,746	3.31

### Governance

The board is committed to maintaining high standards of corporate governance. Further details are contained in the Corporate Governance Statement on pages 22 to 32.

### Charitable and political donations

During the year, the group made charitable donations of £48,920 (2013, £40,070). No political donations have been made (2013, nil). No contributions have been made to non-EU political parties (2013, nil).

### Pension fund

The company has a defined benefit scheme The N Brown Group Pension Fund ("Pension Fund"). Its assets are administered by a trustee company (the "Trustee") which is controlled by a board of directors and which includes an independent trustee and others who represent the interests of pension fund members (including pensioners) and the company.

The Trustee has appointed Mercer Limited to provide various services including actuarial advice, investment advice, administration services and fiduciary management services.

The Pension Fund is required to undertake an actuarial valuation every 3 years and the last valuation took place on 30 June 2012.

The company (and some of its associated companies) are required to indemnify the Trustee company and its officers in respect of certain liabilities incurred by them in the

performance of their obligations relating to the Pension Fund or in the administration of the Pension Fund. This amounts to a "qualifying pension scheme indemnity provision" (as defined in section 235 of the Companies Act).

The Pension Fund was closed to new entrants with effect from 31 January 2002. New employees joining the group after 31 January 2002 and existing employees who had not joined the Pension Fund as at that date are entitled to join a stakeholder pension scheme administered by Prudential Stakeholder Pensions which provides a defined contribution pension arrangement.

### Auto-enrolment progress report

The company commenced pension auto-enrolment in September 2013 after a deferral of the group's staging date. 'The People Pension' has been selected as the auto-enrolment provider for weekly paid employees, whilst Prudential will auto-enrol monthly paid employees and continue to run the Stakeholder Pension for weekly employees already in the scheme. By May 2014 76% of all employees were members of a qualifying pension scheme with 1,758 employees being auto-enrolled as at the date of this report. At the date of this report the current opt-out rate is 6.7%.

### Financial risk management, objectives and policies

The group is exposed to certain financial risks, namely interest rate risk, currency risk, liquidity risk and credit risk. Information regarding such financial risks is detailed

in note 19 on page 71. The group's risk management policies and procedures and the table of principal risks and mitigations can be found on page 26.

### Change of control

There are a number of agreements that take effect, alter or terminate upon a change of control of the company such as commercial contracts, bank loan agreements, property lease arrangements and employee share plans. None of these are considered to be significant in terms of their likely impact on the business of the group as a whole. Executive directors' service contracts are terminable by the company on giving 12 months' notice. There are no agreements between the company and its directors or employees that provide for additional compensation for loss of office or employment that occurs because of a takeover bid. No relevant events were reported in the year.

### Significant contracts

The group has a number of contractual arrangements with suppliers (both of goods and services) and occupies leasehold premises for the purpose of conducting its business. Whilst these arrangements are important to the business of the group, individually none of them are essential to the business of the group and do not require disclosure under section 417(5)(c) of the Companies Act.

### Tax status

The company is not a close company within the meaning of the Corporation Tax Act 2010.

## Auditor

A resolution to re-appoint Deloitte LLP as auditor to the company will be proposed at the annual general meeting on 22 July 2014.

The auditor's fees for both audit and non-audit work are given in the audit committee report on page 26.

## Voting rights and restrictions on transfer of shares

None of the ordinary shares in the company carry any special rights with regard to control of the company. There are no restrictions on transfers of shares other than:

- certain restrictions which may from time to time be imposed by laws or regulations such as those relating to insider dealing;
- pursuant to the company's code for securities transactions whereby the directors and designated employees require approval to deal in the company's shares; and
- where a person with an interest in the company's shares has been served with a disclosure notice and has failed to provide the company with information concerning interests in those shares.

The directors are not aware of any arrangements between shareholders that may result in restrictions on the transfer of securities or voting rights. The rights and obligations attaching to the company's ordinary shares are set out in the Articles of Association.

## Amendment of the company's Articles of Association

The company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders. Where class rights are varied, such amendments must be approved by the members of each class of shares separately. The company currently only has one class of share.

## Powers of the directors

The directors are responsible for the management of the business of the company and may exercise all powers of the company subject to applicable legislation and regulation and the company's Articles of Association.

At the 2013 annual general meeting, the directors were given the power to issue new shares up to a nominal amount of £10,442,189. This power will expire on the earlier of the conclusion of the 2014 annual general meeting or 2 July 2014. Accordingly, a resolution will be proposed at the 2014 annual general meeting to

renew the company's authority to issue new shares.

Directors were also given the power to issue new shares up to a further nominal amount of £10,442,189 in connection with an offer by way of a rights issue. This authority too will expire on the earlier of the conclusion of the 2014 annual general meeting or 2 July 2014, and a resolution will be proposed at the 2014 annual general meeting to renew it.

Approval was also given at the 2013 annual general meeting for a certain number of shares up to a maximum nominal value of £1,566,328 to be allotted pursuant to the authority granted to directors set out above without being covered by the statutory pre-emption rights regime. As with the previously mentioned approvals, this authority too will expire on the earlier of the conclusion of the 2014 annual general meeting or 2 July 2014, and a resolution will be proposed at the 2014 annual general meeting to renew this authority.

As in previous years, authorisation for the directors to buy back the company's shares will not be sought at the 2014 annual general meeting.

## Employee share schemes – rights of control

The trustees of the N Brown Group plc Employee Share Ownership Trust hold shares on trust for the benefit of the executive directors and employees of the group. The shares held by the trust are used in connection with the company's various share incentive plans. The trustees currently abstain from voting but have the power to vote for or against, or not at all, at their discretion, in respect of any shares in the company held in the trust. The trustees may, upon the recommendation of the company, accept or reject any offer relating to the shares in any way they see fit, without incurring any liability and without being required to give reasons for their decision. In exercising their trustee powers the trustees may take all of the following matters into account:

- the long-term interests of beneficiaries;
- the interests of beneficiaries other than financial interests;
- the interests of beneficiaries in their capacity as employees or former employees or their dependents;
- the interests of persons (whether or not identified) who may become beneficiaries in the future; and
- considerations of a local, moral, ethical, environmental or social nature.

## Going concern

The directors have adopted the going concern basis in the financial statements and their opinion is explained on page 15.

## Liability statement

All the information contained in the Chairman's Statement on pages 8 to 9, the Chief Executive's Review on pages 10 to 13, the Financial Review on pages 14 to 15, the Remuneration Report on pages 33 to 50 and the Corporate Governance Report on pages 22 to 32 form part of this directors' report. Any liability for the information is restricted to the extent prescribed in the Companies Act.

## Directors' responsibilities statement

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations. The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Standards and applicable law. The directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing the parent company consolidated financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable IFRS's as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

### Disclosure of information to auditor

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each person who is a director at the date of the approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the group's auditor is unaware; and
- the director has taken all steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the group's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act.

By order of the board



**Philip F Harland LL.B (Hons) (Solicitor)**  
Secretary  
23 May 2014

### Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report and Directors' Report, taken together, include a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy.

By order of the board



**Angela Spindler**  
Chief Executive



**Dean Moore**  
Finance Director

23 May 2014

## Chairman's introduction

The board is committed to meeting a high standard of corporate governance and compliance with the principles in the UK Corporate Governance Code issued by the UK Financial Reporting Council in 2012 (the "Code"). My role is to ensure the board operates effectively, is well managed, complies with the requirements of the Code and has the correct balance of skills and experience to execute the strategy set by the board. The company's continued success is a reflection of its strong governance and effective management.

## Andrew Higginson Chairman of the Board

### Statement of compliance with the Code

The group complied with the provisions of the Code and the UK Financial Conduct Authority's Disclosure and Transparency Rules throughout the year. The board decided that, although one was due, an external review of board effectiveness (Code provision B.6.2) was not appropriate this year for the reasons given on page 23. An external evaluation will be conducted in the second half of 2014. All other provisions of the Code have been complied with. The following paragraphs explain how the main principles of the Code have been applied. The Remuneration Report contains further details on pages 33 to 50. Disclosures required by the Disclosure and Transparency Rules (rule 7.2.6) regarding share capital can be found in the Directors Report.

### Board composition

The board comprises nine directors of whom seven are non-executive including the Chairman. Of the seven non-executive directors, Lord Alliance of Manchester and Ivan Fallon are not considered by the board to be independent. The Chairman was considered independent at the time of his appointment.

Full biographical details of all directors appear on page 16.

There is a clear division of responsibilities between the Chairman, Andrew Higginson, who is responsible for the effective operation of the board and the Chief Executive, Angela Spindler, who is responsible for the group's operational performance.

The board understands the need for non-executive directors to be and remain independent of the management in order to be able to exercise proper oversight and effectively challenge the executive directors. The non-executive directors who served during the financial year ended 1 March 2014 were:

- Andrew Higginson (Chairman);
- Lord Alliance of Manchester CBE;
- Ivan Fallon;
- John McGuire (resigned 31 March 2014) ;
- Anna Ford;
- Fiona Laird (appointed 1 April 2013);
- Simon Patterson (appointed 1 April 2013); and
- Ron McMillan (appointed 1 April 2013).

Ivan Fallon relinquished his roles as senior non-executive director and chair of the remuneration committee and stepped down from all other committees on which he sat with effect from 1 October 2013. Ron McMillan assumed the role of senior non-executive director on the same date. Ivan Fallon will remain on the board for the foreseeable future as the board considers that he still has much to offer in terms of his knowledge and experience. John McGuire relinquished his role as chair of the audit committee on 1 October 2013, to be replaced by Ron McMillan with effect from the same date, and subsequently retired from the board on 31 March 2014.

In view of the foregoing, the board considers that, throughout the year, at least half of the board, excluding the chairman, comprised independent non-executive directors and that the composition of the board had the necessary balance of executive and non-executive directors to provide the requisite skills, experience, challenge and judgement appropriate for the requirements of the business and full board effectiveness.

All board members remain in place as at the date of this report.

Pursuant to the Code, all directors are required to retire and submit themselves for re-election annually. Accordingly, each of the directors will retire at the forthcoming annual general meeting and, with the exception of Anna Ford who is stepping down from the board, offer themselves for reappointment at that meeting.

With the exception of Ivan Fallon, who remains on a three month rolling arrangement, all non-executive directors serve on letters of appointments stipulating 3 year terms. All appointments are terminable, without compensation, on between three and six months' notice by either party and are subject to other early termination provisions without compensation, for example in the event a director is not re-elected at the annual general meeting.

The board, having carried out a performance evaluation, believes the performance of all directors and their commitment to the role of director continues to be fully effective. Further details of this evaluation can be found on page 23.

Appointments to the board are made solely on merit based on the skills and experience offered by the candidate and required by the role. This ensures that all appointees have the best mix of skills and time to devote themselves effectively to the business of the board and to discharge their duties to the best of their ability.

Details of directors' contract terms are shown in the Remuneration Report on page 40. In accordance with the Code, the company has made the terms and conditions of appointment of the non-executive directors available for inspection.

### Diversity

The board recognises the importance of diversity, including gender, at all levels of the company as well as on the board. The company is committed to equal opportunities and increasing diversity across our operations in terms of relevant skills, experience, ethnicity and gender. With the appointment of Angela Spindler as Chief Executive on 1 July 2013 and Fiona Laird as non-executive director on 1 April 2013, the board is proud to announce that it now comprises six male directors and three female directors. The board will continue to consider how diversity can be enhanced through the board and the senior management teams and across the group generally, whilst ensuring that it appoints only the most appropriate candidates to the board.

### Gender diversity

We currently have 33% female diversity at board level and 40% on the Home Shopping board. This is above the current Government target of 25% by 2015, established in the Davies review, and significantly higher than the current FTSE 250 who have achieved representation at 15.6%. We believe that gender representation makes good business sense, given that women make up over half of the UK population and almost 60% of our total workforce.

Strengthening our executive pipeline remains a permanent task for us and we continue to open up new opportunities for women in the business, working with head-hunters and agencies that can provide true gender diversification in their candidate bases.

To provide role models in the business and break the glass ceiling we are members of “Women on Boards” and have two representatives who serve in that organisation (Caroline Massingham - human resources director and Linda Quinn - trading director). Our aim is to allow development of board directors and to allow directors to take up non-executive roles in other businesses where appropriate.

The next stage is to have clarity, through succession and talent identification processes, of our policies and measures aimed at increasing the number of women in senior management. This will provide a true internal pipeline over time for board succession.

We will also apply the same approach when reviewing the appointment or re-election of non-executive directors to ensure gender balance.

## Gender split

At the date of this report the gender split (male/female, senior management and entire workforce) is as follows:-

	Male		Female	
	Heads	%Split	Heads	%Split
Senior management	47	67.1	23	32.9
Total employees	1,516	40.8	2,199	59.2

## Board operation and evaluation

An effective board of directors leads and controls the group. The members of the board are named below. The board met 8 times during the year. Directors’ attendance at board meetings was as follows:

	Attendance
Andrew Higginson	8
Lord Alliance of Manchester CBE	7
Angela Spindler (appointed 1 July 2013)	7
Ivan Fallon	8
Alan White (resigned 31 October 2013)	4
Dean Moore	8
John McGuire (resigned 31 March 2014)	7
Anna Ford	7
Fiona Laird (appointed 1 April 2013)	7
Simon Patterson (appointed 1 April 2013)	6
Ron McMillan (appointed 1 April 2013)	7

The board is responsible for all major policy decisions and for determining the operational and strategic risks it is willing to take in achieving its objectives. The board has, where necessary, delegated

operational matters to its committees and sub-committees, and to its executive and operational directors and senior officers. The board is collectively responsible for providing effective leadership and promoting the success of the group and works to a formal list of matters reserved for the board (a copy of which is available on the company’s website, [www.nbrown.co.uk](http://www.nbrown.co.uk)). Matters reserved to the board include, amongst other things, decisions on business strategy, the approval of financial statements, the annual capital and operating expenditure plans, investment, treasury and dividend policies, governance issues, major capital projects, overseeing the group’s risk control procedures, board membership and the composition of its committees and the group’s ethical, social and environmental policies.

The board governs through clearly mandated committees, accompanied by robust monitoring and reporting systems. Further detail is given below.

Day-to-day management of the group’s activities is delegated to the operational board, known as the Home Shopping board, on which both Angela Spindler and Dean Moore sit as chief executive officer and finance director respectively. Other members of the Home Shopping board are Paul Kendrick (International Director), Neil McGowan (IT Director), Ian Carr (Logistics Director), Mark Cheshire (Customer Services Director), Caroline Massingham (HR Director) and Joe Fogwill and Linda Quinn (trading directors of hardware and fashion respectively).

In January of each year the members of the board meet with members of the Home Shopping board over a two day period to review the progress being made against, and the future development of, the group’s long-term rolling strategic plan.

Board papers include detailed management reports from the Chief Executive and the Finance Director, management accounts, broker analyses, compliance and regulatory briefings and bespoke reports. A comprehensive pack of papers is electronically circulated to each director not less than seven days prior to each board meeting. Budgetary performance and forecasts are reviewed and revised at each meeting. Outside of the meeting there is a regular flow of information between the directors including the weekly dissemination of management information statistics.

Non-executive directors meet with operational teams and the Home Shopping board and undertake site visits to ensure that they have the most up-to-date

knowledge and understanding of the company and its activities and also so that the broader population of the group can derive benefit from the skills and experience of the non-executive directors.

All board members are permitted to obtain independent professional advice in respect of their own fiduciary duties and obligations and have direct access to the Company Secretary, who is a qualified solicitor and who attends all board and committee meetings as secretary. The Company Secretary provides an on-going programme of briefings for directors covering legal and regulatory changes and developments relevant to the group’s activities and director’s areas of responsibility. The Company Secretary is also responsible for the induction of new directors. New directors are provided with a comprehensive pack of information (including terms of reference, information regarding the business and guidance on their roles and duties as directors) and meetings/site visits with key employee contacts are arranged as appropriate. Inductions to the business for new directors are designed to expose them to all areas of the group’s operations but with particular emphasis on each director’s area of expertise.

## Board effectiveness appraisal

The board has undertaken an internal appraisal of its own performance and effectiveness and also that of the Chairman, other directors and the board’s committees. The engagement of an external body to manage the performance evaluation process is now due under the Code. After careful consideration, the board concluded that, because of the changes to the board during the year in terms of the appointment of three new independent non-executive directors and the appointment of a new chief executive, it was sensible to allow the new board to “bed down” and get experience of the way it and individual directors worked together before employing the services of an external evaluator. An external evaluation of board effectiveness will be conducted in the second half of 2014 and its outcomes reported next year.

Consequently, an internal evaluation was conducted by means of a written questionnaire containing 26 detailed questions ranging from the effectiveness of individual members, the size and number of board reports, relationships with management, the mix of skill-sets, to individual contributions at board meetings. The questionnaire was completed by all directors in relation to the board and also any committee of which they were a member. The process

is designed to establish whether each director continues to meet the board's requirements in terms of effective contribution, skills and devotion to the role. The evaluation results were collated by the Company Secretary for review by the Chairman and then a joint review by the board. The performance of the Chairman was reviewed and appraised by Ron McMillan, the new senior non-executive director, in consultation with the other board members. The Chief Executive's performance was reviewed and appraised by the Chairman and the non-executive directors. The performance of the Finance Director (the only other executive director on the board) was carried out in a similar manner to the Chief Executive.

The evaluation concluded that the board and committees perform well and are effective and that all non-executive directors contribute to an informed discussion with, and mount a robust challenge to, the operational and executive directors whenever necessary. The survey also found that the board and committees continue to be effectively led by their respective chairmen and that information provided to the directors was regarded as comprehensive, timely and sufficient for the directors' needs. It was also concluded that each director is individually contributing to the overall effectiveness and success of the group. No material issues were raised.

The board therefore believes it has undertaken a formal and rigorous evaluation of its own performance and that of its committees and individual directors, in compliance with Main Principle B.6 of the Code.

Beyond the annual evaluation, the performance of the executive directors is continuously monitored throughout the year by the Chairman and the senior non-executive director.

The Chairman reviews and agrees with each director their training and development needs.

### Directors' conflicts of interest

The Articles of Association of the company give the directors the power to consider and, if appropriate, authorise conflict situations where a director's declared interest may conflict or does conflict with the interests of the company.

Procedures are in place at every meeting for individual directors to report and record any potential or actual conflicts which arise. The register of reported conflicts is reviewed by the board at least annually.

The board has complied with these procedures during the year.

Two potential conflicts of interest were reported in the year ended 1 March 2014 in circumstances where the non-executives concerned were neither directly or indirectly involved in any potential dealings between the group and the companies concerned. In each case, the conflicts were authorised by the board with appropriate safeguards being put in place.

### Board activities in 2013/14

Some of the key activities that the board has covered over the past year are:

- Rolling out and communicating the group's 2020 Vision long-term strategy, setting out the goals and priorities;
- Assessing the progress of the group's Business Transformation Project which, amongst other things, will lead to a complete re-engineering of the group's IT platform;
- Reviewing the group's strategy in the USA and the investment in High Street Stores in the UK for Simply Be and Jacamo; and
- Reviewing the work of the audit committee and internal auditors on risk.

### Committees of the board

The board has delegated authority to a number of committees to deal with specific aspects of management and to maintain supervision over the internal control procedures of the group. These committees meet regularly and have formal written terms of reference which are available for inspection on the company's website. The minutes of the meetings of these committees are circulated to all committee members in advance of the next following committee meeting, at which they are ratified. The following committees of the board have been established:

- an audit committee;
- a remuneration committee; and
- a nominations committee.

A new committee, the Corporate Social Responsibility Committee, headed by Anna Ford, was also constituted in December 2013.

After each committee meeting the chairman of that committee makes a formal report to the board of directors detailing the business carried out by the committee and setting out its recommendations.

### Audit Committee

Introduction by Ron McMillan, Chairman of the Audit Committee

Dear Shareholder,  
The Audit Committee exercises oversight of the group's financial policies and reporting. It monitors the integrity of the financial statements and reviews and considers significant financial and accounting estimates and judgements. The committee satisfies itself that the disclosures in the financial statements about these judgements and estimates are appropriate and obtains from the external auditor an independent view of the key disclosure issues and risks.

Amongst other things, during the year the committee considered:

- The regulatory environment in which the group operates, which is both complex and changing with the transfer of regulatory supervision from the OFT to the FCA. Changes in laws and regulations may have a material impact on the group's business, sector and market;
- The group's approach to and methodology for provisioning for bad and doubtful receivables, in light of the significant judgements and assumptions which need to be made in this area;
- The group's approach to and methodology for provisioning for inventory which may end up being sold at below cost;
- The group's exposure to corporate tax and VAT risks through open items with tax authorities;
- The valuation of the group's defined benefit pension scheme;
- The carrying value of goodwill and the related disclosures in the financial statements;
- Revenue recognition; and
- Financial instrument valuations and disclosures.

