Our new-found trading

Agility

is key to thriving in the see now, buy now, wear now, fashion culture.

Read pages 2–9
We have made huge changes to our business over the past few years, bringing in new talent and developing our skills and capabilities. We have also significantly changed our processes, particularly in buying, merchandising and marketing. Looking forward, we are on track to complete the final stages of our systems programme by Summer 2018, which will enable even faster growth.

Our trading agility, made possible by the transformative changes we have made, is yielding results and is key to thriving in a world changing faster than ever before.

Angela Spindler
Chief Executive Officer
Greater...

presence

flexibility

More...
Growing customer lifetime value through deeper insight and cutting-edge data analytics.
Using data to deliver the right products at the right price.

**JD Williams ‘The Cut’ collection — a great success**

In Autumn Winter we introduced ‘The Cut’, a collection of our best value, current season clothes, to further reinforce our value for money credentials. Sales of these lines significantly exceeded expectations, up 72% versus comparable lines in the previous year.

We extended the collection further for Spring Summer, and adopted a similarly assertive entry price strategy across our other brands.

**More detail p23**

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**Merchandising tools now live**

A key release from our systems programme are our new merchandising tools which went live in October, ahead of schedule. These new tools give us the ability to forecast at the individual item level, improving our availability and reducing markdown.

**Our best ever cyber fortnight**

Building on a successful cyber fortnight last year, this year saw us beat records again, with our biggest fortnight ever in both revenue and profit. We planned months in advance to ensure that we could offer customers fantastic deals whilst earning an improved margin ourselves.

**More detail p25**

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**The results**

The transformational changes we have made in the past few years are driving results; this is most apparent in the performance of our Power Brands.

- Simply Be revenue up 9.9%
- JD Williams brand revenue up 12%

All revenue figures on this page are on a 52 week basis as explained on page 44.

**↑9.9%**  
Power Brand active customer file (excluding Fifty Plus)

**↑6.3%**  
Power Brand revenue
OUR TRADING AGILITY CONTINUED

Reaching more people through multiple channels, brand partnerships and innovative marketing activity.

Greater Pres
Gaining new customers and strengthening brand engagement with existing customers.

Expanding our product ranges
We have significantly grown the number of third party brands we stock on our websites, typically stocking their ranges exclusively in larger sizes. This allows brands access to a new, growing customer base at relatively low risk, and gives our customers an even greater choice of products. Since the start of the year we have added over 100 third party brands across our categories.

Selling our ranges through other retailers
We are also partnering with other retailers, selling capsule collections of our ranges through their sites or stores. This allows us to further improve our brand awareness and gain new customers. To date we’re selling ranges through ASOS and Tesco, with more retailers in the pipeline.

Championing body diversity in the fashion industry
We are a truly size and age agnostic fashion retailer; whatever a customer’s size or age, we aim to make them feel amazing in what they wear. This attitude differs significantly to the fashion industry as a whole. We’ve held a number of protests and other events to call for greater body and age diversity in the industry.

The results
We continue to gain market share and grow online sales.

4.2% Ladieswear market share
69% Online penetration

Please see pages 26 to 29 for KPI definitions.
The ability to change our product offering and marketing materials quickly, to enable us to better compete in an ever-changing market place.
Trading agility delivering results.

**Lead times**
We reduced average lead times by over 20% year on year. Our fastest lead time for repeat purchases is now seven days, compared to seven weeks just two years ago.

More detail p22

**More flexible ways to pay**
Ahead of our new Financial Services system going live, which will enable us to offer variable APR dependent on each individual customer’s risk profile, we trialled a lower APR for qualifying new customers. The initial results of this trial are encouraging.

More detail p41

Further delivery improvements
We extended our cut-off for next day delivery by an hour to 10pm. We also launched Jacamo Unlimited, offering customers 12 months unlimited next day delivery for a one-off £9.95. Initial response to this delivery subscription offer has been encouraging, and we aim to expand it to other brands in due course.

Marketing flexibility
We are working hard to ensure our marketing spend is as flexible and efficient as possible, so that we can maximise revenue wherever possible. We can now change email campaign content and adjust our online spend within minutes.

The results
Our flexibility continues to improve substantially, enabling us to offer our customers an even better proposition.

20% Reduction in average lead times

412m Personalised emails sent
What we do

We are structured in a matrix approach, buying by product category and marketing by brand. This allows us to run a portfolio of brands effectively and efficiently. All of our brands sell a wide range of clothing and homewares products.

Our three Power Brands are our growth engines; here we aim to gain new customers and grow market share. Our Secondary Brands are also in growing markets, however they are more niche and we therefore aim to grow share of existing customer spend. Our Traditional Segment is in a slowly declining market; our objective here is to grow market share and hold this segment broadly flat over the medium term.

Our Financial Services business operates across all brands, with the younger brands typically having a higher penetration of sales sold through credit.

<table>
<thead>
<tr>
<th>POWER BRAND</th>
<th>POWER BRAND</th>
<th>POWER BRAND</th>
</tr>
</thead>
<tbody>
<tr>
<td>JD WILLIAMS</td>
<td>Simply Be</td>
<td>JACAMO</td>
</tr>
<tr>
<td>An online department store, offering style for 50-plus customers and their families, with ranges for women, men, home and kids. We create unique silhouettes, rather than scaling patterns; we use real bodies, rather than static mannequins; and we design to fit – a unique, age appropriate point of view for our consumer.</td>
<td>Simply Be has empowered women for over a decade, bringing fashion to all, regardless of size. We understand shape and create fashionable collections that fit. The brand is gaining significant momentum both at home and in the USA.</td>
<td>A modern, challenger brand with a strong digital offer, Jacamo is inspired by everyday men’s tastes. Collections are available in a market-leading range of sizes, from Small to 5XL.</td>
</tr>
<tr>
<td>REVENUE GROWTH (%)</td>
<td>4.7%</td>
<td>9.9%</td>
</tr>
<tr>
<td>REVENUE PERFORMANCE (M)</td>
<td>£158.3m</td>
<td>£114.2m</td>
</tr>
<tr>
<td>GROUP REVENUE BREAKDOWN (M)</td>
<td>18%</td>
<td>13%</td>
</tr>
</tbody>
</table>

More detail p38  More detail p39  More detail p39

All revenue figures on this page are on a 52 week basis. For reconciliation to statutory 53 week figures please see page 44.
Secondary Brands focus on distinct customer niches which are not served by our Power Brands. These brands have significant customer loyalty, good growth prospects and are increasingly online. We view our Power Brands as having the greatest growth potential medium term, however, and therefore our focus here is predominantly on our existing customers.

**Revenue Growth (%)**

**1.6%**

**Revenue Performance (M)**

£155.2m

**Group Revenue Breakdown (M)**

18%

More detail p40

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The titles in this segment are focused on serving our loyal, traditional and typically more mature customers. These customers tend to prefer paper-based marketing, such as catalogues and direct-mail offers. This is an attractive and accessible market, underserved by other retailers, and whilst not a future growth driver we generate a good financial return.

**Revenue Growth (%)**

1.3%

**Revenue Performance (M)**

£134.2m

**Group Revenue Breakdown (M)**

15%

More detail p40

---

An important part of our overall proposition, strengthening customer loyalty and enabling our retail business to thrive. In order to offer our customers excellent convenience and choice, we allow customers to either pay us immediately or utilise a credit account for their purchases, spreading the cost of their purchases over time.

**Revenue Growth (%)**

0.4%

**Revenue Performance (M)**

£260.5m

**Group Revenue Breakdown (M)**

29%

More detail p41

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All revenue figures on this page are on a 52 week basis. For reconciliation to statutory 53 week figures please see page 44.
A year of encouraging progress

“The transformative changes we have made over the past few years have started to deliver results, as we benefit from our new-found trading agility.”

Andrew Higginson
Chairman

This year saw the first benefits come through from the material changes to people, processes and systems we have made to the business. After a challenging first half, the Board is pleased with the trading momentum seen in the second half, with the Group outperforming the wider market over the key peak trading period.

I continue to be impressed by the sheer quantum of change that has occurred in the business over the past few years. Whilst the process of transformation has not been without its challenges, the business is now in a much stronger position, with a far more sustainable model for the future.

In September we gained our full FCA authorisation. This was an important milestone for the Group and marked the successful end to a lengthy and thorough process.

This coming year will be another important one for the Group. We remain on track to complete the final stages of our systems programme by Summer 2018 although, as has been the case throughout the programme, our first priority is risk minimisation, not speed of delivery at any cost.
**Progress made in 2017**

- Overall online penetration of 69%, up 4ppt, with 77% of new customers now coming to us online.
- Active customer accounts +0.7% to 4.30m; within this, Power Brands active customer accounts 2.17m, up 1.2%.
- Received our highest ever customer satisfaction score and are now ranked number two across the UK retail sector.
- Ladieswear revenue up 4.2% over the year, and 10.4% in the second half.
- Gained our full FCA authorisation in September 2016. The authorisation was granted unconditionally.

We continue to innovate and improve our ways of working to ensure we continually put the customer at the centre of everything we do. We have a strong business, with a loyal customer base and good growth prospects.

**Dividend**

Whilst continuing to invest in the business to secure our future growth, we also continue to recognise the importance of cash returns to our shareholders. We intend to pay a final dividend of 8.56p this year, taking the total dividend to 14.23p – unchanged from last year.

**Board composition**

In October I was pleased to welcome Richard Moross to the Board as a Non-Executive Director. Richard is the founder and CEO of Moo.com and brings significant expertise in digital retailing and technology.

Following her appointment to the board of Newell Brands Inc in the USA, Fiona Laird has indicated her intention to step down as soon as a suitable replacement has been found. External consultants have been engaged and an announcement will be made in due course.

**Outlook**

The past year has seen unprecedented changes in the macro-economic landscape which remains challenging for retail. This manifests itself in our cost prices through inflation, particularly in fuel, our product costs as a result of exchange rate changes, and the disposable income of our customers. Against this backdrop we remain vigilant over our core costs and efficiencies.

After 23 years’ service, Ivan Fallon has indicated his intention to retire and he will therefore not be seeking re-election to the Board at this year’s AGM. The Board and I would like to thank Ivan for his outstanding contribution over many years and to wish him well for the future.

Consumers globally continue to move their spending online, and our online capabilities and lack of a large store estate mean that we are at an advantage here. We must not become complacent, however, but instead we must continually innovate and improve our capabilities and customer offering.

I would like to express my thanks to all stakeholders in the business, and in particular our brilliant colleagues, for all their passion, commitment and hard work throughout the year.

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**Corporate Governance**

The Board is committed to developing and applying high standards of corporate governance both in the management of its business and in its accountability to stakeholders as a whole.

<table>
<thead>
<tr>
<th>Executive</th>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Executive</td>
<td>Angela Spindler</td>
</tr>
<tr>
<td>Non-Executive Chairman</td>
<td>Andrew Higginson</td>
</tr>
<tr>
<td>Chief Financial Officer</td>
<td>Craig Lovelace</td>
</tr>
<tr>
<td>Non-Executive Director</td>
<td>Ivan Fallon</td>
</tr>
<tr>
<td>Non-Executive Director</td>
<td>Lord Alliance of Manchester CBE</td>
</tr>
<tr>
<td>Non-Executive Director</td>
<td>Ron McMillan</td>
</tr>
<tr>
<td>Non-Executive Director</td>
<td>Fiona Laird</td>
</tr>
<tr>
<td>Non-Executive Director</td>
<td>Richard Moross</td>
</tr>
<tr>
<td>Non-Executive Director</td>
<td>Lesley Jones</td>
</tr>
<tr>
<td>Company Secretary</td>
<td>Theresa Casey</td>
</tr>
</tbody>
</table>

**Board diversity**

- Male: 6
- Female: 3

**Board composition**

- Non-Executive Directors: 7
- Executive Directors: 2

---

Revenue figures are on a 52 week basis as explained on page 44. Please see pages 26 to 29 for KPI definitions.
Maintaining the pace in a challenging market

Global trends
With an uncertain global economic backdrop, the retail market not only faces the same uncertainties but also the knock-on effect of rising input costs and fragile consumer confidence. Coupled with an increasingly competitive retail market, the ability to act with agility and continue to innovate will be key to our success.

UK demographic
The UK has an ageing population, with ONS figures showing a significant rise of the 65+ population, by 21%, over the past ten years. With people also becoming larger, as evidenced by rising obesity levels, our size and age inclusive approach are important differentiators which benefit from these population trends.

Financial services – consumer credit
We see UK consumers continuing to participate in higher levels of unsecured credit, a supportive backdrop given our many years of experience in this sector. We continue to monitor consumers’ demand for payment innovations and ensure that we incorporate FinTech developments when suitable.

Macro-economic trends
The global economic backdrop is uncertain, with recent volatility, particularly in the percentage drop in sterling following the EU referendum.

Retail trends
Consumers are increasingly shifting spend away from retail purchases and towards leisure activities.

Online trends
Shopping globally is increasingly online; the BRC estimates that over 20% of all non-food retail spending now takes place online.
## SOURCING BREAKDOWN

- China
- UK
- India
- Pakistan
- Bangladesh
- Sri Lanka
- Turkey
- ROW

## Trends

**The uncertainty following the referendum has led to consumer confidence at lower levels than in the past few years. We expect shoppers to continue to remain cautious this year.**

The depreciation of sterling since the EU referendum means that FX rates represent a significant input cost headwind. Inflation is also expected to increase this year, putting further pressure on our costs.

### How we are responding

- We hedge our dollar purchases exposure, allowing us to delay the impact of a weaker sterling rate, and giving us more certainty over input costs.
- We aim to mitigate input costs and inflation as much as possible, working closely with our suppliers and moving supply nearer to the UK in some cases.

### Opportunities for growth

We are planning to absorb or mitigate input cost increases, as opposed to passing these on to our customers, as we believe that this stance will allow us to gain further market share and underpin future sustainable profitable growth. Our international business provides a small natural hedge which we aim to grow in the future.

## Trends

Over the last 12 months there has been a shift in spending patterns away from the clothing and footwear sector and into the hospitality and entertainment sectors. Against this backdrop we work hard to grow loyalty and offer our customers a great choice of products. Within the retail sector itself, health and beauty tops the sector as the fastest growing according to the BRC.

### How we are responding

- Widening share of basket by continually improving both our homewares and our health and beauty offering.
- Continuing to invest in great value products.
- Continuing to invest in our financial services offering, to allow customers to spread the cost of their purchases over time.

### Opportunities for growth

Our customer loyalty rates continue to be strong, and we work hard to ensure our customers have a great shopping experience with us. Our new Financial Services system will allow us to offer customers a greater range of products, which should help us to increase share of spending and generate incremental income.

## Trends

Online penetration is predicted to grow from 15.7% in 2017 to 18.4% in 2022, with the clothing and footwear sector set to grow from 25.6% of online retail share in 2017 to 29.4% in 2022 according to the latest figures from GlobalData. We are in a strong position to benefit from this trend given our online exposure and our lack of a significant store estate.

### How we are responding

- Continuing to innovate and win share online.
- Our new web platform will further improve our online trading agility.
- Continuous improvements to customer experience, for example through personalisation and app development.

### Opportunities for growth

As an online retailer, we will continue to make improvements to win more share online and to further improve the customer experience.
## Creating customer value

**Inputs**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td><strong>1. Brand portfolio</strong></td>
<td>We operate a trusted family of retail brands, focused on fashion that fits. Our primary growth drivers are our Power Brands – JD Williams, Simply Be and Jacamo. We sell ladieswear, menswear, footwear, homewares and gifting across all our brands.</td>
</tr>
<tr>
<td></td>
<td>– 3 Power Brands</td>
</tr>
<tr>
<td></td>
<td>– Secondary Brands</td>
</tr>
<tr>
<td></td>
<td>– Traditional Segment</td>
</tr>
<tr>
<td><strong>2. Engaged customer base</strong></td>
<td>Strengthening customer loyalty and gaining new customers is crucial for sustainable growth. We put the customer at the centre of every decision we make.</td>
</tr>
<tr>
<td><strong>3. N Brown people</strong></td>
<td>Without our people and their relentless enthusiasm and passion we couldn’t do what we do. They are our most important asset.</td>
</tr>
<tr>
<td><strong>4. Systems and infrastructure</strong></td>
<td>Our warehouse extension, now fully on stream, further improved our logistics capabilities and delivery proposition. Our systems investment project, called ‘Fit 4 the Future’, is still ongoing, with several important releases going live in the year. Going forward, ongoing development and investment in our systems and infrastructure will remain crucial in a constantly changing sector.</td>
</tr>
</tbody>
</table>

### Core activities

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Retail products</strong></td>
<td>Without great products we have nothing. Our fit specialism, at great value for money, is our USP.</td>
</tr>
<tr>
<td><strong>In-house design team</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Logistics</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Quality and fit</strong></td>
<td></td>
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<tr>
<td><strong>Sourcing and merchandise</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Marketing</strong></td>
<td></td>
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<tr>
<td><strong>Modernising our offer</strong></td>
<td></td>
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<tr>
<td><strong>Cash customers</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Credit customer base</strong></td>
<td></td>
</tr>
</tbody>
</table>
GUSTO shapes our culture. GUSTO celebrates positive attitudes and behaviours. GUSTO is how we do things around here.

**Glow with pride**
We’re proud to make great products that people love. Our clothes generate a feel-good factor – for our customers and for us.

**Understanding is everything**
Everything starts and ends with understanding and respecting the customer. They are our passion, their shopping habits and preferences our priority. They’re why we exist, and why we succeed.

**Saving makes sense**
Waste is the enemy. We value simplicity and the saving of resources and time.

**Togetherness is crucial**
Teamwork triumphs in the end. There are few tasks and even fewer problems that can’t be tackled successfully though togetherness, shared goals and collective effort.