A key responsibility of the committee is to review the scope, nature and effectiveness of internal and external audits. The committee ensured that the head of internal audit has appropriate independence and authority, that the scope of internal audit's work is not restricted and that the function has adequate resources. The head of internal audit has a direct reporting line to me and I will continue to work with him as we seek to strengthen further the function next year. The committee will also continue to monitor and review the key aspects of the group's external audit.

Lastly, in relation to risk and control, the committee oversaw during the year

the development of a new three lines of defence model that clearly attributes responsibilities and accountability for controls. This model is expected to be fully embedded next year.

Further information on the committee's responsibilities and the way in which they have been discharged is set out below.

I will be available at the annual general meeting in July to answer any questions you may have on this report and would like to thank my colleagues on the audit committee for their help and support this year.

Ron McMillan  
Chairman of the Audit Committee

## Audit Committee report

### Committee composition

The committee comprises a minimum of three members, all of whom are non-executive directors. Two members constitute a quorum. The committee requires the inclusion of one financially qualified member with recent and relevant financial experience. The committee chairman fulfils that requirement. All members are expected to have an understanding of financial reporting, the group's internal audit control environment, relevant corporate legislation, the roles and functions of internal and external audit and the regulatory framework of the business.

The members of the committee during the year were:

Ron McMillan (Chairman appointed 1 October 2013)  
John McGuire (former Chairman retired 1 October 2013)  
Ivan Fallon (retired 1 October 2013)  
Simon Patterson (appointed 1 April 2013)  
Fiona Laird (appointed 1 April 2013)  
Anna Ford

The Chief Executive, the Finance Director, the head of internal audit and the external auditor are invited to attend audit committee meetings where appropriate.

The committee met 3 times during the year and attendance was as follows:-

	<b>Attendance</b>
Ron McMillan	3
John McGuire	2
Ivan Fallon	2
Simon Patterson	2
Fiona Laird	3
Anna Ford	3

In addition to scheduled meetings, the chairman of the committee met with the

Finance Director, the head of internal audit and the external auditor on a number of occasions during the year.

### Responsibilities

The committee is responsible for:

- Monitoring the integrity of the group's financial statements and reviewing significant financial judgements and estimates in advance of these being considered by the board;
- In conjunction with internal audit and the external auditor, reviewing internal financial controls and managements' response to required corrective action;
- Monitoring and reviewing the role and effectiveness of the group's internal audit function, including activities and resources; and
- Overseeing the role and effectiveness of the group's external auditor, reviewing and monitoring their objectivity and independence and agreeing the scope of this work and fees for audit and non-audit services.

### Activities

In addition to the matters referred to in the letter from the chairman of the committee on page 24, the work of the committee during the year included:

- Reviewing the draft interim and annual reports and considering:
  - (1) The accounting principles, policies and practices adopted and the adequacy of related disclosures in the reports;
  - (2) The significant accounting issues, estimates and judgements of management in relation to financial reporting;
  - (3) Whether any significant adjustments were required arising from the audit; and
  - (4) Compliance with statutory tax obligations and the group's tax policy.
- Meeting with the internal and external auditor, both with and in the absence of the executive directors.
- Reviewing and approving the resources of, the scope of work undertaken by and the reports prepared by internal audit.
- Reviewing the reports prepared by the external auditor on key audit findings and any significant deficiencies in the financial control environment.
- Reviewing and considering the group's systems of internal risk control, sources of assurance and exposure to fraud and overseeing the development of a new risk model for aligning identified risks with mitigating actions.
- Overseeing the management of the group's whistleblowing procedures which contain procedures for the

committee to receive, in confidence, complaints on all operational matters.

- Reviewing the performance of the external auditor, including their relationship with the group, the group's use of the auditor for non-audit services and the balance of audit and non-audit fees paid to the auditor. Non-audit services are generally subject to tender processes and the allocations of work are done on the basis of competence, cost effectiveness, regulatory requirements, the potential for conflicts to arise and knowledge of the group's business. Deloitte LLP has, during the year, provided non-audit services in the form of corporate tax, and VAT advisory work and regulatory compliance. It was considered that Deloitte LLP was best placed to provide such advice in view of its knowledge of the group's financial position. The committee is satisfied that, in relation to these services, Deloitte LLP has taken actions to ensure that any potential conflicts of interest are properly managed.
- Reporting to the board on how it has discharged its responsibilities, and
- Making recommendations to the board in respect of its findings in respect of all of the above matters.

The committee has established a continuous process for identifying, evaluating and managing the significant risks the group faces. This monitoring is principally based on reviewing reports from senior management to consider whether significant operational risks are being identified, evaluated, managed and controlled and whether any significant weaknesses exist which need to be addressed. During the year, committee members have continued to receive, consider and approve updated risk evaluations from the operational directors. Further details are given later in the Risk Management section of this report.

The board considers that the processes undertaken by the audit committee continue to be appropriately robust and effective and in compliance with the guidance issued by the Financial Reporting Council. During the year the board has not been advised by the audit committee of, nor identified itself, any failings, frauds or weaknesses in internal control which it has determined to be material in the context of the financial statements.

Deloitte LLP has been the group's auditor for twelve years and, in light of changing practice, it is the group's intention to formally review their appointment in 2015, which coincides with the completion of the current five year cycle of the audit partner's rotation. The committee has recommended

that Deloitte LLP be reappointed as auditor at the forthcoming annual general meeting. Deloitte LLP has signified its willingness to continue in office and ordinary resolutions appointing Deloitte LLP as auditors and authorising the directors to set their remuneration will be proposed at the annual general meeting. The total fees paid to Deloitte LLP for the year ended 1 March 2014 were £1.6m, of which £1.3m was in respect of non-audit services. Further details are set out in Note 5 to the financial statements.

## Risk management

The directors have overall responsibility for ensuring that the group maintains a sound system of internal control. There are inherent limitations in any system of internal control and no system can provide absolute assurance against material misstatement, loss or failure. Equally no system can guarantee elimination of the risk of failure to meet the objectives of the business. Against this background, the board has established a continuous process for identifying, evaluating and managing the significant risks the group faces in order to give it reasonable assurances regarding its operations and compliance with laws and regulations.

In order to ensure key business developments and emerging risks are appropriately factored into the risk management process, the group's internal auditors facilitated two board level risk sessions in the year. The Chief Executive and Finance Director along with the operational directors identified, ranked

and reviewed the key risks facing the business and appraised the structure of internal controls and identified current and proposed activities to mitigate these risks. The committee was provided with the outputs from this process and given the opportunity to conduct its own assessment of risk across strategic, financial and operational areas. The results were circulated by internal audit as a key driver in the annual internal audit plan.

An enterprise wide mapping of activities across business functions was also undertaken by internal audit during the year to assess the level of risk within each activity. Output from this process has also been reflected in the annual audit plan.

Appropriate responsibilities and accountabilities have been set to ensure that there is ownership of the actions required to mitigate risk across the business.

## Risk committee

A risk committee has been established as a sub-committee of the audit committee on which the Chief Executive, Finance Director, the Company Secretary and head of internal audit sit, to focus on reviewing management's activities and to continually monitor and manage the risks identified. Operational management is asked to present to the risk committee on a cyclical basis on the progress of agreed actions against the major risks identified by the process. The output from the risk committee is shared with the audit committee and the full board.

The risk committee met on two occasions during the year and received presentations from operational management covering group security, information security (including Payment Card Industry compliance), risk management and Payment Protection Insurance regulatory compliance.

The committee believes that appropriate internal controls are in place throughout the group, the most significant of which have been specifically referred to in this report. The group has a well-defined organisational structure, with clear lines of responsibility and explicit authority delegated to divisional boards and executive management. The group also has a comprehensive financial reporting system with good communication of plans, budgets and monthly results to relevant levels of management and the board.

The group has complied, and continues to comply, with the provisions of the Code on internal controls. There is an on-going process in place for identifying, evaluating and managing the significant risks facing the group that has been in place throughout the year and to the date of this report. The process has been reviewed by the committee and the board and accords with guidance appended to the Code.

The principal risks which the group has identified, together with actions to mitigate those risks are set out below:

Risk	Mitigating activities
<p><b>Failure to recognise the need for change</b> The business does not recognise the need for change, is unsuccessful in delivering the best course of action or fails to execute chosen strategy.</p>	<ul style="list-style-type: none"> <li>• Board strategic planning away-days</li> <li>• Business Transformation Programme which will facilitate the omni-channel retail vision</li> <li>• Monitoring of performance against strategic objectives and targets</li> <li>• Robust change management programme</li> <li>• Responsive to market demands. For example, introduction of cash payment option</li> </ul>
<p><b>Competition</b> Failure to compete effectively through product and service propositions.</p>	<ul style="list-style-type: none"> <li>• Continuous monitoring and benchmarking of competitor activity</li> <li>• Dedicated Customer Insight team undertakes customer perceptual gap surveys</li> <li>• Investment in price programmes</li> <li>• Business Transformation Programme which provides platforms to meet customer requirements</li> <li>• Warehouse expansion project to develop and expand the customer delivery proposition</li> </ul>
<p><b>Regulatory environment</b> Failure to ensure the Group complies with existing and emerging UK and overseas legislation and regulation.</p>	<ul style="list-style-type: none"> <li>• The Group employs specialists in relevant fields to provide in-house and external expertise</li> <li>• Steering groups manage and control change</li> <li>• Dedicated regulatory compliance function</li> <li>• Pro-active engagement with appropriate regulatory bodies</li> <li>• Membership of the British Retail Consortium</li> </ul>

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<p><b>IT systems</b> The replacement of core legacy IT systems is too slow, expensive or ineffective.</p>	<ul style="list-style-type: none"> <li>• Group recruits specialist in-house and external resources</li> <li>• Business Transformation Programme which is focused on the replacement and standardisation of IT platforms</li> <li>• Monitoring of performance against targets and post-investment implementation reviews</li> </ul>
<p><b>Overseas ventures</b> Overseas ventures under-perform against expectations and expose the group to additional risk.</p>	<ul style="list-style-type: none"> <li>• Employment of dedicated executive and management teams</li> <li>• Recruitment of specialist external consultancy services</li> <li>• Development of credit offer in the USA</li> <li>• Review of performance against targets</li> </ul>
<p><b>People</b> Over-reliance on key personnel and inability to recruit and retain required skill sets.</p>	<ul style="list-style-type: none"> <li>• Succession planning process developed by HR</li> <li>• Group internal opportunities and reward systems</li> <li>• Employee engagement surveys</li> <li>• Benchmarking of competitors' reward packages and terms and conditions</li> </ul>
<p><b>Business interruption</b> A significant event impacts the ability of the business to continue trading.</p>	<ul style="list-style-type: none"> <li>• Business Continuity Planning programmes</li> <li>• IT disaster recovery plans including penetration testing</li> <li>• Business Transformation Programme</li> </ul>

## Remuneration Committee

A Remuneration Report and Remuneration Policy in accordance with the requirements of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended), together with a letter from the chairman of the remuneration committee, are included on pages 33 to 50. Information concerning the committee's activities during the year is set out in those reports. The report and policy will be put to members at the company's 2014 annual general meeting for approval.

## Nomination Committee

Introduction by Simon Patterson, Chairman of the Nomination Committee.

Dear Shareholder,

It has been a busy year in terms of succession planning for N Brown. The last year has seen us add three new non-executive directors, myself, Ron McMillan and Fiona Laird, and also a new Chief Executive Officer, Angela Spindler.

The new board members completed a full induction programme, which involved spending time with the main functions and departments of the business. The new non-executive directors each took up positions as chairs of committees, and commenced by reviewing and updating the charters and practices of the committees. Overall the new board and its committees are now well established and well positioned to support and challenge the executive team.

The objectives of the nomination committee is to ensure the board comprises individuals possessing the requisite skills, knowledge and experience to ensure effective oversight and governance.

The nomination committee is chaired by me, and the members are Andrew Higginson, Anna Ford, Ron McMillan and Fiona Laird. The formal terms of reference for this committee require it to make recommendations to the board for appointments of directors including, when appropriate, the Chairman of the board and also directors of the operating board and other senior executive staff of the operating company. Where appropriate, the Chief Executive and Company Secretary are invited to attend meetings of the committee.

The nomination committee evaluates board candidates on merit, against objective criteria, taking into account the skills and experience required to perform the duties of the post with due regard to diversity and gender. Where appropriate, external search consultants are engaged.

MWM Consulting LLP ("MWM") was appointed by the Committee to assist in the discharge of its duties. The three non-executive directors who were appointed on 1 April 2013 were identified by means of an external candidate search and selection process conducted by MWM. MWM have no other connection with the company.

As the new members of the board were busy settling into their respective roles, no need for a meeting of the nomination committee was considered necessary this year.

Simon Patterson  
Chairman of the Nomination Committee

## Corporate social responsibility Committee (CSR)

A CSR committee under the chairmanship of Anna Ford was established during the year.

Introduction by Anna Ford,  
Chairman of the CSR Committee.

Dear Shareholder,  
I am pleased to report that the group established a Corporate Social Responsibility ("CSR") committee during the year to formalise and focus on the CSR work the group has been undertaking. The inaugural meeting of the committee took place in December 2013.

The members of the committee are me, Andy York (ethical trading manager), the company secretary, Angela Spindler and Caroline Massingham (group HR director). The committee met once in the year in review.

The committee has responsibility for making recommendations to the board regarding the following areas of interest: looking after the environment, ethically sourcing our products and working with our employees and the wider community. The committee has baselined the group's current level of compliance and is working on an overall CSR strategic plan and will report next year against agreed targets and measurable KPIs. We will seek to embed these throughout the business.

Further details on the group's compliance in the field of CSR are set out below.

At the inaugural meeting, membership and terms of reference were agreed and a benchmarking report together with an update on the group's involvement on the Accord for Fire and Building Safety

# Corporate Governance Statement

in Bangladesh were received. I would, in particular, like to place on record my thanks for all the work that our Ethical Trading Manager has done on our behalf on that Accord.

This will be my last year with N Brown. I intend to step down at the forthcoming annual general meeting after five years service on the board and its committees. I am proud to be leaving the company having achieved many improvements in CSR (and particularly the fine work on the Accord). There is much more to do and I am sure my successor as chairman, Fiona Laird, will continue to make great progress in embedding the core values of CSR in everything we do.

Anna Ford  
Chairman of the CSR Committee

## Ethical standards

The board regards the maintenance of the highest ethical standards in business as an essential characteristic of the way in which the group conducts all of its business. A code of ethical conduct covering commercial standards, bribery and corruption, conflicts of interest, gifts and hospitality has been adopted by the group. All senior managers and employees of the group are required to comply with both the letter and the spirit of the code in all their dealings for and on behalf of the group.

In dealings with each other, shareholders, customers, suppliers, competitors, regulatory authorities and the wider community, all employees are required to:

- ensure that customers are treated fairly;
- conduct dealings with honesty, integrity, respect and fairness;
- comply with all relevant laws, regulations and internal company policy;
- encourage and support a business culture which promotes sound

ethical conduct at all levels within the organisation;

- avoid any situation or action, which could cause a conflict of interest or damage to the group's reputation; and
- foster an inclusive team-working environment in which praise and recognition play key roles.

Directors of all group companies are required to disclose details of related party transactions for review and authorisation by the audit committee and by the board.

A gifts and hospitality register is maintained which requires all employees to record any gift or hospitality offered by suppliers and other parties. Monthly returns are required from all directors and employees declaring any such offers with a value of £25 or more, and stating whether any offers were accepted or declined.

As reported in the audit committee report, a whistleblowing policy and confidential 'hotline' exists, which provides employees with a secure and private means of reporting any ethical concerns that they may have regarding the way the group or any employee is behaving in day-to-day activities. One 'whistleblowing' event was reported in the year by an employee who was concerned about a minor pricing error on one of the group's websites. This was thoroughly investigated and reported to the chairman who concluded that the complaint had no foundation.

## Environment

### Overview

Our sustainability strategy and environmental performance has become an integral element of our core business strategy. As a responsible multi-channel retailer, we have formally committed to reduction targets and continually strive to exceed expectations of our customers,

staff and investors. Responsibility for group-wide sustainability has been assigned to Ian Carr, director of logistics, who sits on the operational board of J D Williams & Company Limited and who reports to the Chief Executive Officer and, through her, to the board of directors.

Since 2007, the group has been actively working alongside its environmental partners, Envantage Limited and Viridor Limited, to boost environmental performance and increase group-wide environmental awareness and accountability. Ongoing investment into energy, carbon, waste and water minimisation initiatives has led to a considerable reduction in our carbon emissions and water footprint profiles.

### Emissions profile

Our Green House Gas (GHG) emissions inventory is calculated for the global group under the operational control approach, in accordance with the GHG Protocol and GHG emissions factors published by DECC 2013 (V1.1). The inventory is independently calculated by our partner carbon consultants Envantage Ltd.

Under GHG reporting guidelines, scope 1 and 2 emissions are the key mandatory areas to report, illustrating the environmental impact of the group for activities where we have direct control- i.e. operation of our sites and vehicles. As a responsible retailer we have also taken steps to quantify as many extra optional scope 3 emission sources related to our operation to boost our environmental impact assessment and emissions reduction plan.

The table below illustrates our GHG emissions across all our reporting areas, for the global Group from 1 March 2013 to 28 February 2014.

Scope	Source	2013-2014, tonnes CO <sub>2</sub> e	%
Scope 1	Natural Gas	2,287.4	12.4%
	Gas oil	101.3	0.6%
	Diesel	477.3	2.6%
	HFC	259.8	1.4%
	Company and pool car travel	150.3	0.8%
Scope 2	Electricity	8,861.4	48.2%

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Scope 3	Water	38.2	0.2%
	Employee commuting	2,574.0	14.0%
	Business travel (Air, road and rail)	1,100.0	6.0%
	Well to tank (All)	1,973.6	10.7%
	Waste	565.4	3.1%
<b>Total Scope 1, 2 &amp; 3</b>		<b>18,388.7</b>	<b>100.0%</b>

### Emissions reductions

The table below focuses on key scope 1 and 2 emissions from the Group by source for both the current reporting period and the previous year. Since our last reporting

period we have reduced our overall absolute scope 1 and 2 emissions by 1%, despite experiencing growth and increased output during this period.

Category (Scope 1 and 2)		Source	2013-2014 tonnes CO <sub>2</sub> e	2012-2013 tonnes CO <sub>2</sub> e	% change
Combustion of fuels	Stationary combustion	Natural gas	2,287.4	2,564.5	11% reduction
		Gas oil	101.3	68.6	48% increase
	Mobile combustion	Diesel (lorries / vans)	477.3	460.4	4% increase
		Company cars	150.3	106.5	41% increase
Operation of facility	Fugitive emissions	HFC (cooling)	259.8	266.5	3% reduction
	Process emissions	None applicable			
Purchase of electricity, heat or steam		Electricity	8,861.4	9,147.8	3% reduction
<b>Total GHG emissions (tonnes CO<sub>2</sub>e)</b>			<b>12,137.5</b>	<b>12,614.3</b>	<b>4% reduction</b>

As a growing organisation, evaluation of emissions performance using intensity ratios allows us to perform more meaningful comparisons between

inventory periods. The table below illustrates emissions performance against group turnover (£million) and items sold (million items).

Since the previous reporting period we have significantly reduced our emissions by 6.3% and 5.5%, when compared with turnover and items shipped respectively.

Intensity ratios	Current year (2013-2014)	Comparison year (2012-2013)	% Change
GHG emissions tonnes CO <sub>2</sub> e / group turnover (£million)	14.5	16.0	9.4% reduction
GHG emissions tonnes CO <sub>2</sub> e / million items shipped	392.9	428.7	8.4% reduction

### Mandatory GHG reporting notes

The GHG data disclosed in this report complies with the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. GHG emissions disclosed under the required reporting categories fall within the groups consolidated financial statement. Scope 1 and 2 emissions have been calculated on a global scale where the group has operational control using the GHG protocol. The quantified emissions are for the reporting year 1 March 2013 to 28 February 2014.

### Data records

- Natural Gas and electricity: Data is primarily calculated based on actual metered consumption from invoices or meter readings. Where actual metered data is not available because energy is billed as part of a landlord service charge, energy consumption has been estimated using floor areas and published benchmarks.
- Gas oil: Fuel is used in stand by generators and onsite transport (forklifts etc.). Data for onsite transport is calculated using actual fuel usage from

invoices. Generator fuel usage has been estimated using generator fuel demand per hour and activation information.

- Diesel: Data is calculated based on actual fuel consumption from invoices.
- Company car: Data is primarily calculated for the group using data logged in our global expense system which records distance travelled, and vehicle information for each business travel expense claimed. Any company cars not logged on this system have been estimated based on milometer readings.

- **HFC:** Refrigeration emissions have been calculated from the F-Gas register for applicable plant. Emissions for plant not affected by this regulation (smaller systems) have been calculated using data provided by full service records or leaking estimator tables have been used. Where service records were not available for a very small number of shops refrigeration losses have been estimated.

### Employees

The Chief Executive has board level responsibility for employment matters.