**Opportunity exists everywhere**
There are always things to improve, chances to be seized and ideas to be unleashed. We take the opportunities to build a better business, and to build a better you.

---

### Responsibility

We believe we should be a major force for good as well as a major force in fashion. It’s a huge responsibility, and a purpose way beyond profit.

**All People**
Dignity and respect through people

**One Planet**
Ways of working

**Every Product**
Responsible

---

### Outputs

#### 1 Value back to shareholders
Our shareholders are very important to us, and we value the support and input they give us. We are focused on a progressive dividend policy.

#### 2 Value back into business to drive future growth
We invest into our business to ensure that we can drive profitable, sustainable growth in the years ahead.

#### 3 Customer satisfaction
We’re proud to make great products that people love. Our clothes generate a feel-good factor for our customers.

---

**Strategy**
More detail p20

**Performance review**
More detail p36
“We have transformed from a mail order business to an innovative, agile, online fashion retailer, supported by a modern Financial Services business. We are focused on driving the business forward, both in the UK and internationally, and I am confident in our future growth prospects.”

Angela Spindler
Chief Executive

Introduction
I am pleased with the progress made this year, as we continue to build on our position as an agile, online fashion retailer. Ladieswear was a particular highlight, delivering the best performance for almost a decade as we gained significant market share. This was the result of changes made to design, buying, merchandising and sourcing over the past few years.

We continue to place customers at the heart of everything we do. During the year we further improved our delivery proposition, maintained our assertive price positioning and continued focus on customer loyalty. I am pleased to report that our work paid off, with our customer satisfaction score increasing further to 86.4%, the second highest customer satisfaction score in the UK retail sector.

We have a clear focus on our three fashion Power Brands – JD Williams, Simply Be and Jacamo – and revenue here increased by 6.3%, a good performance. We also
Future opportunities

International
We launched our new USA site in September. Through a series of post-launch releases we have now delivered the enhanced experience scoped for our customers, which gives us the foundations for our future international expansion. We recently announced the appointment of our first International Director, who will help us make the most of our significant growth opportunity, both in the USA and in other geographies.

Brand partnerships
We are increasingly partnering with other retailers in two ways. Firstly, we added over 100 new third party brands on our sites during the year, further broadening our customer offering. We have also started to sell capsule collections on other retailers’ sites. These offer a complementary way of driving sales and awareness of our brands in a cost-effective manner. We will continue to look at other opportunities like this going forward.

Outlook
The fashion sector remains as competitive as ever. Added to this, the depreciation of sterling and the recent increase in inflation both represent significant input cost headwinds to our business. Against this backdrop, our significantly increased trading agility and in-season flexibility puts us in a much better position to be able to quickly react to changing market conditions, ensuring our product offer remains competitive.

KPIs and revenue figures are on 52 week basis unless otherwise stated.

N Brown Group plc
Annual Report & Accounts 2017

19
Our four drivers

**Product**

*Fantastic quality and fit fashion, home ranges, and relevant financial services*

**Relevance**
Great product is the lifeblood of our business – it is the absolute core of what we do.

**Progress 2016**
We strive to continuously improve our product offering, both in terms of our retail and Financial Services products. We are particularly pleased with our Ladieswear performance, the best for almost a decade. This result was made possible by the changes we have made to buying, merchandising, sourcing and design over the past few years.

**Priorities 2017**
Menswear delivered a solid performance, however we see scope for further growth in this category. In Financial Services, we will continue our trial of lower interest rates for new customers, ahead of the new Financial Services system going live as part of Fit 4 the Future.

**Associated risks**
- Failure to change
- Competition
- Regulatory environment

**KPIs**
- **4.2%** Ladieswear market share, size 16+
- **1.5%** Menswear market share, chest size 44”+
- **26.8%** Group returns rate (rolling 12 months)

**Price**

*Great prices and flexible ways to pay*

**Relevance**
Value and convenient ways to pay are both as important to customers as they have ever been.

**Progress 2016**
We adopted an assertive opening price point strategy, offering customers great value, stylish products from the very start of the season. This was best seen through our ‘The Cut’ capsule collection in JD Williams, which significantly outperformed expectations.

**Priorities 2017**
Our new merchandising tools will allow us to further optimise our mark downs and promotions. In Financial Services, our new systems will give customers more flexible, personalised payment options.

**Associated risks**
- Failure to change
- Competition

**KPIs**
- **86.4%** Customer satisfaction rating, UK CSI
- **129k** New credit recruits (Rollers, last six months)
Our vision
To be the universally loved experts in fashion that fits.

Our mission
We’ll do this by helping our customers look and feel amazing through our trusted family of fashion brands.

People
Obsessed with customers, enriched with data and powered by technology

Relevance
Without our people and their relentless enthusiasm and passion we couldn’t do what we do. They are our most important asset.

Progress 2016
We continued to develop our internal talent and hire great new people to our business. We launched our online training hub and talent mapping tools. Our colleague satisfaction rating reached a record high.

Priorities 2017
We will launch our new intranet, which will further enable us to engage with colleagues throughout the business. We will continue to focus on developing our talent and rewarding achievement.

Associated risks
• People
• Competition

KPIs
86.4%
Customer satisfaction rating, UK CSI

Place
Whatever you want, wherever you are, whenever you want it, we make it easy

Relevance
Customers shop how and when they want, and it is our job to exceed their expectations.

Progress 2016
We moved to 10pm cut-off for next day delivery and over our busiest cyber fortnight ever our average delivery time was an entire day quicker than last year. Online, mobile continued to take share of traffic, now exceeding 70%. We also launched our new USA website, a key milestone.

Priorities 2017
We will launch our new web platform in the UK on our High & Mighty site. We will continue to focus on improving our delivery offering, including the recent launch of our first delivery subscription offering, Jacamo Unlimited.

Associated risks
• Failure to change
• Competition
• People
• Cyber security

KPIs
69%
Online penetration
5.6%
Conversion rate
4.3m
Active customer accounts

KPIs on these pages are on a 52 week basis unless otherwise stated.
STRATEGY IN ACTION

Transformation
driving success in 2017

Better by design

We have fundamentally changed our design, buying, sourcing and merchandising processes over the past three years and we are pleased to report that these changes are delivering results. Having previously relied solely on third party design agencies, we now have a 22-person in-house team, covering all product categories to ensure that our ranges are on-trend and flatter our customers, whatever their size or age. We have also introduced an in-house print team that creates signature prints for each season.

We have rationalised and consolidated our supply base, working closer with fewer suppliers. We have also increased sourcing closer to home to give us greater flexibility. These changes in our supply chain, together with process changes throughout the department, have enabled us to reduce lead times significantly. Our fastest lead time for a new product has improved from ten weeks two years ago to three weeks today. For repeat purchases, our fastest lead time is now seven days compared to seven weeks just two years ago. We have also reduced our average lead times by over 20% year on year.

We are now working on rolling out innovative digital fit techniques using 3D avatars. This will allow us to design, develop and fit our product samples on each individual size, tailoring the fit to take account of body shapes and sizes. These cutting-edge techniques will represent a further improvement to our already industry leading fit capabilities, as well as enabling us to deliver our products faster than ever before, both important drivers of customer loyalty.
Assertive price points and great promotions

We typically benchmark our prices to the mid-market, aiming to offer a better quality product at a lower price than our mid-market competitors. In Autumn Winter we adopted a more assertive price strategy, further investing in prices to offer customers exceptional value. This was led by ‘The Cut’ collection in JD Williams, a collection of our best priced, current season clothes. Sales of these lines significantly exceeded our already ambitious expectations, with the range up 72% compared to similar lines in the prior period. A similar pricing strategy was adopted across our entire brand portfolio.

By ensuring that our initial price points were compelling, we reduced the proportion of lines sold on discount significantly. When we did offer promotions they represented exceptional value to our customers, with our cyber fortnight promotions and flash sales good examples of these.

We continued to increase our use of data analytics to make pricing and promotional decisions, for example we have implemented price elasticity algorithmic modelling for our end of season sales and will be rolling this out further in the coming year. Our new merchandising system went live in the Autumn, giving us the ability to plan our ranges across our brand portfolio in a quick and consistent way.
Digital talent

We continue to invest heavily in digital talent across the organisation, both in terms of attracting the best talent and developing our people. Working at N Brown is fast paced and exciting, with no day the same as another. As well as capabilities, we hire for attitude and passion.

Our digital centre of excellence continues to ensure that we stay ahead of the competition, covering areas such as personalisation, conversion rate optimisation, page load speeds and data analytics. Digital talent doesn’t just cover marketing and IT, we also continue to innovate in areas such as quality control, product fit and specification and our HR processes and colleague engagement platforms.

During the year we partnered with seven digital start-ups through our innovation incubator JD Works. Over a ten week period these start-ups worked alongside us in our offices, helping us to accelerate our adoption of new ideas and technologies. These technologies included artificial intelligence, big data analytics, digitalised personal shopping and 3D virtual fitting.
A record breaking cyber fortnight

We had our best ever cyber fortnight, with record breaking revenue and profits. This was made possible by our recent warehouse extension, which doubled our through-put capacity – that is, our ability to get products through the warehouse and out for delivery to customers.

Our websites dealt with the highest level of traffic we’ve ever experienced, with sessions up 20% against the prior year, itself a record. Smartphone sessions were up 49% and accounted for 46% of traffic during the period. We sent 19 million animated emails, 22% more than the year before, and these drove a 48% increase in email demand.
KEY PERFORMANCE INDICATORS

Measuring progress against our strategy

Customers

<table>
<thead>
<tr>
<th>ACTIVE CUSTOMER ACCOUNTS (m)</th>
<th>POWER BRAND ACTIVE CUSTOMER ACCOUNTS (m)</th>
<th>GROWTH OF OUR MOST LOYAL CUSTOMERS (%)</th>
<th>CUSTOMER SATISFACTION RATING (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>+0.7%</strong></td>
<td><strong>+1.2%</strong></td>
<td><strong>+400bps</strong></td>
<td><strong>+180bps</strong></td>
</tr>
<tr>
<td>2016 4.27m</td>
<td>2016 2.14m</td>
<td>2016 -0.4%</td>
<td>2016 84.6%</td>
</tr>
<tr>
<td>2017 4.30m</td>
<td>2017 2.17m</td>
<td>2017 3.6%</td>
<td>2017 86.4%</td>
</tr>
</tbody>
</table>

Relevance to strategy

Definition
The number of customer accounts which made a retail purchase in the last 12 months. The figures now include our USA customers. They continue to exclude Figleaves which has an independent management team.

Performance
Our active customer file increased by 0.7% to 4.30m during FY17. Our customer metrics improved through the year, with active customers down in the first half and then up mid single-digits in the second half, supported by strong new customer recruitment.

Outlook
We will continue to attract new customers to our business through our product offering, marketing campaigns and customer service proposition.

Risk
- Failure to change
- Competition
- People

Outlook
The migration of Fifty Plus will be completed by the start of the second half FY18, and this title should therefore cease to be a drag on customer metrics.

Risk
- Failure to change
- Competition
- People

Relevance to strategy

Definition
The number of Power Brand (JD Williams, Simply Be and Jacamo) customer accounts which made a retail purchase in the last 12 months. The figures now include our USA customers.

Performance
Again we saw an improving trend through the year. The key driver of this trend was the migration of the Fifty Plus title into the JD Williams brand (these customers are included within the JD Williams customer file); the customer file of the Fifty Plus title declined, as planned, during the migration process. If we exclude Fifty Plus customers, Power Brand active customers were up 9.9%.

Outlook
Further strengthening customer loyalty is a key business focus. We do this by continuously improving our product offering, service and delivery proposition.

Risk
- Failure to change
- Competition
- People

Relevance to strategy

Definition
We define our most loyal customers as those who have purchased from us in each of the last four clothing seasons.

Performance
We are pleased to report that our most loyal customers increased by 3.6% year on year, a significant improvement from the 0.4% decline reported last year. The primary driver of the performance was the turnaround in our Traditional Segment.

Outlook
Customer satisfaction is driven by a wide range of factors, such as product quality and value, the delivery service and dealing with complaints. We talk to our customers every day to ensure we are doing the best job we possibly can.

Risk
- Failure to change
- Competition
- People
- Regulatory environment
### Product

#### LADIESWEAR MARKET SHARE SIZE 16+ (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>3.4%</td>
</tr>
<tr>
<td>2017</td>
<td>4.2%</td>
</tr>
</tbody>
</table>

#### Relevance to strategy

**Definition**

Our market share in UK Ladieswear, in size 16 and higher. Market share is calculated using internal and Kantar data, and these figures relate to the 24 weeks ending 17 February 2017.

**Performance**

Ladieswear had its best performance for almost a decade, and this resulted in a very encouraging increase in market share. We saw market share gains across every customer age range. The performance is due to significant changes we have made to our design, buying and merchandising people and processes over the past few years.

**Outlook**

We expect the market backdrop to remain competitive. We will focus on further growing market share through continued improvements to our products, everyday great value and efficient promotions.

**Risk**

- Failure to change
- Competition
- People

#### MENSWEAR MARKET SHARE CHEST 44+ (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>1.5%</td>
</tr>
<tr>
<td>2017</td>
<td>1.5%</td>
</tr>
</tbody>
</table>

#### Relevance to strategy

**Definition**

Our market share in UK Menswear, in chest size 44” and higher. Market share is calculated using internal and Kantar data, and these figures relate to the 24 weeks ending 17 February 2017.

**Performance**

Against an ongoing competitive market holding our share flat was a solid result, although our objective is to grow share over the medium term.

**Outlook**

We expect the market backdrop to remain competitive. We will focus on further growing market share through continued improvements to our products, everyday great value and efficient promotions.

**Risk**

- Failure to change
- Competition
- People

#### GROUP RETURNS RATE (ROLLING 12 MONTHS) (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>27.4%</td>
</tr>
<tr>
<td>2017</td>
<td>26.8%</td>
</tr>
</tbody>
</table>

#### Relevance to strategy

**Definition**

The amount, measured in value, of products which are returned to us by customers, over the last 12 months.

**Performance**

We saw another good performance in our returns rate, with the primary driver being the continued improvements in our product offering, including fit, quality and value for money. The ongoing increase in the proportion of cash customers also benefited the rate, as these customers naturally have a lower returns rate than credit account customers.

**Outlook**

Ladieswear has the highest returns rate by category, and the strong performance in the second half and as we ended the year is an ongoing headwind. Product improvements and new cash customers should continue to help this KPI.

**Risk**

- Failure to change
- Competition

---

KPIs on these pages are on a 52 week basis unless otherwise stated.
## Online

### Online Penetration (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>65%</td>
</tr>
<tr>
<td>2017</td>
<td>69%</td>
</tr>
</tbody>
</table>

**Relevance to strategy**

- **Definition**: The percentage of sales, excluding stores and International, which comes to us online. Our second largest channel is through our contact centre.

**Performance**

Online penetration is now almost 70%, with online revenue up 10% year on year. Some customers are unlikely to ever migrate online; we estimate that these account for roughly half of the non-online proportion. Whilst we are online-first in our approach, we are happy to serve customers in whichever way they would like to shop with us.

**Outlook**

We continue to invest in both our online platform and in hiring and developing digital talent. The online penetration of new customers is an important leading indicator for overall future penetration.

**Risk**

- Failure to change
- Competition
- People
- Cyber security

### Online Penetration of New Customers (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>72%</td>
</tr>
<tr>
<td>2017</td>
<td>77%</td>
</tr>
</tbody>
</table>

**Relevance to strategy**

- **Definition**: The percentage of sales from new customers, excluding stores and International, which comes to us online.

**Performance**

This metric passed 75% for the first time, a key milestone. By brand, JD Williams saw the most significant increase, from 65% to 80%.

**Outlook**

We continue to target our new customer recruitment campaigns to focus primarily on online shoppers, and therefore we would expect this metric to continue to increase looking forwards.

**Risk**

- Failure to change
- Competition
- People
- Cyber security

### Conversion Rate (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>5.8%</td>
</tr>
<tr>
<td>2017</td>
<td>5.6%</td>
</tr>
</tbody>
</table>

**Relevance to strategy**

- **Definition**: The percentage of website sessions which result in an order being placed.

**Performance**

At 5.6% our conversion rate remains significantly above the industry average. The decline was entirely due to the increasing share of mobile sessions, which naturally have a lower conversion rate than PCs. The conversion rate for smartphones and tablets each increased, by 8% and 3% respectively.

**Outlook**

The continued increase in share from mobiles represents a drag to the overall conversion rate. We are focused on increasing the conversion rate of each device type.

**Risk**

- Competition
- People
- Cyber security

### Traffic from Mobile Devices (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>66%</td>
</tr>
<tr>
<td>2017</td>
<td>71%</td>
</tr>
</tbody>
</table>

**Relevance to strategy**

- **Definition**: The percentage of our total online traffic which comes from either a smartphone or a tablet device.

**Performance**

Mobile devices include both smartphones and tablets; of these, smartphones are the device of choice, with web sessions here increasing by 49% to account for 46% of all traffic. This trend was even stronger for JD Williams, where smartphone sessions more than doubled compared to last year.

**Outlook**

We adopt a ‘mobile first’ approach to all of our digital improvements, and expect the trend of customers shopping more and more on their smartphones to continue. The launch of our first app during the year, together with further improvements to our mobile optimisation, should result in further progress in this metric this year.