*Employee involvement* – Our success is due, in the main, to an engaged, enthusiastic, motivated and well-trained workforce. Considerable resources are devoted to employee training, with a large dedicated training team based in the contact centre with around 40 people providing customer service and systems training to ensure our customers receive the highest possible levels of service.

A management development team based at head office provides learning and development support for head office teams and all subsidiary and support divisions. The entire management team undergoes a bespoke 360 degree appraisal process every two years with the intention of ensuring that everyone understands the impact they have on the teams around them. In 2013 we launched 'simplybefrank', an employee survey used to validate engagement levels across the group's divisions and subsidiaries. The Customer Service team also run a separate engagement survey which provides results on a team level within the division. A Consultative Forum operates within the logistics division where employees from all levels contribute and share ideas that help shape the culture of the business. This year the Logistics division achieved Investors in People accreditation at Gold standard, joining the Customer Service division which achieved this standard in 2013.

A large proportion of the group's training and development work is delivered by the HR learning and development team, which is supplemented by external training in specialist technical and IT training areas where necessary as well as individually tailored training. There is also a suite of self-training and e-learning tools available via an online database, "simply development", which enables employees to access a wide range of self-development activities, tools and information.

The company has developed close relationships with local universities to retain talent within the northwest. We now offer graduate schemes in Buying, Quality & IT. In addition we offer placements within the Buying and Merchandising function with many graduates returning post degree.

An employee profit share scheme has been introduced to enable employees to participate in the company's success. The scheme provides an enhanced bonus for junior grades, providing greater benefit differentials for employees promoted to non-management grades.

Over 500 group employees either hold shares in the company or have options/awards to acquire them through the group's various share option and long-term incentive schemes.

*Consultation* – Constructive relationships exist with the trade unions that represent the group's employees (principally USDAW and SATA). Elements of the group are covered by a collective bargaining arrangement with USDAW. Union membership is encouraged and regular communication with the union is facilitated through 'partnership forums' established on the principle of shared commitment to business success, employment security and development with a particular emphasis on quality of life, openness and adding value.

*Equal opportunities* – The group supports the principle of equal opportunities in employment and is opposed to all forms of discrimination, including those on the grounds of colour, race, nationality, ethnic or national origin, religion, gender, age, sexual orientation, marital status or disability.

Our selection processes for recruitment, promotion, training and development are non-discriminatory. We believe it is in the best interests of employees and the group to provide these opportunities to the most suitable candidates, and to achieve a balanced working population spread across a diverse range of ethnic origins, gender and age groups.

Applications for employment by disabled persons are thoroughly and sympathetically considered, with the aptitude of the applicant being regarded foremost. In the event of any employee becoming disabled during their employment, every effort is made to ensure that their employment with the group continues and the group will endeavour to assist the employee by

offering additional training, adapting the job if appropriate or by offering a transfer to another position. It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

*Health and safety* – The health, safety and welfare at work of its employees, contractors, visitors and customers is paramount as is ensuring compliance with all relevant legislation. The group is also committed to best practice initiatives.

As the number of our retail outlets increases, we ensure that we maintain our high health and safety standards by having robust procedures, training, supervision and guidance. Our audit programme for the group ensures that all sites are meeting the same exacting standards that we demand throughout.

Cumulative group accident statistics show that for the year in review, reportable accidents under Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (RIDDOR) have fallen as a percentage of our employees from 0.03% in the previous year to 0.02%. In the year in review, the group ratio of accidents per employee remained static at 0.6%. This reflects the work completed to ensure that our new retail sites maintain the high safety standards expected within the group.

The group's Health & Safety and Human Resources departments are complimented by an Occupational Health department, whose focus is to look after the well-being of the group's employees. The Department provides advice, guidance and support on people's fitness to work, on-site physiotherapy, chiropody and a counselling service.

We endeavour to ensure that all products and services sold by the group or used in the workplace are safe and without risk to employees and customers when used properly.

### Customers

A key factor of the group's success is the strength of relationships with our customers and their levels of satisfaction with our group products and services.

We aim to attract and retain customers through a highly competitive product and service offering, regularly monitoring retail and home-shopping sector developments to stay in touch with our marketplace. Insights into our customers' needs and

## Corporate Governance Statement

expectations are regularly updated through customer satisfaction surveys conducted both directly and through third parties.

Our overall strategy is to adopt a "multi-channel" approach to managing customer contacts, with the key aim of a joined-up and consistent customer experience across channels. Our multi-channel service platforms cover web, telephone, mobile/tablet and post, and will extend to our new store operations.

We continually develop our web-sites for richer product content, ease of use, and improved performance. Optimisation for mobile/tablet devices is a priority due to the rapid growth of demand in this channel. Web self-service capabilities are delivered through a "my account" facility for customer order and account management information. Web-enabled contact centre capabilities are being deployed to support our web-trading customers, including multimedia, web chat, click-to-call and social media.

The group operates both in-house and outsourced contact centres, predominantly located in the UK. Our international businesses are supported through local contact centres in the USA, Germany and Eire. Enquiries and complaints have been pro-actively reduced over recent years as a proportion of customer order transactions, reflecting the introduction of more customer-oriented policies, processes and product/service standards. Telephone, email and letter contacts received from customers are analysed and remedial actions taken to improve our levels of service.

Our speed of answering calls and responding to emails has been improved and made more consistent. Automated speech services handle a significant proportion of customer telephone payments and parcel collection requests. We continue to invest in improved speed of product deliveries to our customers and to offer more delivery service options such as next-day or nominated day of delivery. E-mails inform customers about their order and account status.

Service developments are planned to further enhance our multi-channel customer experience with new capabilities to offer personalisation and choice. Individual customer needs and preferences will drive their relationship with us across brands, products, services, channels, offers, trading terms, and communications.

### Suppliers

We continue to monitor our suppliers under our Code of Conduct. This is based on the ETI (Ethical Trade Initiative) Base Code, [www.ethicaltrade.org](http://www.ethicaltrade.org). This is a global Code of Conduct that is used as a standard by retailers across the world. We currently deal with 1,564 suppliers operating from around 3,400 factories. Our main sourcing countries are China, India, United Kingdom, Pakistan and Bangladesh.

We continue to regularly audit and risk assess our suppliers by using a mix of external and our own internal audits. We have recently joined SEDEX (Supplier Ethical Data Exchange) in an effort to reduce duplication of audits and to encourage sharing of audit information and best practice amongst retailers and suppliers. Currently 135 of our suppliers are members of SEDEX and we are encouraging as many as possible to sign up to the scheme. We use the results of the audits to try and influence change.

During the year we strengthened our ethical trading team to 3 full-time employees.

As with many other retailers, a major focus of our work has been on Bangladesh following the tragic building collapse in April 2013 of the Rana Plaza complex. The group had no direct working relationships with any of the factories in Rana Plaza but was however the first company of its size to sign up to the Accord on Fire and Building Safety in Bangladesh, (<http://www.bangladeshaccord.org>) in May 2013 as one of the founding 39 worldwide brands. The Accord is a legally binding 5 year commitment to make all garment factories in Bangladesh safe workplaces, and has now been signed by over 160 worldwide brands. Our ethical trading manager was seconded to work with the Accord staff full time for the first 6 months, which included spending 45 days in the Geneva office of the global trade union, Uniglobal. We were also elected as one of the brand representatives on the board of the Accord.

Full structural, fire and electrical inspections have begun with all 1,600 factories covered by the Accord to be inspected by end of August 2014. We have participated in 2 separate delegations to Bangladesh and worked with the ILO (International Labour Organisation), Bangladesh government and the BGMEA (Bangladesh Garment Manufacturers and

Exporters Association) to enable set up on the ground in Dhaka. We are also working with the World Bank and the ILO to ensure that appropriate funding is available to enable the required remediation work to be carried out. We continue to invest time in this as we see it as a concrete example of working together to improve worker safety in the garment industry in Bangladesh. All factories, inspections and corrective actions are openly listed on the Accord website. The scheme has a budget of 10 million USD per year for the 5 years of the programme. We have represented the Accord at a number of high profile events and have been featured in a number of press articles throughout the year.

We have also been working on a number of similar projects. For example, we are working through the ETI on addressing labour rights concerns for women in the textile and garment industry in southern India.

We have also been working with other retailers and Oxfam in the Vietnam Wooden Furniture supply chain.

We were also part of a project which has revised the detail in the working hours clause of the ETI Base Code. This is designed to give greater clarity, specifically looking at the number of hours worked and that any overtime worked should be at a premium rate of at least 125% of the basic salary. We have worked with this group to develop an interactive learning tool to help companies understand the implications of this change for their suppliers.

We are members of a cross retail group looking at the issue of a living wage and how to put this into practice within all supply chains.

We have signed up to the United Nations Global Compact. This scheme has over 10,000 corporate participants and other stakeholders from over 145 countries worldwide. We publically commit to implementing the 10 principles in the areas of human rights, labour rights, forced and child labour, the environment and anti-corruption within our supply chain and reporting on progress on an annual basis.

We have also signed up to a government funded scheme, SCAP (Sustainable Clothing Action Plan), to play our part in reducing the carbon, waste and water footprints of the clothing we sell by 15% by the year 2020. This scheme, involving 56 other retailers, represents more than 40% of all UK retail sales.

We continue to be members of the All Party Parliamentary Corporate Responsibility Group and have retrained all our buying and merchandising staff in all aspects of ethical trading and corporate responsibility.

### **Paying our suppliers**

The group's policy for the payment of suppliers is to ensure that terms of payment are negotiated with suppliers when agreeing the terms of each transaction and to ensure that all suppliers are made aware of and accept agreed payment terms. The group continually reviews payment procedures and liaises with suppliers to eliminate difficulties and to maintain good working relationships. Agreed payment terms are then abided by and payment is made in accordance with those terms. Trade creditors of the group at 1 March 2014 represented 36 days (2013, 38 days) of purchases.

### **Community relations**

The group takes great pride in its links with local communities and actively supports the communities in which it operates. It maintains close links with the Christie Hospital in Manchester and the Retail Trust and also regularly encourages employees to participate in fundraising activities for

these and other worthwhile causes. The group matches the money raised by employees to double the size of the donation. The logistics division provide Christmas presents and Easter Eggs for children's wards at local hospitals, sponsor the local bonfire and firework display and Christmas lights, make donations to local schools and work closely with charities close to home to help raise much needed funds for good causes.

The group's family, health and well-being programme, now in its ninth year, continues to provide support and real assistance for all of our employees.

### **Relations with investors**

The company places considerable importance on good communication with all shareholders, be they institutional or individual investors. Institutional investors, fund managers and analysts are kept informed of the company's overall strategy through regular meetings and investor 'road-shows' and site visits. All non-executive directors are kept informed of shareholders' views through detailed feedback on surveys and polls and analyst and broker reports are tabled at each board meeting. The senior non-executive director is available to meet with, and

consider, the views of major shareholders. Other non-executive directors are available to meet major shareholders as appropriate.

The company aims to ensure that all shareholders have full and timely access to the information it discloses in the annual report, the yearly and half yearly announcements and interim management statements and that shareholders have the opportunity to meet with the executive management team (and certain members of the operating division) at the announcement of the group's results and also at the annual general meeting. Non-executive and executive directors also attend meetings with major shareholders on request. As well as being provided with a copy of the annual report and results announcements, the group recently overhauled its website to provide shareholders with up to date and comprehensive material about the group and its activities and also real-time market information and prices. Shareholders also have the opportunity to ask questions, make observations and represent their views to the board of directors by constructive use of the annual general meeting.

# Remuneration Report

Introduction by Fiona Laird,  
Chairman of the Remuneration Committee.

Dear Shareholder,

I am pleased to present the Directors' Remuneration Report for 2013/14 on behalf of the Board and to summarise the remuneration committee's main activities during the year.

The remuneration committee now consists entirely of independent non-executive directors. I became its chairman on 1 October 2013. In addition to myself, the current members are Ron McMillan, Simon Patterson, and Anna Ford.

The remuneration committee met on 5 occasions during the year. Members' attendance was as follows:

	<b>Attendance</b>
Fiona Laird (Chairman) (appointed 1 April 2013)	4
Ivan Fallon (Past Chairman – retired from the committee 1 October 2013)	4
Ron McMillan (appointed 1 April 2013)	4
Simon Patterson (appointed 1 April 2013)	3
John McGuire (retired 1 October 2013)	3
Anna Ford	5

The remuneration committee reviews, formulates and determines the reward and remuneration package of each executive director and other senior employees of the company including the Home Shopping board. It also considers how the company is applying the principles of the UK Corporate Governance Code (the "Code") in respect of directors' remuneration.

We have continued to develop our strategy of creating a remuneration framework that rewards both long and short-term performance as we believe this is in the best interests of all of our shareholders.

This is the first year that the report is subject to the new regime contained in the amended Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (the "Regulations"). As such, it has been separated into the following parts:

- This "Annual Statement" which identifies the key messages on remuneration for the year under review and explains the business context in which the committee's major decisions during the period were taken;

- A forward looking "Directors' Remuneration Policy Report" which proposes an overall executive remuneration framework that will be adopted and operated by the company in 2014/15 and the following two financial years – if approved by shareholders the policy set out in this part of the report will become binding with effect from the annual general meeting to be held on 22 July 2014; and
- An "Annual Report on Remuneration" which provides shareholders with details of the remuneration that was actually delivered to the company's directors during 2013/14 and explains how the new policy referred to above will be applied in 2014/15 – this final part of the report will be subject to an advisory vote at the forthcoming annual general meeting.

On 1 July 2013, Angela Spindler became chief executive on terms described in last year's Remuneration Report. Details of the bonus targets set for her first year as chief executive and of her joining awards are provided in the Annual Report on Remuneration. On 31 October 2013, Alan White retired as a director and employee. He received a pro-rata bonus for 2013/14 and his outstanding share awards vested on a pro-rata basis as described in the Annual Report on Remuneration. In addition, he will receive a lump sum cash payment as settlement of his pre-existing entitlements under the company's unregistered pension arrangements. Details are set out in the Annual Report on Remuneration.

The principal performance metric for the normal annual bonus was based on group profit. The committee determined that this element of the annual bonus targets had not been met and therefore no bonus was awarded to Dean Moore nor to Alan White in respect of this element. The remainder of the normal annual bonus was based on meeting corporate and personal objectives. The committee determined that these were met in part, resulting in a bonus of 16.8% of salary for Dean Moore and a bonus of 15.8% of salary, on a time pro-rated basis for Alan White. As disclosed last year, the bonus agreed as part of Angela Spindler's recruitment package was also time pro-rated and was based on non-financial personal objectives relevant to the balance of the financial year following her appointment. The committee determined that these had been met, resulting in a 83.3% bonus after pro-rating. Angela Spindler's bonus will be paid wholly in cash. 25% of Dean Moore's bonus will be delivered as an award of shares deferred for two years and in Dean

Moore's case, this will also qualify for an award of matching shares, vesting based on EPS performance over two years.

The committee reviewed the TSR performance of the company in respect of the 2010 Long Term Incentive Share Plan ("LTISP") award. The company was ranked 6th out of 20 against its peers at the end of the three year performance period, as a result of which 85% of the award vested. The committee also reviewed the TSR performance in relation to Alan White's LTISP awards.

The committee reviewed the salaries of the executive directors in April 2014 and determined that these should be increased by 2.5%, in-line with most of the general workforce, effective from 1 June 2014.

Following Angela Spindler's appointment as chief executive and in anticipation of the introduction of the company's first binding vote on its remuneration policy at the forthcoming annual general meeting the remuneration committee has reviewed the company's remuneration arrangements for executive directors. As a result of this review the committee has decided to make the following changes to its policy for 2014/15 and future years:

- The annual incentive arrangements will be simplified, bringing the arrangements of the Chief Executive and Finance Director into line with each other. For the Finance Director this will involve replacing the share matching element with an increase in the maximum annual bonus opportunity for 2014/15 from 100% of salary to 125% of salary and an increase in the percentage of bonus deferred from 25% to 40% of any payout. This change will result in effectively no increase in the target value of his remuneration and no change in the target percentage of his bonus delivered in cash and in shares. In addition, the vesting period for future deferred bonus increased from two to three years for both directors. No further matching share awards will be made in relation to financial years after 2013/14.
- The company intends to seek approval for a new Deferred Share Bonus Plan that will give effect to the new arrangements. Going forward, this will replace the existing Deferred Annual Bonus Scheme. This will continue to enable matching share awards to be made to employees below the level of the executive directors.
- The weighting of performance measures used in the annual bonus is being changed to reflect the revised strategic priorities of the group, with an increased

weighting on corporate measures and a reduced weighting on personal performance. Subject to commercial confidentiality, performance against these targets will be disclosed in next year's report.

- As part of its review the committee concluded that Angela Spindler's total remuneration was below a mid-market level for comparable retailers. Chiefly this is as a result of the variable elements of remuneration being below median. Given her performance and development in the role since appointment and in order to ensure an increased link to performance, the Committee intends to increase both the chief executive's maximum bonus and normal long-term incentive award. Both are currently set at 125% of salary, as a result of which the overall level of incentive opportunity is below market. For 2014 onwards these will both be increased to 150% of salary. The impact of these changes will be to position Angela Spindler's total remuneration at a broadly mid-market level. The finance director's LTIP award would also be increased from 100% to 125% of salary to increase the focus on longer-term performance. Following this change his remuneration would remain below mid-market.
- The company intends to seek approval for a new Long-Term Incentive Plan at the annual general meeting in July 2014. Going forward, this will replace the Long-Term Incentive Share Plan ("LTISP"). The new plan will reflect current market and best practice and the individual limit for normal awards will remain at 150% of base salary. However, in exceptional circumstances, such as on recruitment, awards up to 200% of salary will be permitted. Awards with an initial market value of 150% of salary and 125% of salary to Angela Spindler and Dean Moore, respectively, will be granted shortly after the annual general meeting in July 2014.
- With the exception of the award made to Angela Spindler shortly following her appointment which was subject to equally weighted earnings per share ("EPS") and relative total shareholder return ("TSR") performance conditions, relative TSR has historically been the sole performance metric used to determine the vesting of awards under the LTISP. For 2014/15 and future years the committee intends to use growth in adjusted EPS in excess of RPI and relative TSR as the metrics in the long-term incentive arrangements. For the 2014 awards adjusted EPS would have a 60% weighting and relative TSR would have a 40% weighting. The committee

has also reviewed the TSR comparator group to ensure that it is appropriate for the awards in 2014 and has made a number of minor changes. Details of the revised group are provided in the Annual Report on Remuneration.

I will be available to answer any questions at the annual general meeting in July and very much hope that you will support the Directors' Remuneration Report and Annual Report on Remuneration at our forthcoming meeting.

I would like to thank all of my colleagues on the remuneration committee for all their hard work in implementing the new reporting requirements of the Director's Remuneration Report and generally with the day to day tasks of the committee over the last year.

#### Fiona Laird

Chairman of the Remuneration Committee

#### Remuneration policy

This report sets out the information required by Part 4 of the Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2008, as amended. The report also satisfies the relevant requirements of the Listing Rules of the Financial Conduct Authority, and describes how the board has applied the principles and complied with the provisions relating to directors' remuneration in the Code.

It summarises the committee's remuneration policy for the executive directors which, if approved by shareholders at the 2014 annual general meeting, will become effective immediately thereafter.

The committee's policy is designed to ensure that the main elements of the remuneration package are linked to the company's annual and long-term strategy, are appropriate in quantum and capable of attracting, motivating and retaining executive directors. The policy aims to reward executive directors and senior executives by offering them competitive remuneration packages, which are prudently constructed, sufficiently stretching and linked to long-term profitability and which do not encourage excessive risk taking.

In particular, the committee strives to ensure that remuneration packages are:

- aligned with the group's strategic plan;
- aligned with shareholders' interests;

- measured against stretching targets, both in absolute and relative terms;
- competitive and sufficiently flexible to support the recruitment needs of the business;
- paid in a combination of cash and shares; and
- linked to performance measured over annual and three-year performance periods.

#### Summary of components of executive directors' remuneration

The table opposite summarises the committee's policy for the main components of remuneration.