**Risk**

- Competition
- People
- Cyber security
**Financial Services**

<table>
<thead>
<tr>
<th>ARREARS RATE (&gt;28 DAYS) (%)</th>
<th>PROVISION RATE (%)</th>
<th>NEW CREDIT RECRUITS (ROLLERS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>-100bps</td>
<td>-480bps</td>
<td>-5%</td>
</tr>
<tr>
<td>2016 10.9%</td>
<td>2016 15.6%</td>
<td>2016 136,000</td>
</tr>
<tr>
<td>2017 9.9%</td>
<td>2017 10.8%</td>
<td>2017 129,000</td>
</tr>
</tbody>
</table>

**Relevance to strategy**

**Definition**
Arrears over 28 days are defined as customer debts with two or more missed payments.

**Performance**
We saw a very strong performance in arrears rate, down 100bps year on year. This was driven by the improvement in the quality of our customer loan book, together with our ongoing efforts to proactively help customers manage their accounts.

**Outlook**
New customer recruitment typically results in an increase in arrears rate. Offsetting this, we expect the loan book quality to continue to be strong and we therefore expect a broadly flat rate over the coming year.

**Risk**
- Failure to change
- Competition
- People
- Regulatory environment

**Key to Strategic Drivers**

- **Product**
- **Price**
- **People**
- **Place**

**Relevance to strategy**

**Definition**
Closing bad debt provision as a percentage of gross trade receivables.

**Performance**
Our provision rate improved significantly during the year. This was a result of two factors. Firstly, we benefitted from the sale of a small quantum of high risk payment arrangement debt, which we were able to sell for a slightly better rate than book value; given the risk profile of this debt the sale had a disproportionate impact on the provision rate. Secondly, the change reflects the continued improvement in the quality of the debt book.

**Outlook**
New customer recruitment typically results in an increase in the provisions rate. Offsetting this, we expect the loan book quality to continue to be strong and we therefore expect a broadly flat rate over the coming year.

**Outlook**
We started trialling lower interest rates for new customers in the run-up to peak. Whilst it is still too early to assess the full impacts of this trial, this is the first stage of our efforts to expand our Financial Services offering to enable us to grow our credit customer numbers.

**Risk**
- Failure to change
- Competition
- People
- Regulatory environment

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KPIs on these pages are on a 52 week basis unless otherwise stated.

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N Brown Group plc
Annual Report & Accounts 2017

29
Protecting the integrity of our business strategy

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 Chief Financial Officer and head of internal audit, 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 and discussed the outputs from this process which were used by internal audit as a key driver in developing 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.

Internal audit maintain the Group’s Three Lines of Defence model which documents the internal and external sources of assurance provided across the business. The adequacy of coverage over corporate risks at operational, oversight and assurance lines of defence is reviewed bi-annually and the output from this process is reported to the Audit Committee and used to drive the content of the annual internal 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.

The Group compliance function monitors policy and regulatory requirements and plays a key role in the mitigation of key risks across the business. The function continues to develop and is well established in providing assurance over areas of significant regulatory risk such as Financial Services and Data Protection.

Risk committee
Operational management is asked to present on a cyclical basis on the progress of agreed actions against the major risks identified by the process. The output is shared with the Audit Committee and the full Board.

<table>
<thead>
<tr>
<th>Top principal risks</th>
<th>Key strategic priorities affected</th>
<th>Change in year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Failure to change</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Taxation</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>3. Regulation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Competition</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Cyber security</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. People</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Business interruption</td>
<td>N/A</td>
<td></td>
</tr>
</tbody>
</table>

Principal risk rating matrix
The Board believes that appropriate internal financial, operational and compliance 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 overleaf.

**Risk appetite**
The Group’s framework for managing its consideration of risk appetite forms part of the annual Risk Management Cycle and is used to drive and inform any actions undertaken in response to the principal risks identified by the Board. Within this framework, the Group’s appetite for risk is defined with reference to the expectations of the Board for both commercial opportunity and internal control and is used to inform the Group’s annual internal audit plan.
## Identify, evaluate and manage risks facing the Group

### Key Risk: Failure to change

<table>
<thead>
<tr>
<th><strong>Description</strong></th>
<th>The business does not recognise the need for change, is unsuccessful in delivering the best course of action or fails to execute chosen strategy.</th>
</tr>
</thead>
</table>

#### Strategic Drivers

<table>
<thead>
<tr>
<th><strong>Description</strong></th>
<th>The capacity of the Group to achieve desired change is necessary to remain competitive and maintain market position. The potential consequences of not achieving change goals include: Loss of competitive position, underachievement against growth targets, inefficient returns on investment and constrained ability to respond to market forces.</th>
</tr>
</thead>
</table>

#### Change from Last Year

<table>
<thead>
<tr>
<th><strong>Description</strong></th>
<th>Given the uncertain macro-economic backdrop, which particularly impacts on business through input cost price inflation as referenced on page 14 in the market review, remaining competitive is even more important in order to deliver business growth.</th>
</tr>
</thead>
</table>

#### Associated KPIS

<table>
<thead>
<tr>
<th>KPIS</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>9</td>
<td>10</td>
</tr>
<tr>
<td>11</td>
<td>12</td>
</tr>
<tr>
<td>13</td>
<td>14</td>
</tr>
</tbody>
</table>

#### Mitigation

- Capitalise on agile trading capabilities to respond to in-season weather and macro-economic dynamics.
- Customer Insights team ensures up to date information on customer trends and expectations.
- Development of strategic online retail partnerships and alliances to accelerate growth in the UK and internationally.
- Continued focus on removal of any barriers to loyalty through the development of the customer service experience.
- Fit 4 the Future business transformation programme to enable new technological capabilities and competitiveness and drive on-line growth.

#### What We Have Done in 2016/17

- Delivered the USA element of the F4F business development programme.
- Achieved a record Customer Satisfaction Index rating, now ranked second in the UK.
- Ladieswear market share +80bps.
- Record breaking performance over cyber fortnight.

### Key Risk: Competition

<table>
<thead>
<tr>
<th><strong>Description</strong></th>
<th>Failure to compete effectively through product and service propositions.</th>
</tr>
</thead>
</table>

#### Strategic Drivers

<table>
<thead>
<tr>
<th><strong>Description</strong></th>
<th>Competing effectively across the key areas of Product, Financial Services and Customer Services remains a key driver of customer recruitment and retention. Potential consequences of competition include: loss of market share, erosion of margins and a fall in customer satisfaction scores.</th>
</tr>
</thead>
</table>

#### Change from Last Year

<table>
<thead>
<tr>
<th><strong>Description</strong></th>
<th>Given the uncertain macro-economic backdrop, which particularly impacts on business through input cost price inflation as referenced on page 14 in the market review, remaining competitive is even more important in order to deliver business growth.</th>
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</table>

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</tr>
<tr>
<td>3</td>
<td>4</td>
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<td>5</td>
<td>6</td>
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<tr>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>9</td>
<td>10</td>
</tr>
<tr>
<td>11</td>
<td>12</td>
</tr>
<tr>
<td>13</td>
<td>14</td>
</tr>
</tbody>
</table>

#### Mitigation

- New warehouse has increased next-day delivery availability.
- Customer Insight team use the Customer Services Index to drive continuous improvement programme.
- Benchmarking against competitor activity.
- New suite of financial services products with our new credit platform.
- Fit 4 the Future programme delivering new digital platform.
- Capitalise on agile trading capabilities to respond to in-season weather and macro-economic dynamics.
- Hedging of foreign exchange rate exposure to provide certainty over input costs.

#### What We Have Done in 2016/17

- Continued to broaden our product offering, particularly through the use of third party brands.
- Successfully implemented our new merchandising tools, which enhanced our use of data analytics enabling us to price more efficiently and effectively.
### Key to KPIs

1. Active customer accounts
2. Power Brand active customer accounts
3. Growth of our most loyal customers
4. Customer satisfaction rating
5. Ladieswear market share size 16+
6. Menswear market share chest 44”+
7. Group returns rate
8. Online penetration
9. Online penetration of new customers
10. Conversion rate
11. Traffic from mobile devices
12. Arrears rate (>28 days)
13. Provision rate
14. New credit recruits (rollers)

### Key to Strategic Drivers

- Product
- Price
- People
- Place

---

#### Key Risk

**Regulatory environment**

**Description**

Failure to ensure the Group complies with existing and emerging UK and overseas legislation and regulation.

**Potential Impact on Business**

Recent and upcoming changes in regulation are a key consideration for the Group. Potential impacts arising from changes in regulation are: increased costs, erosion of margins and potential fines or reputational damage if response plans are not achieved.

**Mitigation**

- Group employs specialists in relevant fields to provide expertise on regulatory matters.
- In-house Regulatory Compliance function.
- Dedicated approval committee reviewing and ratifying proposed changes with a regulatory impact.
- In-house Customer Service team specialising in the treatment of vulnerable customers.
- Pro-active engagement with the FCA and other regulatory bodies.
- Continued, active membership of the British Retail Consortium.

**What we have done in 2016/17**

- Received full, unconditional authorisation from the FCA to conduct consumer credit activities.
- Significantly increased internal compliance resource during the year and established a Customer Conduct committee.