## Remuneration Report

Element	Purpose and link to strategy	Operation	Maximum	Performance assessment
<b>Salary</b>	<p>Reflects the performance of the individual, their skills and experience, and the responsibilities of the role.</p> <p>Provides an appropriate level of basic fixed income.</p>	<p>Reviewed annually, taking account of absolute group profitability and performance against personal &amp; corporate objectives.</p> <p>Set with reference to the levels of base salary for similar positions with comparable status, responsibility and skills in competitor organisations of comparable size and complexity, in particular those in the home shopping and retail market sectors.</p> <p>When reviewing salary increases the committee takes into account the impact of any increase to base salaries on the total remuneration package.</p> <p>Any changes normally take effect from 1st June.</p>	<p>Salary increases will normally be in line with increases awarded to other employees of the group.</p> <p>More significant increases may be awarded at the discretion of the committee, for example: where there is a change in responsibilities or scope of the role; to reflect individual development and performance in the role (e.g. for recent hires); or in exceptional circumstances.</p>	<p>None, although overall individual performance is a factor considered when setting and reviewing salaries.</p>
<b>Annual bonus</b>	<p>Drives and rewards annual delivery of financial, corporate and personal goals.</p> <p>Annual performance targets are aligned to the long-term strategic KPIs of the company and aimed at increasing shareholder value, whilst being prudent and safeguarding the future of the company.</p> <p>Deferral provides alignment with shareholders and assists with retention.</p>	<p>Targets are reviewed annually to ensure that they are appropriate to the current market conditions, the long-term strategy of the company and that they continue to remain stretching and challenging.</p> <p>From 2014/15 onwards, bonuses will be paid 60% in cash, with 40% deferred as a conditional award of shares.</p> <p>Vesting of future deferred shares is at the end of three years from the award of the bonus, subject to continued employment (save in "good leaver" scenarios).</p> <p>The payment of any earned bonus remains ultimately at the discretion of the committee.</p> <p>Executives may also be entitled to receive the value of dividends that would have been paid on vested shares during the deferral period.</p>	<p>Chief executive: up to 150% of base salary p.a.</p> <p>Other executive directors: up to 125% of base salary p.a.</p>	<p>A significant majority of the annual bonus will normally be determined by reference to performance against stretching group profit measures.</p> <p>Additional targets linked to corporate performance and individual targets will be applied.</p> <p>Personal objectives will be measurable and linked to goals that are consistent with the group's longer-term goals.</p> <p>Performance below threshold results in zero payment. Payment rises from 0% to 100% of the maximum opportunity for levels of performance between threshold and maximum, with 50% of the maximum normally payable for on-target performance.</p> <p>Includes a "clawback" mechanism in the event of material misstatement of the group's financial results or individual misconduct.</p>

## Remuneration Report

Element	Purpose and link to strategy	Operation	Maximum	Performance assessment
<b>Long-term incentive plan "LTIP"</b>	Provides appropriate incentives to reward sustained success through the achievement of challenging business targets, thereby aligning the interests of shareholders and executives.	<p>Annual grants of nil-cost options or conditional awards of shares, which vest subject to the group's performance measured over three years.</p> <p>Participation and all awards are subject to the discretions given to the committee in the plan rules.</p> <p>Executives may also be entitled to receive the value of dividend payments that would otherwise have been paid on vested awards during the vesting period.</p>	Normal maximum of 150% of salary. Exceptional circumstances maximum of 200% of salary.	<p>Awards made from 2014 onwards will be subject to targets based on growth in adjusted EPS in excess of RPI (60% of the award) and relative TSR against a peer group of other retailers (40% of the award). The committee will have the discretion to set different weightings and select different peer groups for future awards. The peer group for 2014 is disclosed in the Annual Report on Remuneration.</p> <p>EPS targets are set by the remuneration committee prior to each grant. Targets for both EPS and TSR will be based on a sliding scale. For each measure performance below threshold results in zero payment. Payment rises from 25% at threshold or median to 100% of the maximum opportunity at a maximum or upper quartile performance level.</p> <p>Includes a "clawback" mechanism in the event of a material misstatement of the group's financial results or individual misconduct.</p>
<b>All-employee share schemes (SAYE and SIP)</b>	All employees, including executives, are able to acquire shares by participating in the group's all-employee share plan at the discretion of the committee.	The group operates an HM Revenue & Customs approved savings related share option scheme for the benefit of group employees provided that they have completed at least six months' service. Participation in the SIP may also be offered.	The plans are subject to statutory individual limits as amended from time-to-time. These are broad-based plans and are not subject to performance targets.	N/A
<b>Pension</b>	Provides retirement benefits that reward sustained contribution.	The company operates a defined contribution plan and may also provide cash pension contributions or cash supplements in lieu.	Up to 15% of salary as a company contribution to a defined contribution pension scheme and/or as a cash allowance.	N/A
<b>Other benefits</b>	Provides a competitive package of benefits that assists with recruitment and retention.	Main benefits currently include private medical insurance and a car allowance.	<p>Car and fuel allowance up to £20,000 per annum.</p> <p>Other benefits will be in-line with market. The value of each benefit is based on the cost to the company and is not predetermined.</p>	N/A

## Notes:

1. A description of how the company intends to implement the policy set out in this table for 2014 /15 is set out in the Annual Report on Remuneration on page 41.
2. The remuneration policy for the executive directors and other senior executives is designed with regard to the policy for employees across the group as a whole. However, there are some differences in the structure of the remuneration policy for senior executives. In general, these differences arise from the development of remuneration arrangements that are market competitive for the various categories of individuals. They also reflect the fact that, in the case of the executive directors and senior executives, a greater emphasis tends to be placed on performance-related pay in the market.
3. Prior to 2014/15, 25% of any bonus to executive directors (other than Angela Spindler) was compulsorily deferred in shares for two years and eligible for a 1:1 matching award of shares, vesting of which was subject to performance conditions. Angela Spindler's 2013/14 bonus is delivered wholly in cash.
4. All-employee share plans do not have performance conditions. Executive directors are eligible to participate in the SAYE and SIP on the same terms as other employees.
5. Copies of the LTIP rules are available on request from the company secretary.
6. LTISP awards granted prior to 2014 are subject to performance conditions described in the Annual Report on Remuneration.
7. The company also operates share ownership guidelines requiring executive directors to acquire and hold a specified level of shareholding. The current level of holding expected under the guidelines is described in the Annual Report on Remuneration.

## How employees' pay is taken into account

The remuneration policy for the executive directors is designed with regard to the policy for employees across the group as a whole. The company's ability to meet growth expectations and compete effectively is dependent on the skills, experience and performance of all of our employees. As a result our employment policies, remuneration and benefit packages for employees are regularly reviewed. Whilst there are some differences in the structure of the remuneration policy, these reflect individuals' differing responsibilities, with the principal difference being the increased emphasis on performance related pay

for the more senior executives within the organisation.

Although the committee does not consult directly with employees on directors' pay, the committee does take into consideration the pay and employment conditions of all employees when setting the policy for directors' remuneration. The committee is also mindful of any changes to the pay and benefit conditions for employees more generally when considering the policy for directors' pay.

## Committee discretions

The committee operates the group's variable incentive plans according to their respective rules and in accordance with HMRC rules where relevant. To ensure the efficient administration of these plans and to be consistent with market practice, the committee will retain certain operational discretions. These include:

- selecting plan participants;
- determining the timing of grants of awards and/or payment;
- determining the quantum of awards and/or payments (within the limits set out in the policy table above);
- determining the extent of vesting based on the assessment of performance;
- making the appropriate adjustments required in certain circumstances (e.g. change of control, rights issues, corporate restructuring events, and special dividends);
- determining "good leaver" status for incentive plan purposes and applying the appropriate treatment; and
- undertaking the annual review of weighting of performance measures, and setting targets for the annual bonus plan and LTIP from year to year.

If an event occurs which results in the Annual Bonus Plan, Deferred Share Bonus Plan or LTIP performance conditions and/or targets being deemed no longer appropriate (e.g. a material acquisition or divestment), the committee will have the ability to adjust appropriately the measures and/or targets and alter weightings, provided that the revised conditions or targets are not materially less difficult to satisfy.

Any use of the above discretions would, where relevant, be explained in the Annual Report on Remuneration and may, as appropriate, be the subject of consultation with the company's major shareholders.

## Legacy arrangements

In approving the remuneration policy, authority is given to the company to honour any commitments previously

entered into with the current or former directors in accordance with the relevant plan rules, where applicable. It is also part of this policy that the company will honour payments or awards crystallising after the effective date of this policy but arising from commitments entered into at a time when the relevant individual was not a director at the company. Details of any payments to former directors will be set out in the Annual Report on Remuneration.

## Selection of performance metrics and targets

All incentives are subject to the individual review and scrutiny of the committee, particularly in the case of share incentives, both at award and vesting to ensure that performance has been correctly adjudicated and to safeguard against excessive overall reward. Variable pay and remuneration is linked to both corporate and individual performance and is benchmarked to attract and retain the highest quality people.

The annual bonus is designed to thoroughly stretch the performance of the executive and is linked to absolute growth in annual group profit, the achievement of certain business targets and of personal objectives. These targets are reviewed and agreed by the committee at the beginning of each financial year to ensure that they are appropriate to the current market conditions and the long-term strategy of the company, and that they continue to remain stretching and challenging. The targets are linked to KPIs which are drawn from, and relate to, the achievement of 'milestones' contained in the company's strategic long-term plan. This ensures they are aligned to the strategic objectives of the company and designed to increase shareholder value, whilst being prudent and safeguarding the long-term future of the company.

The committee has decided to apply a condition based on growth in adjusted EPS alongside the existing measure, TSR, to awards made under the LTIP in 2014 and future years. Adjusted EPS is considered appropriate as it is easily understood, is a key measure of financial performance and closely aligned to the company's objectives of driving profitable growth. The measure takes account of fair value adjustments to financial instruments (net of tax) as well as other exceptional non-recurring items such as unplanned investments in, for example, IT infrastructure, investments to drive long term growth, acquisitions and/or disposals. As the targets are set as a rate of growth in excess of RPI it also takes into account inflation. TSR provides an external

# Remuneration Report

assessment of the company's performance against its peers and aligns rewards received by the executives with the returns received by shareholders. The committee determines from time to time which companies are to be added or removed from this comparator group, including the treatment of any company which ceases trading during any performance period.

The committee considers the group's performance on environmental, social and governance ('ESG') issues when setting the remuneration of any executive director and is of the opinion that the incentive arrangements for senior managers do not raise ESG risks by inadvertently motivating irresponsible behaviour or the taking of undue risks with the business.

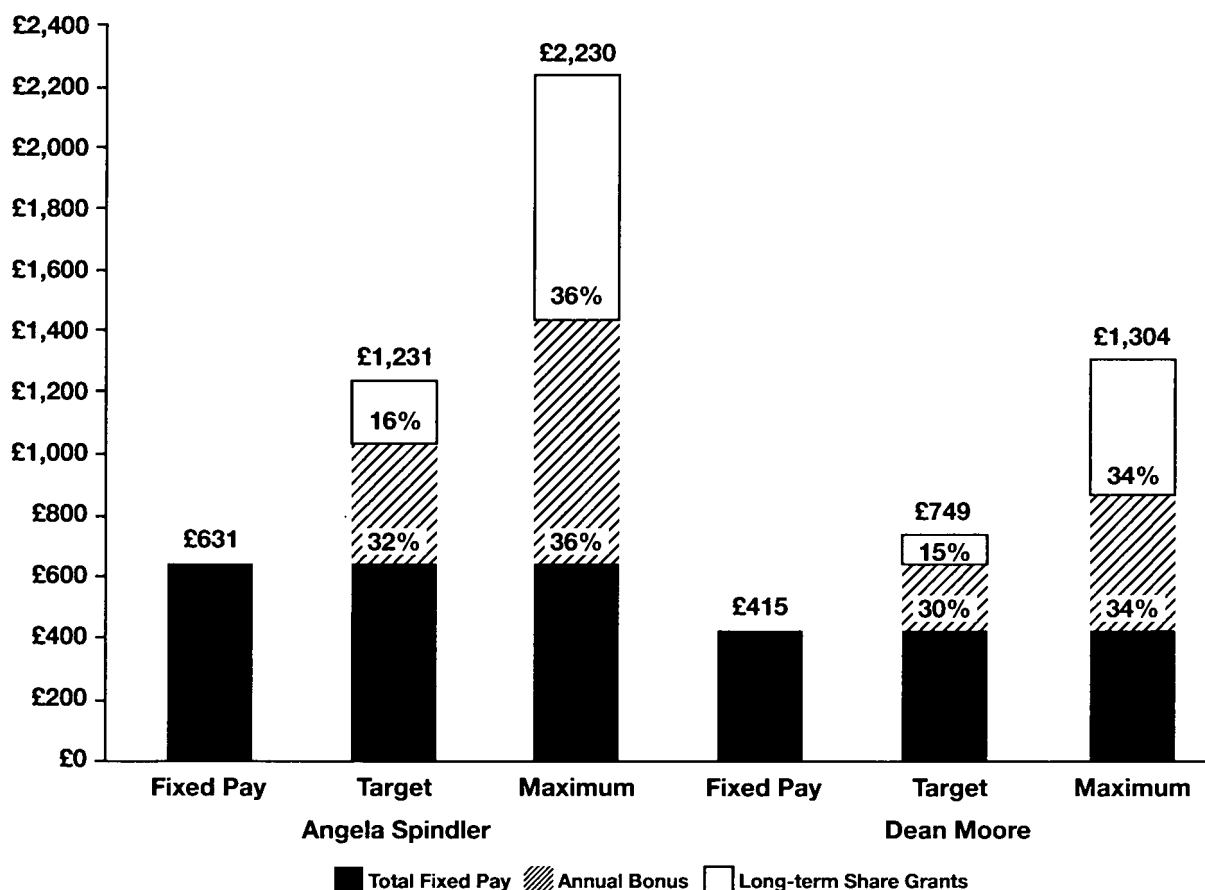
## Shareholding guidelines

It is the board's policy that executive directors build and retain a minimum shareholding in the company. Under these guidelines the chief executive and the finance director are respectively required to hold company shares equal in value (at the time of acquisition) to 200% and 100% of their base salary, respectively and to have met this guideline within 5 years of appointment. Details of the current shareholdings of the executive directors are provided later in this report.

## How shareholders' views are taken into account

The committee considers shareholder feedback received regarding the directors' remuneration report and guidance from shareholder representative bodies more generally. As appropriate, the committee also seeks feedback from shareholders on specific matters. These views are key inputs when shaping remuneration policy.

Potential remuneration scenarios for executive directors (£000's)



## Assumptions

1. Fixed pay = salary as paid in year, benefits and pension provision.
2. On target = fixed pay plus target annual bonus (50% of the maximum) of 75% of salary for the chief executive and 62.5% of salary for the finance director plus target LTIP awards of 37.5% of salary for the chief executive and 31.25% for the finance director.
3. Maximum = fixed pay plus maximum annual bonus of 150% of salary for the chief executive and 125% for the finance director plus maximum LTIP awards of 150% of salary for the chief executive and 125% for the finance director.
4. Salary levels (on which other elements of the packages are calculated) are based on those effective from 1 June 2014.
5. The value of taxable benefits is based on an estimated cost of £19,000 in respect of the chief executive and £17,000 for the finance director and includes a car allowance and health insurance.
6. Pension provision is 15% of salary for the chief executive and 12% for the finance director.

# Remuneration Report

## Executive directors' service agreements and termination policy

It is the company's policy that executive directors should have contracts with an indefinite term providing for a maximum of 12 months' notice.

The policy is that the company does not make payments beyond its contractual obligations on termination. In addition, executive directors are expected to mitigate their loss or, within existing

contractual constraints, accept phased payments. The committee seeks to ensure that there are no unjustified payments for failure. Neither of the executive directors' contracts provides for liquidated damages. There are no special provisions contained in any of the executive directors' contracts that provide for longer periods of notice on a change of control of the company. Furthermore, there are no special provisions providing for additional compensation on an executive director's cessation of employment with

the company. Where the director may be entitled to pursue a legal claim, the company will be entitled to negotiate settlement terms that the committee considers to be in the best interests of the company and to enter into a settlement agreement to effect the terms agreed under the service contract and any additional statutory or other claims. Potential termination payments are summarised below:

Name	Date of contract	Potential termination payment
Angela Spindler	1 July 2013	12 months' salary and benefits
Dean Moore	20 December 2004	12 months' salary and benefits

Other than in certain "good leaver" circumstances (including, but not limited to, redundancy, ill-health or retirement or on a change of control), no bonus would be payable unless the individual remains employed and is not under notice at the payment date. Any bonuses paid to a "good leaver" would be based on an assessment of their individual and the company's performance over the period, and pro-rated for the proportion of the bonus year worked.

Deferred bonus share awards will also normally lapse on cessation of employment, unless the executive director is deemed to be a "good leaver" by the committee. Awards will vest early on a change of control subject to the plan rules.

With regards to long-term incentive awards, the LTIP rules provide that other than in certain "good leaver" circumstances, awards lapse on cessation of employment. Where an individual is a "good leaver", the committee's normal policy for future LTIP awards will be to permit awards to remain outstanding until the end of the original performance period, when a pro-rata reduction will be made to take account of the proportion of the vesting period that elapsed prior to termination of employment, although the committee has discretion to partly or completely disapply pro-rating and the performance conditions and/or allow earlier vesting in certain circumstances. On a change of control awards would vest, subject to the extent to which the performance conditions have been achieved and, normally, pro-rating for time. The committee has discretion to determine "good leaver" treatment. In doing so, it will take account of the reason for their departure and the performance of the individual.

For awards granted under the LTISP, awards lapse if cessation occurs during

the financial year in which an award is granted. Thereafter awards held by good leavers may vest subject to performance without pro-rating. On a change of control existing awards would not be pro-rated.

Apart from service contracts, no executive director has any material interest in any contract with the company or its subsidiaries.

Copies of executive directors' service contracts (and also non-executive directors' letters of appointment) are available for inspection at the company's registered office on application to the company secretary.

### Recruitment of executive directors

Base salary levels will be set in accordance with the company's remuneration policy, taking account of the executive's skills, experience and their current remuneration package. Where it is appropriate to offer a lower salary initially, a series of above inflation increases to the desired salary positioning may be given over subsequent years subject to individual and company performance.

Benefits and pension will generally be provided in accordance with the approved policy, with relocation expenses and/or an expatriate allowance paid for if necessary. For an overseas appointment, the benefit and pension arrangements may be tailored to reflect local market practice (subject to the overall maximum limits set out in the policy table). Assistance with relocation may be provided where appropriate. Tax equalisation may also be considered as may payment of the executive's legal fees in connection with the appointment.

The variable pay opportunity will be in accordance with the company's approved policy as detailed above. However, different performance measures and targets

may be set for the first year in the case of the annual bonus and long-term incentives taking into account the responsibilities of the individual, and the point in the financial year at which they joined.

If it is necessary to buy-out incentive pay, which would be forfeited by reason of leaving the previous employer, in order to secure the appointment, this would be provided for taking into account the form (cash or shares), timing and expected value (i.e. likelihood of meeting any existing performance criteria) of the remuneration being forfeited and such other specific matters as the committee considers relevant. Existing arrangements may be bought out on terms that are no more favourable than the committee considers is required to provide reasonable compensation to the incoming director for the awards they will be losing. Existing plans will be used to the extent possible (subject to the exceptional limits contained in the plan rules), however, the committee retains discretion to agree bespoke arrangements and, if required, to make use of the flexibility provided by the Listing Rules to make awards without prior shareholder approval when buying out existing entitlements. There is no intention to use this flexibility to offer a "golden hello" unrelated to remuneration lost.

The service contract for a new appointment would be in accordance with the policy for the current executive directors.

In the case of an internal hire, any outstanding variable pay awarded in relation to the previous role will be allowed to pay out according to its terms of grant.

Fees for a new chairman or non-executive director will be set in line with the approved policy.

# Remuneration Report

## Policy for non-executive directors

Element	Purpose and link to strategy	Operation	Maximum	Performance assessment
<b>Non-executive directors' and Chairman's fees</b>	Takes account of recognised practice and set at a level that is sufficient to attract and retain high-calibre non-executives.	<p>All non-executive directors have specific terms of engagement and their remuneration is determined by the board within the limits set by the Articles of Association and based on independent surveys of fees paid to non-executive directors of similar companies.</p> <p>The chairman is paid a single fee for all his responsibilities. The non-executives are paid a basic fee. The chairs of committee and senior independent director receive additional fees to reflect their extra responsibilities.</p> <p>Non-executive directors may not participate in any of the company's share incentive schemes or performance-based plans and are not eligible to join the company's pension scheme.</p> <p>Limited benefits relating to travel, accommodation, secretarial support and hospitality provided in relation to the performance of their duties.</p> <p>When reviewing fee levels, account is taken of market movements in non-executive director fees, board committee responsibilities, ongoing time commitments, the general economic environment and the level of increases awarded to the wider workforce.</p> <p>In exceptional circumstances, additional fees may be paid where there is a substantial increase in the time commitment required of non-executive directors.</p>	N/A	N/A

### Non-executive directors' letters of appointment

Non-executive directors are retained on letters of appointment. Other than the chairman and Lord Alliance, whose letters of appointment provide for six months

notice in the event of early termination, all non-executive appointments are on three-year rolling terms terminable upon three months' notice. All appointments are subject to successful re-election upon retirement at the annual general meeting. Termination carries no right to

compensation other than that provided by general law.

Brief details of non-executive directors' contracts are summarised below:

Name	Date of contact/letter of appointment	Date of current term commenced	Notice period
Lord Alliance of Manchester CBE	16 May 2007	10 April 2013	6 months
Ivan Fallon	1 October 1994	10 April 2013	3 months
John McGuire	17 March 2004	10 April 2013	3 months
Anna Ford	1 March 2009	10 April 2013	3 months
Andrew Higginson	3 July 2012	3 July 2012	6 months
Fiona Laird	1 March 2013	1 April 2013	3 months
Simon Patterson	13 March 2013	1 April 2013	3 months
Ronald McMillan	1 March 2013	1 April 2013	3 months

# Remuneration Report

## Annual Report on Remuneration

This part of the report has been prepared in accordance with Part 3 of the revised Schedule 8 set out in The Large and

Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, and 9.8.6R of the Listing Rules. The Annual Report on

Remuneration will be put to an advisory shareholder vote at the 2014 annual general meeting. The information on pages 43 to 48 has been audited.

## The remuneration committee and its advisers

Members of the remuneration committee

Name	From	To
Fiona Laird	1 April 2013	Date
John McGuire	17 March 2004	31 March 2014
Anna Ford	1 March 2009	Date
Ivan Fallon	1 October 1994	1 October 2013
Ron McMillan	1 April 2013	Date
Simon Patterson	1 April 2013	Date

The group head of legal & company secretary, Philip Harland, acts as secretary to the committee and the chief executive, Angela Spindler, the chairman, Andrew Higginson, and the group HR director, Caroline Massingham, may also attend meetings by invitation. However, no director played any part in discussion about his or her own remuneration.

The committee members have no personal financial interest (other than as shareholders) in matters to be decided, no potential conflicts of interest arising from cross-directorships and no day-to-day involvement in running the business and are considered by the company to be independent. The committee has formal written terms of reference which are available for shareholders to inspect and on the corporate website. The committee met 5 times during the year. See page 33 for details of attendance.

### Advisers

The committee received advice from New Bridge Street (a trading name of

Aon Hewitt Limited, part of Aon plc). New Bridge Street was formally appointed by the committee. In addition, Mercer Human Resource Consulting Limited ("Mercer") provided advice to the company during the year which materially assisted the committee in relation to the former chief executive's pension arrangements and Pinsent Masons LLP provided advice on compliance with legislation. Pinsent Masons LLP are the group's general legal advisers and were not specifically appointed by the committee. Mercer were not specifically appointed by the committee and also provide other services to the company in relation to pension matters. These advisers have no other connections with the group other than as set out above.

New Bridge Street is a signatory to the Remuneration Consultants' Group Code of Conduct, which sets out guidelines to ensure that its advice is independent and free from undue influence. The company received no other services from New Bridge Street, or any other part of the Aon

group of companies, during the year. The fees paid to New Bridge Street in 2013/14 were £39,226 (2012/13, £22,553). The fees paid to Mercer in 2013/14 in relation to the former chief executive's pension arrangements in 2013/14 were £15,049 (2012/13, £19,606). The committee reviews the performance and independence of its advisers on an annual basis and is satisfied that the advice received is objective and independent.

The advisers' terms of engagement are available on request from the company secretary.

### Application of the remuneration policy for 2014

#### Base salary

The executive directors' salaries were reviewed in April 2014. The salary increases take place from 1 June 2014 and are set out below. The salary increases are in line with most of the general workforce.

Name	Salary as at 1 June 2013	Salary as at 1 June 2014	Increase
Angela Spindler	£520,000*	£533,000	2.5%
Dean Moore (*appointed 1 July 2013)	£346,860	£355,531	2.5%

### Fees for the chairman and non-executive directors

As detailed in the remuneration policy, the company aims to set remuneration for

non-executive directors at a level which is sufficient to attract and retain non-executive directors of the right calibre. Details of the fees are detailed below:

Name	Fees as at 1 March 2013	Fees as at 1 March 2014	Increase
Chair's fees	£225,000	£250,000*	11.1%
Other non-executive directors' base fee	£47,000	£47,000	N/A
Senior independent non-executive director	£5,000	£5,000	N/A
Chair of a committee's fees	£5,000 – £8,000	£5,000 – £8,000	N/A

(\*Increase agreed at the time of appointment, payable from 1 October 2013)

# Remuneration Report

**Annual bonus plan performance targets**  
The annual bonus plan for 2014/15 will be payable 60% in cash and 40% as an

award of deferred shares. Deferred bonus shares will vest, subject to continued service, three years after award.

For 2014/15, the performance measures and weightings will be as follows:

Measure	As a percentage of maximum bonus opportunity	
	Angela Spindler	Dean Moore
Group profitability	70%	70%
Corporate objectives	20%	20%
Individual objectives	10%	10%

Subject to commercial sensitivity, a detailed description of the personal objectives and performance against them will be included in next year's annual report on remuneration, save where these remain commercially sensitive.

**Long term incentive targets**  
Awards granted to the executive directors under the LTIP in 2014 will be subject to two metrics, namely growth in adjusted EPS and relative TSR measured against a peer group of retail sector companies

listed below. The performance targets are as follows:

	Percentage of each part of the award that will vest	Annual growth in adjusted EPS in excess of RPI over 3 financial years (60% of award)	Relative TSR vs peer group (40% of award)
Below threshold	0%	Less than RPI +2.5%	Below median
Threshold	25%	At least RPI +2.5%	Median
Maximum	100%	At least RPI +7.5%	Upper quartile

For performance that is between the threshold and maximum levels awards vest on a straight-line pro-rata basis with interpolation between intermediate ranking positions for TSR.

The retail sector peer group for the 2014 awards comprises: ASOS; Carpetright; Darty; Debenhams; Dixons Retail; Dunelm; Halfords; Home Retail Group; Inchcape; J.D. Sports; Kingfisher; Marks & Spencer; Mothercare; Next; Sports Direct; and WH Smith.

# Remuneration Report

## Directors' emoluments (Audited)

	Year	Salaries & fees £'000	Taxable benefits <sup>1</sup> £'000	Bonus (cash and deferred shares) £'000	LTISP <sup>2</sup> and matching share awards £'000	Pension and salary supplement £'000	Other £'000	Total £'000
<b>Executives (salaries)</b>								
Angela Spindler <sup>3</sup> (appointed 1 July 2013)	2013/14	347	12	433	–	52	520	1,364
	2012/13	–	–	–	–	–	–	–
Dean Moore	2013/14	344	17	59	575	42	–	1,037
	2012/13	290	17	215	291	36	–	849
Alan White <sup>4</sup>	2013/14	361	16	58	2,280	19	–	2,734
	2012/13	520	23	382	554	301	–	1,780
<b>Non-executives (fees)</b>								
Lord Alliance of Manchester CBE <sup>5</sup>	2013/14	45	–	–	–	–	–	45
	2012/13	17	–	–	–	–	–	17
Andrew Higginson	2013/14	237	–	–	–	–	–	237
	2012/13	150	–	–	–	–	–	150
Nigel Alliance OBE	2013/14	–	–	–	–	–	–	–
	2012/13	15	–	–	–	–	–	15
Ivan Fallon	2013/14	55	–	–	–	–	–	55
	2012/13	50	–	–	–	–	–	50
Lord Stone of Blackheath	2013/14	–	–	–	–	–	–	–
	2012/13	32	–	–	–	–	–	32
John McGuire	2013/14	54	–	–	–	–	–	54
	2012/13	45	–	–	–	–	–	45
Fiona Laird (appointed 1 April 2013)	2013/14	46	–	–	–	–	–	46
	2012/13	–	–	–	–	–	–	–
Anna Ford	2013/14	51	–	–	–	–	–	51
	2012/13	38	–	–	–	–	–	38
Simon Patterson (appointed 1 April 2013)	2013/14	46	–	–	–	–	–	46
	2012/13	–	–	–	–	–	–	–
Ron McMillan (appointed 1 April 2013)	2013/14	49	–	–	–	–	–	49
	2012/13	–	–	–	–	–	–	–

### Notes:

1. Taxable benefits comprise private medical cover and car allowance.
2. The value of the vested shares, granted on 5 July 2010, and dividend payments is shown under the 2010/13 LTISP awards. The performance condition attached to the award was as follows; 25% vests at median performance rising on a straight line basis to full vesting at upper quartile. The company ranked 6th out of 20 and as a result of 85% vested. Dean Moore and Alan White participated in this award. Angela Spindler, however, did not as this award is prior to her joining the company. Dean Moore's 2012 matching share award lapsed as the performance conditions for this award were not met. Alan White's matching share awards were pro-rated in accordance with the rules of the current deferred annual bonus scheme and his 2011 and 2012 long term share awards were pro-rated and vested based on performance measured to 31 October 2013.
3. Recruitment awards – Angela Spindler was granted an award, over 110,169 shares on 2 August 2013 with a market value of £520,000. Vesting of this award is subject only to continued employment over two years. The market value of these shares has been included in the Other column.
4. Alan White's pension value represents the additional benefit earned in the year (excluding inflation as measured by the consumer prices index ("CPI")) multiplied by a factor of 20.
5. Lord Alliance has waived his non-executive director's fee.

# Remuneration Report

## Total pension entitlements (Audited)

Alan White retired on 31 October 2013 and his initial pension was calculated in accordance with the rules of the N Brown Group Pension Fund and before any commutation was £110,779 per annum, to be increased in future years in line with the provisions of that fund. The benefit of Alan White's unregistered pension arrangement, calculated in accordance with its rules and before any commutation is £19,299 per annum.

Angela Spindler receives a cash supplement of 15% of salary in lieu of pension contributions.

Dean Moore is a member of the contributory defined contribution pension scheme ("scheme") and receives matching contributions from the company up to a maximum of 6% of salary. In addition, he receives an additional 6% of salary as a cash allowance. Contributions paid by the company into the scheme during the year in respect of Dean Moore amounted to £20,685 (2013, £17,937).

## Details of variable pay earned in the year

### Annual bonus (Audited)

As disclosed in last year's Annual Report, the committee agreed a recruitment package which included special provisions for financial year 2013/2014. For the period from Angela Spindler's appointment, 1 July 2013, until the end of the financial year, she was eligible to receive a time pro-rated cash bonus subject to the achievement of personal objectives agreed by the chairman on behalf of the committee.

The table below gives details of executive directors' bonuses for 2013/14.

Director	Measure	Weighting (as a percentage of maximum bonus opportunity)	Performance required		Actual performance	Payout % of salary
			Threshold (0% payout)	Maximum (100% payout)		
Angela Spindler	Personal objectives	100%	Commercially sensitive		100%	83.3%
Dean Moore	Group Profit	70%	£97.0m	£103.0m	£100.1m	Nil
	Corporate objectives	15%	Commercially sensitive		50%	7.5%
	Personal objectives	15%	Commercially sensitive		62.3%	9.3%
Alan White	Group Profit	70%	£97.0m	£103.0m	£100.1m	Nil
	Corporate objectives	15%	Commercially sensitive		50%	7.5%
	Personal objectives	15%	Commercially sensitive		55.3%	8.3%

#### Notes:

- In assessing the performance achieved against the group profit performance condition the remuneration committee did not consider that the group profit achieved was supported by the underlying trading profit performance of the group. It therefore determined that the targets for the profit bonus element had not been met.
- The precise targets set for the corporate and individual objectives are considered to be commercially sensitive and are not capable of disclosure at the present time.
- Angela Spindler's 2013/14 bonus award was pro-rated to reflect the proportion of the year employed at N Brown Group.
- Angela Spindler's bonus is delivered wholly in cash. Dean Moore's 2013/14 bonus is delivered 75% in cash with 25% deferred in shares for two years and eligible for a 1:1 matching award of shares, vesting of which is subject to performance conditions.

## Remuneration Report

### Long term share awards (Audited)

The value in the single figure table for long term share awards vesting in 2013/14 is based on the TSR targets for the 2010

LTISP awards (performance to 5 June 2013) and in Alan White's case, pro-rated 2011 and 2012 awards and pro-rated matching share awards. Details of the

performance conditions for the relevant awards are set out below:

Grant	Condition	Performance period	Threshold target	Stretch target	Actual performance	Vesting
2010 LTISP award.	TSR	3 years to 5 June 2013.	25% vests at median performance.	100% vests at upper quartile.	6th out of 20.	85%
2011 matching DABS award.	EPS	2 years to 2 March 2013.	100% vests if growth in EPS at least equal to growth in RPI.	N/A	growth in EPS greater than growth in RPI.	100%
2012 matching DABS award.	EPS	2 years to 1 March 2014.	100% vests if growth in EPS at least equal to growth in RPI.	N/A	growth in EPS below growth in RPI.	0%
Alan White's 2011 LTISP award.	TSR	8 July 2011 to 31 October 2013.	25% vests at median performance.	100% vests at upper quartile.	6th out of 20.	85%
Alan White's 2012 LTISP award.	TSR	28 June 2012 to 31 October 2013.	25% vests at median performance.	100% vests at upper quartile.	6th out of 20.	85%
Alan White's 2012 matching DABS award.	EPS	4 March 2012 to 31 October 2013.	N/A	N/A	N/A	100%
Alan White's 2013 matching DABS award.	EPS	3 March 2013 to 31 October 2013.	N/A	N/A	N/A	100%

Dean Moore and Alan White participated in the LTISP and received matching share awards under the current deferred annual bonus scheme. Alan White's 2011 and 2012 LTISP awards have been pro-rated to 31 October 2013. These awards were prior to Angela Spindler joining the company. Alan White's 2012 and 2013 matching share awards were pro-rated by time under the rules of the plan. Dean Moore's 2012 matching share award lapsed as the performance conditions for this award were not met.

# Remuneration Report

## Summary of awards granted in 2013/14 (Audited)

The table below provides details of the long-term incentive awards granted to executive directors during the year.

Executive	Type of award	Condition	% of salary	Face value	Number of shares	Share price at grant*	Performance Period	Threshold target	Stretch target
Angela Spindler	Recruitment award.	None	100%	£520,000	110,169	472.0p	–	–	–
	Recruitment award.	Strategic metrics.	200%	£1,040,000	220,338	472.0p	3 years to July 2016.	Targets are commercially sensitive.	
	LTISP	50% EPS 50% TSR	125%	£650,000	151,834	428.1p	EPS: 3 years to end of financial year 2015/16.  TSR: 3 years to June 2016.	EPS: 50% vests if EPS growth compounded annually greater than 5%.  TSR: 25% vests at median performance.	EPS: 100% vests if EPS growth compounded annually greater than 10%.  TSR: 100% vests at upper quartile.
Dean Moore	LTISP	TSR	100%	£346,860	81,023	428.1p	3 years to June 2016.	25% vests at median performance.	100% vests at upper quartile.
	Deferred share bonus matching award.	EPS	15.2%	£51,483	11,107	463.5p	2 financial years to February 2015.	Growth in EPS must at least equal growth in RPI.	Growth in EPS must at least equal growth in RPI.
Alan White	Deferred share bonus matching award.	EPS	17.1%	£91,253	19,687	463.5p	2 financial years to February 2015.	Growth in EPS must at least equal growth in RPI.	Growth in EPS must at least equal growth in RPI.

\*The LTISP award share price at grant is the average share price over the three business days at the start of the performance period. The share price used to calculate Angela Spindler's recruitment awards was the average of the middle market price of a share for 1 July, 2 July and 3 July 2013.

## Remuneration Report

On an exceptional basis, and only to the extent necessary to compensate for awards which were forfeited as a result of taking up her appointment with the company, Angela Spindler was granted two one-off share awards as detailed in the 2013 Annual Report on Remuneration. Vesting of the first, over shares worth £520,000 at the time of grant, is subject to employment conditions over two years. The value of this award is included in the single figure for 2013/14. The second, over shares worth £1,040,000 at the time of grant is also subject to the achievement of strategic objectives measured over a period of three years.

The specific strategic targets are commercially sensitive but include the following:

- Further development of the retail space strategy;
- Development and delivery of segmented marketing strategy and multi-channel offering including international;
- Improving the impact and effectiveness of customer insight through access to and analysis of big data;
- Delivery of our systems infrastructure programme.

The recruitment awards described above were granted pursuant to the exemption from the need for prior shareholder approval contained in Listing Rule 9.4.2. The awards are non-pensionable and non-transferable (other than on death). The committee considered that the awards were necessary to facilitate Angela Spindler's recruitment as chief executive.

### Summary of awards (Audited)

The table below summarises each of the executive directors' long-term share awards and the changes that have taken place in the year.

Executive	2 March 2013	Awarded during the year	Lapsed during the year	Vested and exercised during the year	1 March 2014	Date granted	Type of award
Angela Spindler	–	110,169	–	–	110,169	Aug 2013	Recruitment
	–	220,338	–	–	220,338	Aug 2013	Recruitment
	–	151,834	–	–	151,834	Aug 2013	LTISP
Dean Moore	114,928	–	(17,240)	(97,688)	–	July 2010	LTISP
	109,467	–	–	–	109,467	July 2011	LTISP
	132,777	–	–	–	132,777	July 2012	LTISP
	–	81,023	–	–	81,023	June 2013	LTISP
	21,684	–	–	(21,684)	–	June 2011	Matching share award
	9,273	–	–	–	9,273	May 2012	Matching share award
	–	11,107	–	–	11,107	May 2013	Matching share award
8,413	–	–	–	8,413	Aug 2009	SAYE	
Alan White	204,136	–	(30,621)	(173,515)	–	July 2010	LTISP
	194,434	–	(61,302)	(133,132)	–	July 2011	LTISP
	235,841	–	(146,746)	(89,095)	–	July 2012	LTISP
	38,422	–	–	(38,422)	–	June 2011	Matching share award
	20,420	–	(5,956)	(14,464)	–	May 2012	Matching share award
	–	19,687	(16,387)	(3,300)	–	May 2013	Matching share award

The current deferred annual bonus scheme was introduced in 2010. Under its terms, executive directors (excluding Angela Spindler) invest up to 25% of their base salary into shares and defer receipt for two

years. Matching shares could be earned subject to employment conditions and were subject to a financial performance condition requiring that growth in the company's EPS must at least equal the

growth in RPI over the deferral period.

The matching element of the deferred annual bonus scheme will operate for the last time in respect of the finance director's bonus outcome for 2013/14.

## Remuneration Report

### Directors' shareholdings (Audited)

It is the board's policy that executive directors build up and retain a minimum shareholding in the company. Under these guidelines the chief executive and the finance director are expected to hold

company shares equal in value (at the time of acquisition) to 200% and 100% of their base salary respectively and to have met this guideline within 5 years of appointment.

The beneficial interests of directors who served during the year, together with those of their families, in the shares of the company are as follows:

Executive	2 March 2013	1 March 2014	Value of shares counting towards guideline holding (as a % of salary)	Guideline met?	Outstanding awards subject to performance conditions	Outstanding awards not subject to performance conditions	Outstanding share options	Total as at 1 March 2014
Angela Spindler	–	–	n/a	n/a	372,172	110,169	–	482,341
Dean Moore	289,219	84,485	144%	Yes	343,647	–	8,413	436,545
Lord Alliance of Manchester CBE	95,047,966	95,047,966	n/a	n/a	–	–	–	95,047,966
Alan White	770,474	–	n/a	n/a	–	–	–	–
Andrew Higginson	82,507	86,514	n/a	n/a	–	–	–	86,514
Ivan Fallon	10,000	11,425	n/a	n/a	–	–	–	11,425
John McGuire	9,047	7,007	n/a	n/a	–	–	–	7,007
Anna Ford	–	–	n/a	n/a	–	–	–	–
Ron McMillan	–	–	n/a	n/a	–	–	–	–
Fiona Laird	–	–	n/a	n/a	–	–	–	–
Simon Patterson	–	10,000	n/a	n/a	–	–	–	10,000

The directors' share interests shown above include shares held by members of the director's family, as required by the Companies Act 2006.

There have been no changes to the directors' interests in shares between 1 March and the date of this report.

### Termination payments (Audited)

Alan White received no payments specifically for loss of office or in relation to the cessation of his employment. His pro-rated bonus and share awards are included in the table on page 43. On retirement, the benefit calculated under the rules of a pre-existing unregistered pension arrangement

adjusted so that it no longer includes the reduction for retained benefits described in the 2013 Remuneration Report was £19,299 per annum. That entitlement has since been commuted to a lump sum of £325,957 to be paid to him in due course, thereby extinguishing any future entitlements under this arrangement.