---

#### Key Risk

**People**

**Description**

Over-reliance on key personnel and inability to recruit and retain required skill sets.

**Potential Impact on Business**

Recruitment and retention of high calibre employees is a key driver of business growth. Potential impacts arising from the management of employees include the loss of business knowledge, increased costs and inefficient return on investment.

**Mitigation**

- Annual talent identification and reward review.
- Talent review highlights people risks and drives mitigating actions.
- Twice yearly employee engagement surveys.
- Benchmarking of reward packages and terms and conditions.

**What we have done in 2016/17**

- Undertaken a twice yearly colleague engagement survey. The most recent score was our highest ever.
- Continued to improve our recruitment techniques to attract new talent to the business, including increased use of social platforms.
### Key Risk

**Taxation**

**Description**
Uncertainty over the outcome of legal cases with HMRC covering VAT and historic approach to Corporation Tax.

<table>
<thead>
<tr>
<th>Strategic Drivers</th>
<th>Potential Impact on Business</th>
<th>Mitigation</th>
<th>What We Have Done in 2016/17</th>
</tr>
</thead>
</table>
| N/A               | Current test cases for Corporate Tax and VAT partial exemption are ongoing. Potential impacts from unfavourable outcomes include increased VAT and Corporate tax charges and decreased future cash flows. | • Proactive engagement with HMRC.  
• The Group employs Leading Tax Counsel and other providers of external expertise.  
• Partial but not full provision against litigation outcomes. | • Continued work on the tax case with leading advisors. |

**Cyber security**

**Description**
Malicious activity leading to significant loss of data or disruption to trading and potentially impacting income, profitability, customers and Group reputation.

<table>
<thead>
<tr>
<th>Strategic Drivers</th>
<th>Potential Impact on Business</th>
<th>Mitigation</th>
<th>What We Have Done in 2016/17</th>
</tr>
</thead>
</table>
|                  | Increased online presence and reliance on digital systems raises the importance of cyber security to the Group. Forthcoming GDPR regulations increase the Group’s focus in this area. Potential impacts on the business include:  
• Loss of customer data.  
• Business interruption.  
• Potential fines or reputational damage if regulatory response plans are delayed or not adequate. | • A Security Operation Centre monitors, manages and responds to cyber security attacks 24/7.  
• Fit 4 the Future programme is delivering new technology and methods of protection against cyber-attacks.  
• Group cyber security team design and implement security controls. | • Continual review of customer data encryption and ongoing investment to ensure future resilience.  
• Implemented additional technology to prevent denial of service attacks and filter out web based attacks. |
<table>
<thead>
<tr>
<th>KEY RISK</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business interruption</strong></td>
<td>A significant event impacts the ability of the business to continue trading.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>STRATEGIC DRIVERS</th>
<th>POTENTIAL IMPACT ON BUSINESS</th>
<th>MITIGATION</th>
<th>WHAT WE HAVE DONE IN 2016/17</th>
</tr>
</thead>
<tbody>
<tr>
<td>N/A</td>
<td>Business interruption events are an ever present possibility for the Group. Potential impacts are broad ranging and include:</td>
<td>• The business continuity plan provides a framework to manage business interruptions. • Third party service provider Business Continuity plans. • Crisis management plans provide recovery objectives for key business areas. • Our systems programme includes further migration to cloud based systems which increases resilience.</td>
<td>• Crisis management and recovery plans are reviewed and updated bi-annually. • A full day simulation exercise took place with the Operating Board. The crisis management plan was updated with feedback from the exercise. • Crisis management was instigated to successfully resolve a flood at our main warehouse in November 2016.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CHANGE FROM LAST YEAR</th>
<th>ASSOCIATED KPIS</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>1</td>
</tr>
</tbody>
</table>
Performance Review
Our performance in detail:

“There were standout results from JD Williams and Simply Be, with all key brands showing an encouraging performance during the year.”

<table>
<thead>
<tr>
<th>Brand</th>
<th>Product Revenue Increase (52 Week Basis)</th>
</tr>
</thead>
<tbody>
<tr>
<td>JD Williams</td>
<td>4.7%</td>
</tr>
<tr>
<td>Simply Be</td>
<td>9.9%</td>
</tr>
<tr>
<td>Jacamo</td>
<td>4.0%</td>
</tr>
</tbody>
</table>
PERFORMANCE REVIEW CONTINUED

JD Williams

Overall, JD Williams’ product revenue was up 4.7%. Within this, the JD Williams brand was up 12%, and Fifty Plus, which is being migrated into JD Williams, was down 9%, as planned.

4.7%
Product revenue increase to £158.3m

JD Williams brand reported double-digit sales growth in both the first and second half
JD Williams online revenue was up 19% year on year
Smartphone sessions on JD Williams more than doubled year on year
‘The Cut’ range significantly outperformed expectations
Fifty Plus migration well on track

We are pleased with the performance of the JD Williams brand during the year, as our style proposition and age-agnostic attitude continue to resonate with customers, both existing and new.

We had particular success in the second half with our ‘The Cut’ range, a collection of our best priced, current season clothes, which further reinforced our value for money credentials. Sales of these lines significantly exceeded expectations, with sales up 72% versus comparable lines the previous year. Best-selling lines within the range included a £15 swing dress and a £18 tunic.

We continue to campaign against the lack of age diversity in the fashion industry. In September we launched ‘The New F Word’, a short film featuring nine inspirational women, all of whom have proved that 50 is an age to be celebrated. In February we staged a protest at London Fashion Week, together with five models all over the age of 45. Our campaign received significant press coverage and customer engagement.

We are in the process of migrating the Fifty Plus title into JD Williams; this is the final title to go through this process. In the first half, revenue from Fifty Plus was down 18% year on year, as we reduced marketing spend ahead of its migration. We then commenced the migration in Autumn Winter, resulting in revenue up 1% in the second half, in line with our expectations. The migration will be completed by the start of the second half of this coming financial year.
Simply Be

Simply Be continues to perform very strongly, winning new customers and strengthening loyalty with existing customers.

**9.9%**

Product revenue increase to £114.2m

Simply Be active customers up 20% year on year

Simply Be Unique, our fast fashion sub-range, continues to outperform significantly

Launched first Simply Be shopping app in October

Campaigns resonating strongly and driving significant customer engagement

Simply Be had another strong year and we remain excited about its long term growth prospects, both in the UK and abroad.

Our fast fashion sub-range Simply Be Unique continues to outperform significantly, with demand up 67% in the second half, led by going out tops and our new under £30 party dress offer. Denim was a key category outperformer throughout the year, with jeans up 14% in the second half, led by our Shape and Sculpt jean collection.

In October we launched our first Simply Be shopping app. Performance to date has been encouraging, with good customer feedback and conversion rates. We will continually improve our app offering in the year ahead.

In March 2017 we launched our new SS17 campaign, We Are Curves, starring Iskra Lawrence, Denise Bidot and Marquita Pring. The campaign celebrates body shapes of all sizes and aims to show how true confidence comes from the perfect fit. The campaign received our highest-ever level of social engagement and the advert soundtrack was top of the Shazam charts.

Jacamo

A modern menswear brand inspired by everyday men’s tastes, Jacamo continues to gain traction with customers.

**4.0%**

Product revenue increase to £65.3m

Jacamo active customers grew double-digit year on year

Successful relaunch of own-brand Snowdonia

Jacamo Real Man Runway, a search to find an everyday guy to star in our next campaign

Launch of Jacamo Unlimited, a next day delivery subscription offer

Jacamo product revenue was up 4.0% to £65.3m, with revenue performance strengthening through the year. Active customers grew double-digit year on year, although spend per customer was lower due to the subdued market backdrop, particularly in the first half.

We saw strong product category performances in denim, following the launch of our new denim range, and sportswear, driven both by third party brands and the successful relaunch of our own-brand Snowdonia.

During the second half we launched our Real Man Runway, our search to find an everyday guy to star in our next campaign, whilst also helping to champion male diversity in the fashion industry. We received almost 500 entrants and our shortlist of 20 men as judged by a panel including brand ambassador Freddie Flintoff. The winner, Andy Caine from Leeds, will be the face of our AW17 campaign.

In late February 2017 we launched Jacamo Unlimited, offering customers unlimited next day delivery for a year for £9.95. Whilst early days, customer take up so far has been encouraging.

Revenue figures on these pages are for the 52 weeks ended 25 February 2017 vs 52 weeks ended 27 February 2016. See page 44.
Within our four Secondary Brands, Fashion World was the strongest performer, up mid single-digits year on year. This was driven by increased spend per customer, an encouraging trend.

Marisota, which is now predominantly used as a product brand focusing on fit solutions, saw a solid performance.

Figleaves revenue was slightly down year on year. This was in line with expectations, as we slowed marketing spend during the launch of the new Demandware web platform at the start of Autumn Winter 2016. In February we were pleased to announce the appointment of Miriam Lahage as Figleaves CEO. Miriam brings with her significant retail and online experience. The new management team will leverage the benefits of the new Demandware platform and we expect this to improve the performance of Figleaves going forwards.