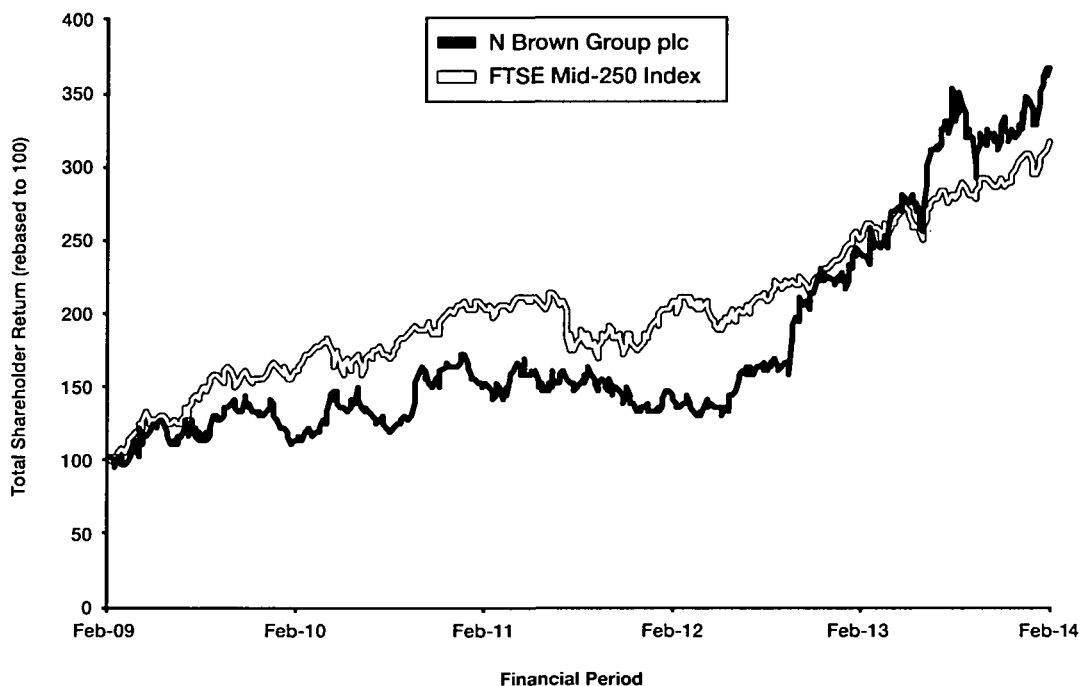
# Remuneration Report

## Performance graph and table

The graph shows the company's five year performance, measured by TSR, compared with the performance of the FTSE 250 Index, also measured by TSR.

The company is a member of this index and accordingly it is felt to be the most appropriate comparator group for this purpose.

**Total Shareholder Return Performance: N Brown vs FTSE 250**



## Analysis of chief executive's pay over 5 years

	2009/2010	2010/2011	Alan White 2011/2012	2012/2013	2013/2014	Angela Spindler 2013/2014
Total remuneration (£000)	2,438	3,738	2,734	1,780	2,734	1,364
Annual bonus (% of maximum)	96.9%	90.63%	38.7%	71.4%	15.8%	83.3%
Long term share awards vesting (% of maximum)	100%	100%	100%	100%	85%	n/a

# Remuneration Report

## Percentage change in the chief executive's remuneration

The table below shows the percentage change in the chief executive's total

remuneration (excluding the value of any long term share awards and pension benefits receivable in the year) between the 2012/13 and 2013/14 financial years,

compared to that of the average for all employees of the group.

	% Change from 2012/2013 to 2013/2014		
	Salary	Benefits	Annual bonus
Chief Executive <sup>1</sup>	+ 2.5%	-19.6%	+28.5%
Average of other employees	+ 2.5%	+1%	-66.0%

1. This is the average of Angela Spindler and Alan White's total remuneration.

As disclosed in last year's Annual Report, in her first year as chief executive, Angela Spindler's bonus was based on personal objectives, whereas employees' bonuses

had a financial component. Going forward the chief executive's bonus metrics will be principally financial.

## Relative importance of spend on pay

The following table shows the company's actual spend on pay (for all employees) relative to dividends.

	2014	2013	% change
Staff costs (£'m)	69.8	66.8	+4.5%
Dividends (£'m)	38.9	36.8	+5.7%

The figures relate to amounts payable in respect of the relevant financial year.

## Shareholder voting on the directors' remuneration report at the 2013 annual general meeting

	Total number of votes	% of votes cast
For	211,068,415	98%
Against	4,415,023	2%
<b>Total votes cast (for and against excluding withheld votes)</b>	<b>215,483,438</b>	<b>100%</b>
Votes withheld <sup>1</sup>	2,472,477	1%
<b>Total votes cast (including withheld votes)</b>	<b>217,955,915</b>	<b>100%</b>

Notes:

1. A vote withheld is not a vote in law and is not counted in the calculation of the proportion of votes cast "for" and "against" a resolution.

## Approval of the directors' remuneration report

The directors' remuneration report was approved by the board on 23 May 2014.

Signed on behalf of the board

Fiona Laird

Chairman of the Remuneration Committee

## Opinion on financial statements of N Brown Group plc

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 1 March 2014 and of the group's profit for the 52 week period then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the group and parent company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity, and the related notes 1 to 39. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

### Going concern

As required by the Listing Rules we have reviewed the directors' statement contained on page 15 that the group is a going concern. We confirm that:

- we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified any material uncertainties that may cast significant doubt on the group's ability to continue as a going concern.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

### Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

## Risk

## How the scope of our audit responded to the risk

### Impairment of customer receivables

The impairment provision is a critical judgement in preparing the accounts and is estimated using a model which contains a number of inputs and assumptions that includes the arrears stage of a customer, previous payment history, the historical performance of other customers and the length of time that the borrower has been a customer.

We have focussed our audit challenge in a number of areas, including benchmarking the methodology and assumptions, comparing the assumptions to objective evidence, evaluating the design and implementation of the key controls, checking the calculation methodology for compliance with accounting standards and industry practice and assessing the movement in the provision compared to trends in arrears, write-offs, recoveries and the size and mix of the customer receivables portfolio.

We consulted with credit specialists to design the audit methodology and to enhance our challenge of assumptions and methodology through benchmarking.

Data specialists checked the integrity of the calculations by performing an independent recalculation of the provision and checked the completeness and accuracy of data inputs by testing the underlying transactions on a sample basis.

### Regulatory

The Group operates in a regulated environment not only because it is a listed entity, but also because of the unsecured credit it provides to customers. Specifically:

- The Financial Conduct Authority (FCA) began to regulate the consumer credit market on 1 April 2014. The FCA has the power to suspend or withdraw a firm's regulatory permissions, so there is a risk that if a firm does not comply with regulations, then their permission to lend to customers may be suspended or terminated.
- Regulated companies must ensure that their governance arrangements are appropriate, that only authorised people within the group are approved to carry out work in this regulated environment and that their boards and subcommittees are operating effectively.
- Payment Protection Insurance ('PPI') remains an area of focus for the group given the media exposure this has received in recent years.

We involved regulatory specialists in our evaluation of the design and implementation of controls and practices in place in relation to the processes the group has established to manage regulatory compliance and governance and benchmarked these against sources of best practice.

We reviewed correspondence with regulators and selected a sample of customer complaints for testing and used analytical procedures to assess the completeness of any provisions for such complaints.

Risk	How the scope of our audit responded to the risk
<p><b>Taxation provisions</b> The group has ongoing debates with HMRC in respect of open taxation positions and certain areas of expense. The outcomes of these cases are uncertain and therefore are subject to estimates by management.</p>	<p>Our audit team included independent taxation specialists who have reviewed correspondence with HMRC to date and considered whether this correspondence has been interpreted and applied correctly, having also considered current industry practice. We have reviewed and recalculated the amounts provided and agreed these to supporting documentation to ensure the integrity of the data provided. We have assessed the judgements taken and concluded on whether these judgements made are within a reasonable range of possible outcomes.</p>
<p><b>Inventory provisioning</b> The inventory provision is based on the amount of current and non-current stock on hand at the year end and the forecast disposal plan, which estimates inventory items to be sold both above and below cost. Therefore the provision is the subject of considerable management judgement.</p>	<p>We utilised data analytics to test the inventory provision by comparing the selling price of inventory in the year to the cost of the inventory as well as analysing the ageing of inventory items. In addition, we considered the appropriateness of the provisioning methodology through analysing the inventory disposal channels utilised in the year and comparing those to the forecast disposal plan. To confirm existence of the inventory and the inventory counting procedures, we test counted inventory independently twice in the year.</p>
<p>The Audit Committee's consideration of these risks is set out on pages 26/27.</p>	<p>each component is compiled at the group's head office, we performed an audit covering 100% of the group's trading components and accordingly our samples were selected from 100% of the group's total assets, revenue and profit. All group companies are subject to the same group-wide controls and consolidation processes, which were audited as part of our work.</p>
<p>Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.</p>	<p>The group has a significant trading component, J. D. Williams &amp; Company Limited, which was focused on as part of the audit. The audit of this company was completed to a lower materiality than for the consolidated accounts.</p>
<p><b>Our application of materiality</b> We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.</p>	<p>At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.</p>
<p>We determined materiality for the group to be £4.9 million, which is 5% of pre-tax profit, and 1% of equity.</p>	<p><b>Opinion on other matters prescribed by the Companies Act 2006</b></p>
<p>We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £97,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.</p>	<p>In our opinion:</p> <ul style="list-style-type: none"> <li>the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and</li> <li>the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.</li> </ul>
<p><b>An overview of the scope of our audit</b> Given the nature of the group's corporate structure where all evidence relating to</p>	<p><b>Matters on which we are required to report by exception</b> <i>Adequacy of explanations received and accounting records</i> Under the Companies Act 2006 we are required to report to you if, in our opinion:</p> <ul style="list-style-type: none"> <li>we have not received all the information and explanations we require for our audit; or</li> <li>adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or</li> <li>the parent company financial statements are not in agreement with the accounting records and returns.</li> </ul> <p>We have nothing to report in respect of these matters.</p>
	<p><i>Directors' remuneration</i> Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.</p>
	<p><i>Corporate Governance Statement</i> Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the company's compliance with nine provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.</p>

## *Our duty to read other information in the Annual Report*

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

## **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in

accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team, strategically focused second partner reviews and independent partner reviews.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's 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 and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material

misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



**Damian Sanders ACA**  
**(Senior Statutory Auditor)**  
**for and on behalf of Deloitte LLP**  
Chartered Accountants and  
Statutory Auditor  
Manchester, UK

23 May 2014

## Consolidated Income Statement

For the 52 weeks ended 1 March 2014	Note	2014 £m	2013 £m
<b>Revenue</b>	3	<b>834.9</b>	784.7
<b>Operating profit</b>	5	<b>107.0</b>	102.2
Investment income	7	0.1	0.1
Finance costs	8	(7.0)	(7.2)
<b>Profit before taxation and fair value adjustments to financial instruments</b>		<b>100.1</b>	95.1
Fair value adjustments to financial instruments	18	(2.8)	1.3
<b>Profit before taxation</b>		<b>97.3</b>	96.4
Taxation	9	(21.4)	(17.0)
<b>Profit attributable to equity holders of the parent</b>		<b>75.9</b>	79.4
<b>Adjusted earnings per share</b>	11		
Basic		<b>27.88p</b>	28.15p
Diluted		<b>27.69p</b>	28.09p
<b>Earnings per share</b>	11		
Basic		<b>27.09p</b>	28.51p
Diluted		<b>26.91p</b>	28.45p

## Consolidated Statement of Comprehensive Income

For the 52 weeks ended 1 March 2014	Note	2014 £m	2013 £m
<b>Profit for the period</b>		<b>75.9</b>	79.4
<b>Items that will not be reclassified subsequently to profit or loss</b>			
Actuarial losses on defined benefit pension schemes	28	(2.7)	(4.0)
Tax relating to items not reclassified	9	0.6	1.0
		<b>(2.1)</b>	(3.0)
<b>Items that may be reclassified subsequently to profit or loss</b>			
Exchange differences on translation of foreign operations		(0.4)	0.4
<b>Total comprehensive income for the period attributable to equity holders of the parent</b>		<b>73.4</b>	76.8

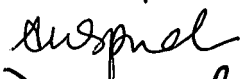
# Consolidated Balance Sheet

As at 1 March 2014	Note	2014 £m	2013 £m
<b>Non-current assets</b>			
Intangible assets	12	73.3	69.6
Property, plant & equipment	13	63.2	66.4
Deferred tax assets	20	4.8	3.4
		<b>141.3</b>	<b>139.4</b>
<b>Current assets</b>			
Inventories	15	89.9	86.5
Trade and other receivables	16	599.0	548.7
Derivative financial instruments	18	–	1.2
Cash and cash equivalents	24	45.3	61.3
		<b>734.2</b>	<b>697.7</b>
<b>Total assets</b>		<b>875.5</b>	<b>837.1</b>
<b>Current liabilities</b>			
Bank loans	17	(9.0)	–
Trade and other payables	21	(98.0)	(109.7)
Derivative financial instruments	18	(1.6)	–
Current tax liability		(18.8)	(19.0)
		<b>(127.4)</b>	<b>(128.7)</b>
<b>Net current assets</b>		<b>606.8</b>	<b>569.0</b>
<b>Non-current liabilities</b>			
Bank loans	17	(250.0)	(250.0)
Retirement benefit obligation	28	(4.2)	(3.3)
Deferred tax liabilities	20	(8.6)	(9.1)
		<b>(262.8)</b>	<b>(262.4)</b>
<b>Total liabilities</b>		<b>(390.2)</b>	<b>(391.1)</b>
<b>Net assets</b>		<b>485.3</b>	<b>446.0</b>
<b>Equity</b>			
Share capital	22	31.3	31.3
Share premium account		11.0	11.0
Own shares	23	(0.5)	(0.9)
Foreign currency translation reserve		1.9	2.3
Retained earnings		441.6	402.3
<b>Total equity</b>		<b>485.3</b>	<b>446.0</b>

The financial statements of N Brown Group plc (Registered Number 814103) were approved by the board of directors and authorised for issue on 23 May 2014.

They were signed on its behalf by:

Angela Spindler



Dean Moore  
Directors



## Consolidated Cash Flow Statement

For the 52 weeks ended 1 March 2014	Note	2014 £m	2013 £m
<b>Net cash from operating activities</b>		<b>40.7</b>	72.4
<b>Investing activities</b>			
Purchases of property, plant and equipment		(3.9)	(7.1)
Purchases of intangible assets		(16.9)	(17.9)
Interest received		0.1	0.1
<b>Net cash used in investing activities</b>		<b>(20.7)</b>	(24.9)
<b>Financing activities</b>			
Interest paid		(5.7)	(6.9)
Dividends paid		(38.9)	(36.8)
Increase in bank loans		9.0	–
Purchase of shares by ESOT		(1.1)	(0.5)
Proceeds on issue of shares held by ESOT		0.7	0.5
<b>Net cash used in financing activities</b>		<b>(36.0)</b>	(43.7)
Net (decrease)/increase in cash and cash equivalents		(16.0)	3.8
Cash and cash equivalents at beginning of period		61.3	57.5
<b>Cash and cash equivalents at end of period</b>	24	<b>45.3</b>	61.3

## Reconciliation of Operating Profit to Net Cash from Operating Activities

For the 52 weeks ended 1 March 2014	2014 £m	2013 £m
<b>Operating profit</b>	<b>107.0</b>	102.2
Adjustments for:		
Depreciation of property, plant and equipment	7.1	7.9
Amortisation of intangible assets	13.2	11.1
Share option charge	2.4	2.1
<b>Operating cash flows before movements in working capital</b>	<b>129.7</b>	123.3
Increase in inventories	(3.4)	(3.9)
Increase in trade and other receivables	(51.0)	(26.4)
(Decrease)/increase in trade and other payables	(12.7)	3.1
Pension obligation adjustment	(1.8)	(1.9)
<b>Cash generated by operations</b>	<b>60.8</b>	94.2
Taxation paid	(20.1)	(21.8)
<b>Net cash from operating activities</b>	<b>40.7</b>	72.4

## Consolidated Statement of Changes in Equity

	Share capital £m Note 22	Share premium £m	Own shares £m Note 23	Foreign currency translation reserve £m	Retained earnings £m	Total £m
<b>Changes in equity for the 52 weeks ended 1 March 2014</b>						
Balance as at 2 March 2013	31.3	11.0	(0.9)	2.3	402.3	446.0
Profit for the period	-	-	-	-	75.9	75.9
Other items of comprehensive income for the period	-	-	-	(0.4)	(2.1)	(2.5)
Total comprehensive income for the period	-	-	-	(0.4)	73.8	73.4
Equity dividends	-	-	-	-	(38.9)	(38.9)
Purchase of own shares by ESOT	-	-	(1.1)	-	-	(1.1)
Issue of own shares by ESOT	-	-	1.5	-	-	1.5
Adjustment to equity for share payments	-	-	-	-	(0.8)	(0.8)
Share option charge	-	-	-	-	2.4	2.4
Tax on items recognised directly in equity	-	-	-	-	2.8	2.8
<b>Balance at 1 March 2014</b>	<b>31.3</b>	<b>11.0</b>	<b>(0.5)</b>	<b>1.9</b>	<b>441.6</b>	<b>485.3</b>
<b>Changes in equity for the 52 weeks ended 2 March 2013</b>						
Balance as at 3 March 2012	31.3	11.0	(1.5)	1.9	359.6	402.3
Profit for the period	-	-	-	-	79.4	79.4
Other items of comprehensive income for the period	-	-	-	0.4	(3.0)	(2.6)
Total comprehensive income for the period	-	-	-	0.4	76.4	76.8
Equity dividends	-	-	-	-	(36.8)	(36.8)
Purchase of own shares by ESOT	-	-	(0.5)	-	-	(0.5)
Issue of own shares by ESOT	-	-	1.1	-	-	1.1
Adjustment to equity for share payments	-	-	-	-	(0.6)	(0.6)
Share option charge	-	-	-	-	2.1	2.1
Tax on items recognised directly in equity	-	-	-	-	1.6	1.6
<b>Balance at 2 March 2013</b>	<b>31.3</b>	<b>11.0</b>	<b>(0.9)</b>	<b>2.3</b>	<b>402.3</b>	<b>446.0</b>

## 1 General information

N Brown Group plc is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is listed at the end of the report. The nature of the group's operations and its principal activities are set out on page 18 of the directors' report.

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

The group's financial statements for the 52 weeks ended 1 March 2014 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the EU.

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

### Adoption of new and revised Standards

In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these financial statements.

#### Standards affecting the financial statements

IAS19 (revised) Employee Benefits. An amendment to IAS19 has impacted the various components representing movements in the defined pension obligation, but not the group's total obligation. Expected returns on plan assets has been replaced with a net finance cost in the income statement. The prior year figures have not been restated as the impact is not material.

The Annual Improvements to IFRSs 2009 - 2011 have made a number of amendments to IFRSs.

The amendments that are relevant to the group are the amendments to IAS 1 regarding when a statement of financial position as at the beginning of the preceding period (third statement of financial position) and the related notes are required to be presented. The amendments specify that a third statement of financial position is required when a) an entity applies an accounting policy retrospectively, or makes a retrospective restatement or

reclassification of items in its financial statements, and b) the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position. The amendments specify that related notes are not required to accompany the third statement of financial position.

- IFRS 13 'Fair Value Measurement' IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the group re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. IFRS 13 also requires additional disclosures.

Application of IFRS 13 has not materially impacted the fair value measurements of the group. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined.

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

- IFRS 9: Financial Instruments
- IFRS 10: Consolidated Financial Statements
- IFRS 11: Joint Arrangements
- IFRS 12: Disclosure of Interests in Other Entities
- IAS 27 (revised): Separate Financial Statements
- IAS 28 (revised): Investments in Associates and Joint Ventures
- Amendments to IAS 32: Offsetting Financial Assets and Financial Liabilities
- Amendments to IAS 36: Recoverable Amount Disclosures for Non-Financial Assets

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

- IFRS 9 will impact both the measurement and disclosures of Financial Instruments.

## 2 Accounting policies

### Adoption of International Financial Reporting and Accounting Standards (IFRS)

The group has adopted Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations.

Individual standards and interpretations have to be adopted by the European Commission (EC) and the process leads to a delay between the issue and adoption of new standards and interpretations and in some cases amendments by the EC. Where the group has applied a new standard or interpretation in advance of EC adoption this will be noted below in the relevant policy statement.

### Basis of accounting

The financial statements have been prepared in accordance with IFRS. The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. The principal accounting policies adopted are set out as follows.

### Accounting period

Throughout the accounts, the directors report and financial review, reference to 2014 means at 1 March 2014 or the 52 weeks then ended; reference to 2013 means at 2 March 2013 or the 52 weeks then ended unless otherwise stated.

### Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Control is achieved where

the company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the group.

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

## Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 10 are recognised at their fair value at the acquisition date. Acquisition costs are expensed as incurred.

## Goodwill

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

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

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

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

## Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents the total amount receivable

for goods and services provided in the normal course of business net of returns, VAT and sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed and it is probable that the economic benefits associated with the transaction will flow to the entity. Sales of rendering of services include interest, administrative charges and arrangement fees. Interest income is accrued on a time basis, by reference to the principal outstanding and the applicable effective interest rate which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial assets to that asset's net carrying amount. Such revenues are recognised only when collectability is reasonably assured. Revenue from non-interest related financial income is recognised when the services have been performed.

## Property, plant & equipment

Property, plant and equipment is stated at cost, less accumulated depreciation and any provision for impairment in value. Depreciation is charged so as to write off the cost of assets to their estimated residual values, based on current prices at the balance sheet date, over their remaining useful lives, using the straight-line method. No depreciation is charged on freehold land. In this respect the following annual depreciation rates apply:

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

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

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

## Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that

necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

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

## Intangible assets

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

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

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

## Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the group reviews the carrying value of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

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

### Leasing

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

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

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

### Inventories

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

### Taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

### Foreign currencies

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

In preparing the financial statement of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are

translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

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

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

### Financial instruments

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

### Trade receivables

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

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

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

### *Cash and cash equivalents*

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

### *Financial liabilities and equity*

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

### *Bank borrowings*

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

### *Trade payables*

Trade payables are not interest bearing and are stated at their nominal value.

### *Equity instruments*

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

### *Derivative financial instruments*

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

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

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

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

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

### **Share-based payments**

The group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the group's estimate of shares that will eventually vest. Fair value is measured by use of a Black-Scholes model.

### **Retirement benefit costs**

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

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

Net-interest is calculated by applying a discount rate to the net defined benefit liability or asset. Defined benefit costs are split into three categories:

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

The group presents the first two components of defined benefit costs within operating expenses (see note 28) in its consolidated income statement. Curtailments gains and losses are accounted for as past-service cost. Net-interest expense or income is recognised within finance costs (see note 8).

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

### **Going concern**

In determining whether the group's accounts can be prepared on a going concern basis, the directors considered the group's business activities together with factors likely to affect its future development, performance and its financial position including cash flows, liquidity position and borrowing facilities and the principal risks and uncertainties relating to its business activities. These are set out within the Financial Review and discussed further in the Chairman's Statement and Chief Executive's Review.

The group has considered carefully its cash flows and banking covenants for the next twelve months from the date of signing the audited financial statements. These have been appraised in light of the current economic climate. As such, conservative assumptions for working capital performance have been used to determine the level of financial resources available to the company and to assess liquidity risk. The key trading risk identified by the directors for these assumptions is the impact that a deterioration in the economic climate might have on the performance of the group's debtor book.

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 £370m, which are committed until 2016. After making appropriate enquiries, the directors have

a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future.

Accordingly, they continue to adopt the going concern basis in the preparation of the annual report and accounts.

### Critical judgements and key sources of estimation uncertainty

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

#### Trade receivables

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

As a result this is continually assessed for relevance and adjusted appropriately. Further information is given in note 16.

#### Taxation

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

#### Inventory

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

#### Regulatory

The regulatory environment in which the group operates is both complex and changing with the transfer of regulatory supervision from the OFT to the FCA. This can be a critical area of judgement when considering any liabilities that could arise as a result of the legislation in place.

<b>3 Revenue</b>	<b>2014</b>	<b>2013</b>
	<b>£m</b>	<b>£m</b>
An analysis of the group's revenue is as follows:		
Sale of goods	592.7	557.8
Rendering of services	242.2	226.9
Revenue	<b>834.9</b>	<b>784.7</b>
Investment income	0.1	0.1
Total revenue	<b>835.0</b>	<b>784.8</b>

## Notes to the Group Accounts

4 Business segments	2014 £m	2013 £m
<b>Revenue</b>		
Home Shopping	834.9	784.7
<b>Operating profit</b>		
Segment result & operating profit – Home Shopping	107.0	102.2
Fair value adjustments to financial instruments	(2.8)	1.3
Investment income	0.1	0.1
Finance costs	(7.0)	(7.2)
Profit before taxation	97.3	96.4
Taxation	(21.4)	(17.0)
<b>Profit after tax</b>	<b>75.9</b>	<b>79.4</b>

The group has one business segment and one significant geographical segment that operates in and derives revenue from UK and Ireland. Revenue derived from international markets amounted to £31.4m (2013, £30.2m) and incurred operating losses of £3.5m (2013, £1.9m). All segment assets are located in the UK and Ireland.

The analysis above is in respect of continuing operations.

For the purposes of monitoring segment performance, all assets and liabilities are allocated to the sole business segment, being Home Shopping, with the exception of current and deferred tax assets and liabilities. There are no impairments of goodwill, intangible assets or tangible assets in the current period (2013, £nil).

### Other information

	2014 £m	2013 £m
Capital additions	20.8	25.0
Depreciation and amortisation	20.3	19.0
<b>Balance sheet</b>		
Total segment assets	870.7	833.7
Total segment liabilities	(362.8)	(363.0)
Segment net assets	507.9	470.7
Unallocated assets	4.8	3.4
Unallocated liabilities	(27.4)	(28.1)
Consolidated net assets	<b>485.3</b>	<b>446.0</b>

## Notes to the Group Accounts

<b>5 Profit for the period</b>	<b>2014</b>	<b>2013</b>
	<b>£m</b>	<b>£m</b>
<b>Continuing operations</b>		
Revenue	<b>834.9</b>	784.7
Cost of sales	<b>(394.7)</b>	(368.6)
Gross profit	<b>440.2</b>	416.1
Distribution costs	<b>(71.1)</b>	(66.3)
Sales and administration costs	<b>(262.1)</b>	(247.6)
Operating profit	<b>107.0</b>	102.2

Profit for the period has been arrived at after (crediting)/charging:

	<b>2014</b>	<b>2013</b>
	<b>£m</b>	<b>£m</b>
Net foreign exchange gains	<b>(2.8)</b>	(3.6)
Depreciation of property, plant and equipment	<b>7.1</b>	7.9
Amortisation of intangible assets	<b>13.2</b>	11.1
Cost of inventories recognised as expense	<b>248.1</b>	234.7
Staff costs	<b>85.2</b>	80.3
Auditor's remuneration for audit services (see below)	<b>0.3</b>	0.3
Doubtful debts recognised as an expense	<b>67.8</b>	63.2

Amounts payable to Deloitte LLP and their associates by the company and its UK subsidiary undertakings in respect of non-audit services were £1.3m (2013, £0.9m).

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

	<b>2014</b>	<b>2013</b>
	<b>£m</b>	<b>£m</b>
<b>Audit fees:</b>		
The audit of the company's subsidiaries pursuant to legislation	<b>0.3</b>	0.3
<b>Other services:</b>		
Tax services	<b>1.3</b>	0.9

Fees payable for tax services relate to tax advisory services of £1.2m (2013, £0.7m) and compliance of £0.1m (2013, £0.2m).

Fees payable to the company's auditor for the audit of the company's annual accounts were £10,000 (2013, £10,000).

Within the fees for audit of the company's subsidiaries pursuant to legislation there are other assurance fees totalling £30,000 (2013, £30,000).

In addition to the amounts shown above, the auditors received fees of £5,000 (2013, £5,000) for the audit of the group pension scheme.

A description of the work of the audit committee is set out in the corporate governance statement and includes an explanation of how auditor objectivity and independence is safeguarded when non audit services are provided by the auditor.

<b>6 Staff costs</b>	<b>2014</b>	<b>2013</b>
The average monthly number of employees (including executive directors) was:		
Distribution	<b>1,005</b>	955
Sales and administration	<b>2,427</b>	2,299
	<b>3,432</b>	3,254
Their aggregate remuneration comprised	<b>2014</b>	<b>2013</b>
	<b>£m</b>	<b>£m</b>
Wages and salaries	<b>69.8</b>	66.8
Social security costs	<b>7.9</b>	7.2
Other pension costs (see note 28)	<b>5.1</b>	4.2
Share options costs (see note 27)	<b>2.4</b>	2.1
	<b>85.2</b>	80.3

Details of individual director's remuneration is disclosed in the remuneration report on page 43.

## Notes to the Group Accounts

	2014 £m	2013 £m
<b>7 Investment income</b>		
Interest on bank deposits	0.1	0.1
	<b>2014</b>	<b>2013</b>
	<b>£m</b>	<b>£m</b>
<b>8 Finance costs</b>		
Interest on bank overdrafts and loans	7.0	7.0
Net pension finance charge (see note 28)	–	0.2
	<b>7.0</b>	<b>7.2</b>
	<b>2014</b>	<b>2013</b>
	<b>£m</b>	<b>£m</b>
<b>9 Tax</b>		
Current tax – charge for the period	21.5	23.9
Current tax – adjustment in respect of previous periods	0.4	(4.9)
Deferred tax (see note 20)	(0.5)	(2.0)
	<b>21.4</b>	<b>17.0</b>

UK Corporation tax is calculated at 23.08% (2013, 24.17%) of the estimated assessable profit for the period. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

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

	2014 £m	2013 £m
Profit before tax:	97.3	96.4
Tax at the UK corporation tax rate of 23.08% (2013, 24.17%)	22.4	23.3
Effect of change in deferred tax rate	(1.1)	(0.7)
Tax effect of expenses that are not deductible in determining taxable profit	0.6	0.5
Effect of different tax rates of subsidiaries operating in other jurisdictions	(0.9)	(1.2)
Tax effect of adjustments in respect of previous periods	0.4	(4.9)
Tax expense for the period	<b>21.4</b>	<b>17.0</b>

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

	2014 £m	2013 £m
Deferred tax – retirement benefit obligations	(0.6)	(1.0)
Tax credit in the statement of comprehensive income	(0.6)	(1.0)
	<b>2014</b>	<b>2013</b>
	<b>£m</b>	<b>£m</b>
Current tax – share based payments	(2.0)	(1.1)
Deferred tax – share based payments	(0.8)	(0.5)
Tax charge/(credit) in the statement of changes in equity	<b>(2.8)</b>	<b>(1.6)</b>

## Notes to the Group Accounts

<b>10 Dividends</b>	<b>2014 £m</b>	<b>2013 £m</b>
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the 52 weeks ended 2 March 2013 of 8.23p (2012, 7.74p) per share	23.0	21.5
Interim dividend for the 52 weeks ended 1 March 2014 of 5.67p (2013, 5.45p) per share	15.9	15.3
	<b>38.9</b>	<b>36.8</b>
Proposed final dividend for the 52 weeks ended 1 March 2014 of 8.56p (2013, 8.23p) per share	24.0	23.0

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

## 11 Earnings per share

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

<b>Earnings</b>	<b>2014 £m</b>	<b>2013 £m</b>
Earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity holders of the parent	75.9	79.4
	<b>2014 Number</b>	<b>2013 Number</b>
<b>Number of shares ('000s)</b>		
Weighted average number of ordinary shares for the purposes of basic earnings per share	280,127	278,536
Effect of dilutive potential ordinary shares:		
Share options	1,929	529
Weighted average number of ordinary shares for the purposes of diluted earnings per share	282,056	279,065
	<b>2014 £m</b>	<b>2013 £m</b>
<b>Adjusted earnings</b>		
Net profit attributable to equity holders of the parent	75.9	79.4
Fair value adjustment to financial instruments (net of tax)	2.2	(1.0)
Adjusted earnings for the purposes of adjusted earnings per share	78.1	78.4

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

12 Intangible assets	Brands £m	Software £m	Customer Database £m	Total £m
<b>Cost</b>				
At 3 March 2012	16.9	128.1	1.9	146.9
Additions	–	17.9	–	17.9
At 2 March 2013	16.9	146.0	1.9	164.8
Additions	–	16.9	–	16.9
<b>At 1 March 2014</b>	<b>16.9</b>	<b>162.9</b>	<b>1.9</b>	<b>181.7</b>
<b>Amortisation</b>				
At 3 March 2012	–	82.2	1.9	84.1
Charge for the period	–	11.1	–	11.1
At 2 March 2013	–	93.3	1.9	95.2
Charge for the period	–	13.2	–	13.2
<b>At 1 March 2014</b>	<b>–</b>	<b>106.5</b>	<b>1.9</b>	<b>108.4</b>
<b>Carrying amount</b>				
<b>At 1 March 2014</b>	<b>16.9</b>	<b>56.4</b>	<b>–</b>	<b>73.3</b>
At 2 March 2013	16.9	52.7	–	69.6
At 3 March 2012	16.9	45.9	–	62.8

Assets in the course of construction included in intangible assets at the year end total £16.4m (2013, £12.4m). No depreciation is charged on these assets.

All software additions relate to internal development.

Amortisation of intangible assets is split equally between cost of sales and administration costs and is disclosed in note 5.

The amortisation periods for intangible assets are:

	Years
Software	5
Customer Database	5

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

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

The group prepares cash flow forecasts based on the most recent three year financial budgets approved by management and thereafter extrapolates cash flows in perpetuity (with 2.7% growth assumed) to reflect that there is no foreseeable limit to the period over which cash flows are expected to be generated. The rate used to discount the forecast pre-tax cash flows is 7.2% (2013, 5.7%). The directors consider that the value in use calculation has sufficient headroom above the carrying value of the brand names.

The carrying value in relation to Gray & Osbourn is £8.0m (2013, £8.0m), £7.1m (2013, £7.1m) for Figleaves and for High and Mighty is £1.0m (2013, £1.0m). The directors note that the headroom on the value in use calculations compared to the carrying values for Gray & Osbourn and High and Mighty is marginal and whilst they do not consider that these brand names are impaired as at the balance sheet date, should there be a downturn in future or forecasted cashflows, or an increase in the discount rate applied, then there is a risk of impairment to these brand names. Were the discount rate to increase by 5%, then the impairment charged would be £0.4m. Were it to increase by 10%, the impairment charged would be £0.8m.

The discount rates applied by the directors have been reviewed in the year and the directors are satisfied that they are reflective of the capital structure and debt to equity ratio of the group.

## Notes to the Group Accounts

<b>13 Property, plant and equipment</b>	<b>Land and Buildings £m</b>	<b>Fixtures and Equipment £m</b>	<b>Total £m</b>
<b>Cost</b>			
At 3 March 2012	46.2	105.2	151.4
Additions	–	7.1	7.1
At 2 March 2013	46.2	112.3	158.5
Additions	–	3.9	3.9
<b>At 1 March 2014</b>	<b>46.2</b>	<b>116.2</b>	<b>162.4</b>
<b>Accumulated depreciation and impairment</b>			
At 3 March 2012	9.5	74.7	84.2
Charge for the period	0.9	7.0	7.9
At 2 March 2013	10.4	81.7	92.1
Charge for the period	0.9	6.2	7.1
<b>At 1 March 2014</b>	<b>11.3</b>	<b>87.9</b>	<b>99.2</b>
<b>Carrying amount</b>			
<b>At 1 March 2014</b>	<b>34.9</b>	<b>28.3</b>	<b>63.2</b>
At 2 March 2013	35.8	30.6	66.4
At 3 March 2012	36.7	30.5	67.2

Assets in the course of construction included in property, plant and equipment at the year end date total £2.8m (2013, £2.1m), no depreciation has been charged on these assets.

At 1 March 2014, the group had not entered into any contractual commitments for the acquisition of property, plant and equipment (2013, £nil).

### 14 Subsidiaries

A list of the significant investments in subsidiaries, including the name, country of incorporation, proportion of ownership interest is given in note 32 to the company's separate financial statements.

<b>15 Inventories</b>	<b>2014 £m</b>	<b>2013 £m</b>
Finished goods	88.1	85.2
Sundry stocks	1.8	1.3
	<b>89.9</b>	<b>86.5</b>

## Notes to the Group Accounts

<b>16 Trade and other receivables</b>	<b>2014 £m</b>	<b>2013 £m</b>
Amount receivable for the sale of goods and services	628.1	583.5
Allowance for doubtful debts	(50.2)	(55.7)
	<b>577.9</b>	<b>527.8</b>
Other debtors and prepayments	21.1	20.9
	<b>599.0</b>	<b>548.7</b>

Trade receivables are measured at amortised cost.

The average credit period given to customers for the sale of goods is 253 days (2013, 246 days). Interest is charged at 44.9% (2013, 39.9%) on the outstanding balance. Generally, receivables over 150 days past due are written off in full. Trade receivables that reach the trigger point of 56 days past due are provided for based on estimated irrecoverable amounts, determined by reference to past default experience. The carrying amount of trade receivables whose terms have been renegotiated but would otherwise be past due totalled £97.3m at 1 March 2014 (2013, £86.7m). Interest income recognised on trade receivables which have been impaired was £10.0m (2013, £10.9m).

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

<b>Ageing of trade receivables</b>	<b>2014 £m</b>	<b>2013 £m</b>
Current – not past due	485.6	437.9
0 – 28 days – past due	67.5	74.0
29 – 56 days – past due	29.4	28.7
57 – 84 days – past due	18.2	17.1
85 – 112 days – past due	14.2	14.1
Over 112 days – past due	13.2	11.7
Total	<b>628.1</b>	<b>583.5</b>

<b>Movement in the allowance for doubtful debts</b>	<b>2014 £m</b>	<b>2013 £m</b>
Balance at the beginning of the period	55.7	49.3
Amounts charged net to the income statement	67.8	63.2
Net amounts written off	(73.3)	(56.8)
Balance at the end of the period	<b>50.2</b>	<b>55.7</b>

The concentration of credit risk is limited due to the customer base being large and unrelated and comprising 1.5 million (2013, 1.5 million) customers. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

## Notes to the Group Accounts

<b>17 Bank overdraft and loans</b>	<b>2014</b>	<b>2013</b>
	<b>£m</b>	<b>£m</b>
Bank loans	<b>259.0</b>	250.0
The borrowings are repayable as follows:		
Within one year	<b>9.0</b>	–
In the second year	–	–
In the third to fifth year	<b>250.0</b>	250.0
Amounts due for settlement after 12 months	<b>250.0</b>	250.0
All borrowings are held in sterling		
The weighted average interest rates paid were as follows:		
	<b>2014</b>	<b>2013</b>
	<b>%</b>	<b>%</b>
Bank overdrafts	<b>2.0</b>	2.0
Bank loans	<b>0.7</b>	0.7

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

- (i) Bank overdrafts which are nil at the current and prior year ends are repayable on demand, unsecured and bear interest at a margin over bank base rates.
- (ii) The group has a bank loan of £220m (2013, £220m) secured by a charge over certain 'eligible' trade debtors (current and 0-28 days past due) of the group and is without recourse to any of the group's other assets. The facility has a current limit of £250m for which finance costs are linked to US commercial paper rates which is committed until March 2016.  
The group also has unsecured bank loans of £39m (2013, £30m) drawn down under various medium term bank revolving credit facilities, of which £120 million is committed until March 2016.
- (iii) All borrowings are arranged at floating rates, thus exposing the group to cash flow interest rate risk. The group may use derivatives such as interest rate swaps where appropriate to manage this risk. None have been used in the current or prior year. Based on weighted average interest rates and the value of bank loans at 1 March 2014 the estimated future interest cost per annum until maturity would be £1.8m (2013, £1.8m).

Financial liabilities other than financial instruments include bank loans and overdrafts and trade and other payables. Other than as disclosed above, all are due within one year. The maturity analysis of the group's financial liability on an undiscounted basis, assuming that the facilities are retained until the end of the committed period are as follows:

	<b>2014</b>	<b>2013</b>
	<b>£m</b>	<b>£m</b>
On demand or within one year	<b>10.8</b>	1.8
In the second year	<b>1.8</b>	1.8
In the third year	<b>250.2</b>	251.8
	<b>262.8</b>	255.4

At 1 March 2014, the group had available £111m (2013, £120m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

The Financial Review on page 15 summarises the objectives and policies for holding or issuing financial instruments and similar contracts, and the strategies for achieving those objectives that have been followed during the period.

There is no material difference between the fair value and book value of the group's borrowings and other financial assets and liabilities.

## 18 Derivative financial instruments

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

	2014 £m	2013 £m
Notional amount – Sterling contract value	32.2	22.1
Fair value of (liability)/asset recognised	(1.6)	1.2

Changes in the fair value of assets/liabilities recognised, being non-hedging currency derivatives, amounted to a charge of £2.8m (2013, credit of £1.3m) to income in the period.

The financial instruments that are measured subsequent to initial recognition at fair value are all grouped into Level 2 (2013, same).

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

There were no transfers between Level 1 and Level 2 during the year (2013, same).

## 19 Financial instruments

### Capital risk management

The group manages its capital to ensure that entities in the group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the group consists of debt, which includes the borrowings disclosed in note 17, cash and cash equivalents disclosed in note 24 and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 22 to 23 and the statement of changes in equity.

### Gearing ratio

The gearing ratio at the year end is as follows:

	2014 £m	2013 £m
Debt	259.0	250.0
Cash and cash equivalents	(45.3)	(61.3)
Net Debt	213.7	188.7
Equity	485.3	446.0
Gearing ratio	44%	42%

Debt is defined as long and short-term borrowings, as detailed in note 17.

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

### Externally imposed capital requirement

The group is not subject to externally imposed capital requirements.

### Significant accounting policies

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

### Financial risk management objectives

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

### Foreign currency risk management

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

It is the policy of the group to enter into forward foreign exchange contracts to cover specific foreign currency payments for the purchase of overseas sourced products. Group policy allows for these exposures to be hedged for up to three years ahead.

## 19 Financial instruments continued

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

	2014 £m	2013 £m
Less than 6 months	15.3	16.5
6 to 12 months	13.2	5.6
12 to 18 months	3.7	–
	<b>32.2</b>	<b>22.1</b>

Forward contracts outstanding at the period end are contracted at US dollar exchange rates ranging between 1.54 and 1.63.