High and Mighty revenue was down year on year as we continued to transition the brand from a predominantly stores to an online model with 11 fewer stores compared to two years ago.
Financial Services

We drove a good performance in Financial Services, driven by a significant improvement in the quality of the customer loan book.

0.4%
Revenue increase to £260.5m

Within the revenue performance, interest payments were up and non-interest lines down, due to the continued improvement in the quality of the loan book.

Strong performance in both credit arrears and provision rate

Received full FCA authorisation in September, a significant milestone

Launched a trial offering qualifying new customers a lower APR on our three Power Brands, with early results encouraging.

International

USA
USA revenue was £15.5m, up 8.5% year on year (down 4.2% in constant currency terms). The operating loss was £1.3m, compared to £1.0m in FY16. As expected, performance in the second half was impacted by the launch of the new USA website. Through a series of post-launch releases we have now delivered the enhanced experience scoped for our customers, which gives us the foundations for our future international expansion.

The majority of our USA revenues are generated by the Simply Be brand, which continues to resonate very well with customers. Performance of the JD Williams brand, which we launched in the USA in March 2016, has so far been encouraging.

Ireland
Ireland delivered revenues of £15.9m, up 18.8% year on year, or 3.8% in constant currency terms. The operating profit was £3.3m, a significant improvement on the £0.8m delivered last year. This performance was driven by the improvements to our product offering.

Stores

The performance of our store estate continues to be impacted by weak industry footfall. As a consequence, we are not planning to open any new stores in the future. As with any store estate, performance by store varies. We continue to take actions to address underperforming stores and improve the overall profitability of the estate. For FY18, some significant rate increases for some of our stores represents a further cost headwind.

Overall, revenue from our store estate was £23.1m (FY16: £27.3m). As at the end of FY17 we had 23 stores open, split 15 dual Simply Be and Jacamo stores (FY16: 14), and eight High & Mighty stores (FY16: nine). The operating loss of our store estate was £2.0m (FY16: £0.8m loss).

Financial figures included on this page are for 52 weeks ended 25 February 2017 vs 52 weeks ended 27 February 2016. See page 44.
A good trading performance, driven by Ladieswear and our Power Brands

On a statutory 53 week basis Group revenue was £900.7m, with Product revenue of £635.9m and Financial Services revenue of £264.8m. On a 52 week basis Group revenue was +2.5% to £887.7m, with Product revenue +3.4% to £627.2m and Financial Services revenue +0.4% to £260.5m.

53 week year
As previously guided, this year we are reporting on the 53 weeks to 4th March 2017, with an extra week added to ensure that the year-end date stays close to the end of February. In order to provide a meaningful comparison with last year’s 52 week period, all P&L financial movements included in this review are reported on a 52 week basis, excluding the 53rd week, unless otherwise stated.

Where applicable, the 53rd week’s known result has been used as the basis for the adjustment to provide the 52 week results, although a degree of judgement has been applied in deriving certain operating costs in respect of the final week. Group revenue for the 53rd week was £13m whilst Group adjusted and statutory PBT was £2m, in line with expectations. A detailed comparison of the 53 weeks and 52 weeks results are shown in the table on page 44. All second half P&L financial movements relate to the 26 week period, excluding the 27th week, unless otherwise stated. All balance sheet figures are reported as at the year-end date and cash flow figures are for the 53 week period.
Revenue performance
On a statutory 53 week basis Group revenue was £900.7m, with Product revenue of £635.9m and Financial Services revenue of £264.8m. On a 52 week basis Group revenue was +2.5% to £887.7m, with Product revenue +3.4% to £627.2m and Financial Services revenue +0.4% to £260.5m.

Revenue by brand for the 52 weeks is shown in the table above. A detailed discussion of performance by brand is contained within the performance review on pages 38 to 41.

Revenue by category is also shown in the table above. We have changed our revenue by category allocation, moving Accessories revenue from Ladieswear into the renamed Footwear & Accessories category. This reflects our approach to these categories, with Footwear and Accessories managed by the same team.

We are pleased to report 4.2% growth in Ladieswear revenue year on year. Our performance strengthened significantly as we went through the year. In the first half revenue was down 1.1% year on year, against a weak sector backdrop and impacted by the decline in our Traditional titles. In the second half we outperformed the market and delivered revenue growth of 10.4% year on year. Our Lingerie ranges, included within Ladieswear, also recorded a strong performance with revenue up high double-digit. We saw particular success with our new Figleaves Curve range sold through both Simply Be and JD Williams.

Menswear recorded consistent growth throughout the year, and for FY17 revenue was up 4.6% year on year. Footwear and Accessories revenue growth of 0.7% again masks a different performance by half, with revenue in the first half down 3.6% before recovering to +5.3% in the second half.

Home and Gift revenue was up 2.8%.
Our strategy in Home remains unchanged – we aim to recruit new customers to our Fashion offering, but then see customers also buying Homewares. Within Homewares we focus on categories which have higher gross margins and are more competitively differentiated, such as Furniture, Gifting, Home Textiles, Kitchen and Home Décor, and Outdoor Living. These categories overall grew by 6%, with double-digit growth rates recorded in Furniture and Outdoor Living as a result of us further improving and expanding our ranges.

Gross margin
Product cost of goods sold (COGS) were £284.1m, compared to £265.9m in FY16. Product gross margin was 54.7%, down 150bps year on year, in line with guidance. This was primarily a result of increased promotions against a challenging sector backdrop in the first half, together with headwinds from FX rates and our inventory clearance exercise. These factors were partially offset by a further increase in our buying-in margin and a small tailwind from mix.

Revenue by brand

<table>
<thead>
<tr>
<th>Product revenue, £m</th>
<th>52 weeks to 25 Feb 17</th>
<th>52 weeks to 27 Feb 16</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>JD Williams</td>
<td>158.3</td>
<td>151.2</td>
<td>+4.7%</td>
</tr>
<tr>
<td>Simply Be</td>
<td>114.2</td>
<td>103.9</td>
<td>+9.9%</td>
</tr>
<tr>
<td>Jacamo</td>
<td>65.3</td>
<td>62.8</td>
<td>+4.0%</td>
</tr>
<tr>
<td><strong>Power Brands</strong></td>
<td><strong>337.8</strong></td>
<td><strong>317.9</strong></td>
<td><strong>+6.3%</strong></td>
</tr>
<tr>
<td>Secondary Brands</td>
<td>155.2</td>
<td>152.7</td>
<td>+1.6%</td>
</tr>
<tr>
<td>Traditional Segment</td>
<td>134.2</td>
<td>136.0</td>
<td>-1.3%</td>
</tr>
<tr>
<td><strong>Product total</strong></td>
<td><strong>627.2</strong></td>
<td><strong>606.6</strong></td>
<td><strong>+3.4%</strong></td>
</tr>
<tr>
<td><strong>Financial Services</strong></td>
<td><strong>260.5</strong></td>
<td><strong>259.6</strong></td>
<td><strong>+0.4%</strong></td>
</tr>
</tbody>
</table>

Revenue by category

<table>
<thead>
<tr>
<th>Product revenue, £m</th>
<th>52 weeks to 25 Feb 17</th>
<th>52 weeks to 27 Feb 16</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ladieswear</td>
<td>256.5</td>
<td>246.1</td>
<td>+4.2%</td>
</tr>
<tr>
<td>Menswear</td>
<td>85.8</td>
<td>82.0</td>
<td>+4.6%</td>
</tr>
<tr>
<td>Footwear &amp; Accessories</td>
<td>69.0</td>
<td>68.5</td>
<td>+0.7%</td>
</tr>
<tr>
<td>Home &amp; Gift</td>
<td>215.9</td>
<td>210.0</td>
<td>+2.8%</td>
</tr>
<tr>
<td><strong>Product total</strong></td>
<td><strong>627.2</strong></td>
<td><strong>606.6</strong></td>
<td><strong>+3.4%</strong></td>
</tr>
</tbody>
</table>

Product revenue by brand and category on a 53 week basis is shown in note 4 on page 101.
## Operating performance