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

£m	Liabilities		Assets	
	2014 £m	2013 £m	2014 £m	2013 £m
Euro	1.0	2.0	8.2	10.1
US dollar	4.1	1.9	1.6	2.0

### Foreign currency sensitivity analysis

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

	Euro Currency Impact		US Dollar Currency Impact	
	2014 £m	2013 £m	2014 £m	2013 £m
Income statement				
Sterling strengthens by 10%	(0.7)	(0.7)	0.3	–
Sterling weakens by 10%	0.8	0.9	(0.2)	–

### Categories of financial instruments

	2014 £m	2013 £m
<b>Financial assets</b>		
Cash and bank balances	45.3	61.3
Derivatives at fair value through profit and loss - held for trading	–	1.2
Loans and receivables	577.9	527.8
	<b>623.2</b>	<b>590.3</b>
<b>Financial liabilities</b>		
Derivatives at fair value through profit and loss - held for trading	(1.6)	–
Amortised cost	(320.5)	(313.5)
	<b>(322.1)</b>	<b>(313.5)</b>

## 19 Financial instruments continued

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### **Interest rate risk management**

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

### **Interest rate sensitivity analysis**

If interest rates had increased by 0.5% and all other variables were held constant, the group's profit before tax for the 52 weeks ended 1 March 2014 would have decreased by £1.25m (2013, £1.25m).

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

### **Credit risk management**

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

All customers who wish to trade on credit terms are subject to credit verification procedures, supplied by independent rating agencies. Customer debtor balances are monitored on an ongoing basis and provision is made for estimated irrecoverable amounts. The concentration of credit risk is limited due to the customer base being large and unrelated, and did not exceed five percent of gross monetary assets at any one time during the period.

### **Liquidity risk management**

The group manages liquidity risk by maintaining adequate banking and borrowing facilities and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in note 17 is a description of additional undrawn facilities that the group has at its disposal and details of the group's remaining contractual maturity for its non-derivative financial liabilities.

### **Fair value of financial instruments**

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

The carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

## 20 Deferred tax

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

	Share based payments £m	Accelerated tax depreciation £m	Retirement benefit obligations £m	Other £m	Total £m
At 3 March 2012	1.5	(8.5)	0.2	(2.4)	(9.2)
Credit/(charge) to income	0.4	1.4	(0.4)	0.6	2.0
Credit to equity	0.5	–	1.0	–	1.5
At 2 March 2013	2.4	(7.1)	0.8	(1.8)	(5.7)
Credit/(charge) to income	0.6	0.1	(0.6)	0.4	0.5
Credit to equity	0.8	–	0.6	–	1.4
<b>At 1 March 2014</b>	<b>3.8</b>	<b>(7.0)</b>	<b>0.8</b>	<b>(1.4)</b>	<b>(3.8)</b>

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

	2014 £m	2013 £m
Deferred tax assets	4.8	3.4
Deferred tax liabilities	(8.6)	(9.1)
	<b>(3.8)</b>	<b>(5.7)</b>

At the balance sheet date, the group has unused tax losses of £0.1m (2013, £0.1m) and capital losses of £4.4m (2013 £4.4m) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams within the relevant subsidiary.

21 Trade and other payables	2014 £m	2013 £m
Trade payables	61.5	63.5
Other taxes and social security	7.8	17.4
Other creditors	0.2	0.6
Accruals and deferred income	28.5	28.2
	<b>98.0</b>	<b>109.7</b>

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 36 days (2013, 38 days).

For most suppliers no interest is charged on the trade payables. The group has financial risk management policies in place to ensure that all payables are paid within agreed credit terms.

## Notes to the Group Accounts

22 Share capital	2014 Number	2013 Number	2014 £m	2013 £m
<b>Authorised</b>				
Ordinary shares of 11 <sup>1</sup> / <sub>16</sub> p each	352,857,142	352,857,142	39.0	39.0
<b>Allotted, called-up and fully paid</b>				
Ordinary shares of 11 <sup>1</sup> / <sub>16</sub> p each At 1 March 2014 & 2 March 2013	283,429,454	283,429,454	31.3	31.3

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

23 Own shares	2014 £m	2013 £m
Balance at 2 March 2013	0.9	1.5
Additions	1.1	0.5
Issue of own shares on exercise of share options	(1.5)	(1.1)
<b>Balance at 1 March 2014</b>	<b>0.5</b>	<b>0.9</b>

The own shares reserve represents the cost of shares in N Brown Group plc held by the N Brown Group plc Employee Share Ownership Trust to satisfy options under the group's various share benefit schemes (see note 27).

At 1 March 2014 the employee trusts held 2,519,955 shares in the company (2013, 4,324,171).

## 24 Cash and cash equivalents

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

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

	2014 £m	2013 £m
Sterling	42.9	58.3
Euro	1.3	1.7
US Dollar	1.1	1.3
	<b>45.3</b>	<b>61.3</b>

## 25 Contingent liabilities

Parent company bank overdrafts which at 1 March 2014 amounted to £29.6m (2013, £41.0m) have been guaranteed by certain subsidiary undertakings.

## 26 Operating lease arrangements

	2014 £m	2013 £m
Minimum lease payments under operating leases recognised as an expense for the period	6.8	6.2

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

	2014 £m	2013 £m
Within one year	0.7	0.8
In the second to fifth years inclusive	15.2	17.3
After five years	6.4	6.2
	<b>22.3</b>	<b>24.3</b>

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

## 27 Equity settled share based payments

The remuneration report on pages 33 to 50 contains details of management and sharesave options/awards offered to employees of the group.

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

	Option price in pence	Exercise period	Number of shares 2014	Number of shares 2013
<b>Option scheme</b>				
2000 Savings related scheme	186 – 269	August 2013 – February 2019	<b>1,586,937</b>	1,651,533
2000 Executive scheme	106 – 341	June 2007 – June 2023	<b>1,791,982</b>	1,885,983
Unapproved executive scheme	211 – 341	May 2009 – June 2023	<b>1,694,745</b>	1,289,129
<b>Long-term incentive scheme awards</b>				
July 2010	–	July 2013 – January 2014	–	1,022,829
July 2011	–	July 2014 – January 2015	<b>721,989</b>	1,037,011
June 2012	–	June 2015 – December 2015	<b>1,010,154</b>	1,431,687
July 2013	–	July 2016 – December 2016	<b>644,124</b>	–
August 2013	–	August 2016 – January 2017	<b>151,834</b>	–
<b>Deferred annual bonus scheme awards</b>				
June 2011	–	June 2013 – December 2013	–	199,344
May 2012	–	May 2014 – November 2014	<b>106,794</b>	117,014
May 2013	–	May 2015 – November 2015	<b>112,519</b>	–

## 27 Equity settled share based payments continued

Movements in share options are summarised as follows:

	2014		2013	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at the beginning of the period	4,826,645	2.31	4,542,031	2.39
Granted during the period	1,297,936	3.19	1,516,431	2.07
Forfeited during the period	(239,665)	2.50	(353,785)	2.31
Exercised during the period	(811,252)	2.32	(878,032)	2.33
<b>Outstanding at the end of the period</b>	<b>5,073,664</b>	<b>2.53</b>	<b>4,826,645</b>	<b>2.31</b>
<b>Exercisable at the end of the period</b>	<b>501,482</b>	<b>2.37</b>	<b>493,390</b>	<b>2.33</b>

Options were exercised on a regular basis throughout the period and the weighted average share price during this period was 499 pence (2013, 295 pence). The options outstanding at 1 March 2014 had a weighted average remaining contractual life of 5.6 years (2013, 6.1 years). The aggregate estimated fair values of options granted in the period is £2,583,000 (2013, £881,000).

Movements in management share awards are summarised as follows:

	2014		2013	
	Number of share awards	Weighted average exercise price £	Number of share awards	Weighted average exercise price £
Outstanding at the beginning of the period	3,807,885	–	4,038,924	–
Granted during the period	943,878	–	1,554,871	–
Forfeited during the period	(563,746)	–	(433,784)	–
Exercised during the period	(1,440,603)	–	(1,352,126)	–
<b>Outstanding at the end of the period</b>	<b>2,747,414</b>	<b>–</b>	<b>3,807,885</b>	<b>–</b>
<b>Exercisable at the end of the period</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

The awards outstanding at 1 March 2014 had a weighted average remaining contractual life of 1.8 years (2013, 1.9 years).

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

	2014	2013
Weighted average share price at date of grant (pence)	475	239
Weighted average exercise price (pence)	185	102
Expected volatility (%)	28.1 – 37.4	32.6 – 39.4
Expected life (years)	2.5 – 5.5	2.5 – 5.5
Risk-free rate (%)	0.4	0.4
Dividend yield (%)	3.0	5.4

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

The group recognised total expenses of £2.4m and £2.1m related to equity-settled share based payment transactions in 2014 and 2013 respectively.

## 28 Retirement benefit schemes

### Defined contribution schemes

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

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

The total cost charged to income of £2.7m (2013, £2.1m) represents contributions payable to the schemes by the group at rates specified in the rules of the plans. As at 1 March 2014, contributions of £0.3m (2013, £0.2m) due in respect of the current reporting period had not been paid over to the schemes.

### Defined benefit scheme

The group operates a defined benefit scheme, the N Brown Group Pension Fund. Under the scheme, the employees are entitled to retirement benefits based on final pensionable earnings and was closed to new members from 31 January 2002. No other post-retirement benefits are provided. The scheme is a funded scheme and operates under UK trust law and the trust is a separate legal entity from the group. The scheme is governed by a board of trustees. The trustees are required by law to act in the best interests of scheme members and are responsible for setting certain policies (eg investment funding) together with the group. The scheme exposes the group to actuarial risks such as longevity risk, interest rate risk and investment risk.

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

	2014	2013
Discount rate	4.30%	4.55%
Expected rate of salary increase	3.0% until June 2015, 3.5% thereafter	4.5%
Future pension increases	2.20%	2.15%
Inflation – Retail Price Index	3.5%	3.5%
Inflation – Consumer Price Index	2.5%	2.5%
Life expectancy at age 65 (years)		
Pensioner aged 65	24.6	24.2
Non-pensioner aged 45	26.7	27.2
	2014	2013
Amounts recognised in income in respect of these defined benefit schemes are as follows:	£m	£m
Current service cost	2.4	2.1
Net interest cost	–	0.2
	2.4	2.3

The actual return on scheme assets was £3.4m (2013, £6.3m).

## 28 Retirement benefit schemes continued

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

	2014 £m	2013 £m
Present value of defined benefit obligations	(100.8)	(94.3)
Fair value of scheme assets	96.6	91.0
Deficit in the scheme and liability recognised in the balance sheet	(4.2)	(3.3)

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

	2014 £m	2013 £m
At 2 March 2013	94.3	83.3
Service cost	2.4	2.1
Interest cost	4.2	4.0
Actuarial losses – financial assumptions	1.4	6.5
Actuarial gains – demographic assumptions	(0.9)	–
Actuarial losses – experience	1.4	–
Benefits paid	(2.0)	(1.6)
<b>At 1 March 2014</b>	<b>100.8</b>	<b>94.3</b>

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

	2014 £m	2013 £m
At 2 March 2013	91.0	82.3
Expected return on scheme assets	4.2	3.8
Return on scheme assets excluding interest income	(0.8)	2.5
Contributions from sponsoring companies	4.2	4.0
Benefits paid	(2.0)	(1.6)
<b>At 1 March 2014</b>	<b>96.6</b>	<b>91.0</b>

## 28 Retirement benefit schemes continued

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

	2014 £m	2014 %	2013 £m	2013 %
Equities	32.1	33.2	31.6	34.7
Fixed-interest government bonds	14.8	15.3	14.1	15.5
Index-linked government bonds	24.1	25.0	29.0	31.9
Corporate Bonds	9.6	9.9	4.4	4.8
Property	1.9	2.0	1.8	2.0
High yield debt (including emerging market debt)	6.7	6.9	5.8	6.4
Alternatives	7.4	7.7	4.3	4.7
	<b>96.6</b>	<b>100.0</b>	91.0	100.0

Significant actuarial assumptions for the determination of the defined benefit obligation are the discount rate and inflation.

An increase of 0.25% in the discount rate used would decrease the defined benefit obligation by £5.8m (2013, £5.9m).

An increase of 0.25% in the inflation assumption would increase the defined benefit obligation by £3.9m (2013, £4.0m).

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

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

Whilst no commitment has been made as at the balance sheet date, the group expects to contribute £2.0m to the defined benefit scheme in the next financial year.

The weighted average duration of the defined benefit obligation at 1 March 2014 is approximately 24 years.

The defined benefit obligation at 1 March 2014 can be approximately attributed to the scheme members as follows:

- Active members: 46% (2013, 45%)
- Deferred members: 35% (2013, 35%)
- Pensioner members; 19% (2013, 20%)

All benefits are vested at 1 March 2014 (unchanged from 2 March 2013).

## 29 Related party transactions

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the company and its subsidiaries are disclosed in the company's separate financial statements. Details of remuneration paid to the group's key management personnel are given on page 43 of the remuneration report.

## Company Balance Sheet

As at 1 March 2014	Note	2014 £m	2013 £m
<b>Fixed assets</b>			
Investments	32	344.9	344.9
<b>Current assets</b>			
Debtors	33	24.4	21.6
<b>Creditors</b>			
Amounts falling due within one year	34	(225.2)	(226.1)
<b>Net current liabilities</b>		(200.8)	(204.5)
<b>Total assets less current liabilities</b>		144.1	140.4
<b>Non current liabilities</b>			
Bank loans	35	(30.0)	(30.0)
<b>Net assets</b>		114.1	110.4
<b>Capital and reserves</b>			
Called-up share capital	36	31.3	31.3
Share premium account	37	11.0	11.0
Profit and loss account	37	71.8	68.1
<b>Equity shareholders' funds</b>	37	114.1	110.4


The financial statements of N Brown Group plc (Registered Number 814103) were approved by the board of directors and authorised for issue on 23 May 2014.

They were signed on its behalf by:

Angela Spindler



Dean Moore  
Directors



## Notes to the Company Accounts

### 30 Significant accounting policies

#### Basis of accounting

The separate financial statements of the company are presented as required by the Companies Act 2006. They have been prepared under the historical cost convention and in accordance with United Kingdom Accounting Standards and law.

The principal accounting policies are summarised below. They have all been applied consistently throughout the period and the preceding period.

#### Investments

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

#### Bank borrowings

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

#### Cash flow

The company has taken advantage of the exemption from producing a cash flow statement afforded by FRS 1 (Revised) because the group accounts include a consolidated cash flow statement.

#### Taxation

Corporation tax payable is provided on taxable profits at the current rate.

## Notes to the Company Accounts

### 31 Profit for the period

As permitted by section 408 of the Companies Act 2006 the company has elected not to present its own profit and loss account for the period. N Brown Group plc reported a profit for the financial period ended 1 March 2014 of £42.6m (2013, profit £42.7m).

The non executive directors' remuneration was £582,875 (2013, £345,750) and eight non executive directors were remunerated (2013, seven). The executive directors were remunerated by a subsidiary company in both years. Further details are provided on page 43 of the remuneration report.

The auditor's remuneration for audit services to the company of £10,000 (2013, £10,000) was borne by subsidiary undertakings.

### 32 Fixed asset investment

£m

#### Cost and net book value

At 1 March 2014 and at 2 March 2013

344.9

The company and group has investments in the following subsidiaries and joint ventures which principally affected the profits or net assets of the group. All of the below companies are held indirectly. To avoid a statement of excessive length, the company has taken advantage of section 410(2) of the Companies Act 2006 to list only its principal subsidiary undertakings.

Company	Principal activity	Country of incorporation and operation	Proportion held by the group (%)
J D Williams & Co. Limited	Direct home shopping retailer	England	100
Oxendale & Co. Limited	Direct home shopping retailer	Republic of Ireland	100
J D W Finance Limited	Financing and ancillary services	England	100
N B Insurance Guernsey Limited	Insurance services	Guernsey	100
Gray & Osbourn Limited	Direct home shopping retailer	England	100
Speciality Home Shopping (US) Limited	Direct home shopping retailer	England	100
N B Finance	Financing and ancillary services	Republic of Ireland	100
N B Malta No2 Limited	Financing and ancillary services	Malta	100

### 33 Debtors

2014  
£m

2013  
£m

Amounts falling due within one year:  
Amounts owed by group undertakings  
Prepayments and accrued income

24.0  
0.4  

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24.4

21.1  
0.5  

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21.6

### 34 Creditors

2014  
£m

2013  
£m

Amounts falling due within one year:  
Bank loans and overdrafts  
Trade creditors  
Amounts owed to group undertakings  
Accruals and deferred income

38.6  
0.5  
185.8  
0.3

41.0  
0.3  
184.5  
0.3

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225.2

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226.1

## Notes to the Company Accounts

<b>35 Bank loans</b>	<b>2014 £m</b>	<b>2013 £m</b>
Bank overdrafts	29.6	41.0
Bank loans	39.0	30.0
	<b>68.6</b>	<b>71.0</b>
The borrowings are repayable as follows:		
On demand within one year	38.6	41.0
In the second year	-	-
In the third to fifth year	30.0	30.0
	<b>68.6</b>	<b>71.0</b>
Less: amounts due for settlement within 12 months (shown under current liabilities)	<b>(38.6)</b>	<b>(41.0)</b>
Amounts due for settlement after 12 months	<b>30.0</b>	<b>30.0</b>

The company has unsecured bank loans of £30m (2013, £30m) drawn down under a medium term bank revolving credit facility committed until March 2016.

At 1 March 2014, the company had available £81.0m (2013, £90m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

The weighted average interest rate paid were as follows:

	<b>2014 %</b>	<b>2013 %</b>
Bank overdrafts	2.0	2.0
Bank loans	1.7	1.8

<b>36 Share capital</b>	<b>2014 Number</b>	<b>2013 Number</b>	<b>2014 £m</b>	<b>2013 £m</b>
<b>Authorised</b>				
Ordinary shares of 11 <sup>1</sup> / <sub>16</sub> p each	352,857,142	352,857,142	39.0	39.0
<b>Allotted, called-up and fully paid</b>				
Ordinary shares of 11 <sup>1</sup> / <sub>16</sub> p each At 1 March 2014 and at 2 March 2013	283,429,454	283,429,454	31.3	31.3

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

<b>37 Reconciliation of movements in shareholders' funds and reserves</b>	<b>Share capital £m</b>	<b>Share premium account £m</b>	<b>Profit and loss account £m</b>	<b>Total £m</b>
Balance at 2 March 2012	31.3	11.0	62.2	104.5
Dividends paid	-	-	(36.8)	(36.8)
Profit for the financial period	-	-	42.7	42.7
Balance at 2 March 2013	31.3	11.0	68.1	110.4
Dividends paid	-	-	(38.9)	(38.9)
Profit for the financial period	-	-	42.6	42.6
<b>At 1 March 2014</b>	<b>31.3</b>	<b>11.0</b>	<b>71.8</b>	<b>114.1</b>

### 38 Guarantees

Parent company bank overdrafts which at 1 March 2014 amounted to £29.6m (2013, £41.0m) have been guaranteed by certain subsidiary undertakings.

### 39 Related party transactions

The company has taken advantage of the exemption under FRSS8 "Related party disclosures" not to disclose transactions and balances with other group companies.

## Shareholder Information

### Financial Timetable

<b>2013</b>	9 October	Announcement of interim results
	6 December	Closing of register for interim dividend
<b>2014</b>	3 January	Payment of interim dividend
	1 March	Financial year-end
	1 May	Preliminary announcement of annual results
	6 June	Publication of 2014 annual report and accounts
	4 July	Closing of register for final dividend
	22 July	Annual general meeting
	1 August	Payment of final dividend

### Registered Office

Griffin House  
40 Lever Street  
Manchester  
M60 6ES  
Registered No. 814103  
Telephone 0161 236 8256

### Registrars

Capita Asset Services  
PXS 1  
34 Beckenham Road  
Beckenham  
Kent BR3 4ZF  
Telephone 0871 664 0300  
(Calls cost 10 pence per minute plus network extras)

### Auditor

Deloitte LLP  
P O Box 500  
2 Hardman Street  
Manchester  
M60 2AT

### Bankers

HSBC Bank plc  
The Royal Bank of Scotland plc

### Solicitors

Pinsent Masons LLP  
Eversheds LLP  
Addleshaw Goddard LLP

### Corporate Brokers

J.P. Morgan Cazenove  
Shore Capital Stockbrokers Limited

### Shareholder benefits

Subject to certain conditions, shareholders are entitled to a 20% privilege discount off the selling price of consumer merchandise in any of the group catalogues. Shareholders interested in these facilities should write for further information to the Company Secretary, N Brown Group plc, Griffin House, 40 Lever Street, Manchester, M60 6ES stating the number of shares held and the catalogue or product of interest.

### Capital gains tax

For the purpose of capital gains tax, the value of the company's ordinary shares of 10p each was 6.40625p per share on 31 March 1982 and 1.328125p on 6 April 1965.

For more information and latest news on the group, visit [www.nbrown.co.uk](http://www.nbrown.co.uk).

**Griffin House**  
**40 Lever Street**  
**Manchester, M60 6ES**  
[www.nbrown.co.uk](http://www.nbrown.co.uk)