<table>
<thead>
<tr>
<th>£m</th>
<th>53 weeks to 4 March 17</th>
<th>52 weeks to 25 Feb 17</th>
<th>52 weeks to 27 Feb 16</th>
<th>52 weeks on 52 weeks change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Product revenue</strong></td>
<td>635.9</td>
<td>627.2</td>
<td>606.6</td>
<td>+3.4%</td>
</tr>
<tr>
<td><strong>Financial Services revenue</strong></td>
<td>264.8</td>
<td>260.5</td>
<td>259.6</td>
<td>+0.4%</td>
</tr>
<tr>
<td><strong>Group revenue</strong></td>
<td><strong>900.7</strong></td>
<td><strong>887.7</strong></td>
<td><strong>866.2</strong></td>
<td><strong>+2.5%</strong></td>
</tr>
<tr>
<td><strong>Product gross profit</strong></td>
<td>347.7</td>
<td>343.1</td>
<td>340.9</td>
<td>+0.6%</td>
</tr>
<tr>
<td><strong>Product gross margin</strong></td>
<td>54.7%</td>
<td>54.7%</td>
<td>56.2%</td>
<td>-150bps</td>
</tr>
<tr>
<td><strong>Financial Services gross profit</strong></td>
<td>147.5</td>
<td>145.2</td>
<td>141.7</td>
<td>+2.5%</td>
</tr>
<tr>
<td><strong>Financial Services gross margin</strong></td>
<td>55.7%</td>
<td>55.7%</td>
<td>54.6%</td>
<td>+110bps</td>
</tr>
<tr>
<td><strong>Group gross profit</strong></td>
<td><strong>495.2</strong></td>
<td><strong>488.3</strong></td>
<td><strong>482.6</strong></td>
<td><strong>+1.2%</strong></td>
</tr>
<tr>
<td><strong>Group gross margin %</strong></td>
<td><strong>55.0%</strong></td>
<td><strong>55.0%</strong></td>
<td><strong>55.7%</strong></td>
<td><strong>-70bps</strong></td>
</tr>
<tr>
<td><strong>Warehouse and fulfilment</strong></td>
<td>(81.3)</td>
<td>(79.6)</td>
<td>(76.7)</td>
<td>+3.8%</td>
</tr>
<tr>
<td><strong>Marketing and production</strong></td>
<td>(165.4)</td>
<td>(162.5)</td>
<td>(161.7)</td>
<td>+0.5%</td>
</tr>
<tr>
<td><strong>Admin and payroll</strong></td>
<td>(130.6)</td>
<td>(130.3)</td>
<td>(122.6)</td>
<td>+6.3%</td>
</tr>
<tr>
<td><strong>Adjusted EBITDA</strong></td>
<td>1179</td>
<td>115.9</td>
<td>121.6</td>
<td>-4.7%</td>
</tr>
<tr>
<td><strong>Adjusted EBITDA margin</strong></td>
<td>13.1%</td>
<td>13.1%</td>
<td>14.0%</td>
<td>-90bps</td>
</tr>
<tr>
<td><strong>Depreciation and amortisation</strong></td>
<td>(27.6)</td>
<td>(27.6)</td>
<td>(25.2)</td>
<td>+9.5%</td>
</tr>
<tr>
<td><strong>Adjusted operating profit</strong></td>
<td><strong>90.3</strong></td>
<td><strong>88.3</strong></td>
<td><strong>96.4</strong></td>
<td><strong>-8.4%</strong></td>
</tr>
<tr>
<td><strong>Adjusted operating margin</strong></td>
<td>10.0%</td>
<td>9.9%</td>
<td>11.1%</td>
<td>-120bps</td>
</tr>
<tr>
<td><strong>Net finance costs</strong></td>
<td>(7.7)</td>
<td>(7.7)</td>
<td>(8.1)</td>
<td>-4.9%</td>
</tr>
<tr>
<td><strong>Adjusted PBT</strong></td>
<td>82.6</td>
<td>80.6</td>
<td>88.3</td>
<td>-8.7%</td>
</tr>
<tr>
<td><strong>Exceptional items</strong></td>
<td>(25.2)</td>
<td>(25.2)</td>
<td>(17.2)</td>
<td>–</td>
</tr>
<tr>
<td><strong>Fair value adjustments to financial instruments</strong></td>
<td>0.2</td>
<td>0.2</td>
<td>1.1</td>
<td>–</td>
</tr>
<tr>
<td><strong>Statutory PBT</strong></td>
<td>57.6</td>
<td>55.6</td>
<td>72.2</td>
<td>-23.0%</td>
</tr>
</tbody>
</table>

1. Before exceptional costs and unrealised FX movement.
2. 52 week revenue has been calculated by excluding the actual revenue recorded for the 53rd week.
3. 52 week cost of sales has been approximated by applying the full year gross margin percentage to 52 week revenue.
4. Approximation of variable and semi-variable costs has been made on a time apportionment basis. Certain fixed costs such as audit fee and depreciation/amortisation are deemed to be incurred on an annual basis and as such are consistent with those costs recorded for the 53 week period.

Our gross bad debt charge was £110.9m (FY16: £110.3m). This bad debt charge, together with a small number of other Financial Services costs, resulted in a Financial Services gross margin of 55.7%, up 110bps year on year. This increase in gross margin is a result of the improvement in the quality of the customer loan book, together with the sale of some high risk payment arrangement debt at a slightly better rate than book value.

Warehouse and fulfilment costs increased by 3.8% to £79.6m, driven predominantly by volumes, which were up 6% year on year, together with further improvements to our delivery offering, partially offset by continued efficiencies.

Marketing costs were up 0.5% year on year. Admin and payroll costs increased by 6.3% to £130.3m, as we invested in digital talent, funded by the movement of some marketing costs.

Adjusted EBITDA declined by 4.7% to £115.9m. Depreciation and amortisation increased by 9.5% to £27.6m, as a result of the investments we are making into the business. Overall, operating profit before exceptional items was £88.3m.

**Net finance costs**

Net finance costs were £7.7m, down 4.9% year on year, driven by lower funding costs on our securitisation facility.
FX sensitivity
For FY18 we expect our annual purchases, net of international revenues, to be c.$125m, on which we have a hedging strategy in place, together with c.£130m, where we face indirect cost pressures due to the depreciation of sterling.

Looking at our dollar exposure specifically, for FY18, we have, to date, hedged 90% of our net purchases at a blended rate of $/£1.27. At a rate of $/£1.25, and before any mitigating actions, this would result in a c.£10m PBT headwind compared to FY17. Every 5 cents move from this rate in our unhedged position would result in a PBT sensitivity of c.£0.4m. For FY19 we have, to date, hedged 25% of our net purchases at a blended rate of $/£1.27. At a rate of $/£1.25, and before any mitigating actions, this would result in a c.£1m PBT headwind compared to FY18. Every 5 cents move from this rate in our unhedged position would result in a PBT sensitivity of c.£3.2m.

Importantly, a number of mitigating activities are underway, including supplier negotiations, fabric and production planning, markdown optimisation and our ongoing work on supplier consolidation.

Exceptional items
Exceptional costs totalled £25.2m. Within this, we incurred £22.9m related to Financial Services customer redress, £2.5m of external costs related to taxation matters and a credit of £0.2m relating to the closure of our clearance stores.

Taxation
The effective rate of Corporation Tax is 23.1% (FY16: 23.9%). The tax charge for the 53 week period was £13.3m (FY16: £17.3m) which meant that profit from continuing operations for the 53 weeks to 4 March 2017 was £44.3m (FY16: £54.9m).

Earnings per share
Earnings per share from continuing operations for the 53 week period were 15.67p (FY16: 19.45p). Adjusted earnings per share for the 53 week period from continuing operations were 22.74p (FY16: 24.02p).

Dividends
The Board recognises the importance of the dividend to shareholders and accordingly, is holding the final year dividend flat on last year, at 8.56p, taking the full year dividend to 14.23p (FY16: 14.23p), as we continue to invest in the business.

Balance sheet and cash flow
(53 weeks ending 4 March 2017 vs 52 weeks ended 27 February 2016)
Capital expenditure for the year was £41.4m (FY16: £58.7m). The majority of this investment was on our systems investment programme.

Inventory levels at the period end were up 3.9% to £105.5m (FY16: £101.5m). Within this overall level, we successfully disposed of a small amount of aged stock, as planned. The higher inventory level year on year is driven by the impact of changes in exchange rates; inventory units were down 4.5% year on year.

Gross trade receivables declined by 4.0% to £599.5m (FY16: £624.7m). The provision declined from £97.6m to £64.7m, largely driven by the sale of some high risk payment arrangement debt at a slightly better rate than book value, along with ongoing progress in reducing overall debtor risk. The majority of the balance of debtors written off relate to this debt sale.

The Group’s defined benefit pension scheme has a surplus of £8.3m (FY16: £10.8m surplus).

Net cash generated from operations (excluding taxation) was £87.1m compared to £86.9m last year. After funding capital expenditure, finance costs, taxation and dividends, net debt was broadly flat at £290.9m (FY16: £289.7m), in line with our expectations. Gearing levels were flat at 61%.

FY18 guidance
We have provided the following guidance for FY18; this is subject to change.

Product gross margin -120bps to -20bps
Financial Services gross margin flat to +100bps
Group operating costs +3.5% to +5.5% (excluding depreciation and amortisation)
Depreciation and amortisation £29m to £30m
Net interest £8m to £9m
Tax rate c.20%
Capex of c.£40m
Net debt £300m to £320m
Exceptional costs of c.£3m, as a result of our ongoing tax disputes with HMRC

Craig Lovelace
Chief Financial Officer
Dear Shareholder

I am pleased to report on the progress we have made since the launch of our CSR Charter entitled ‘Taking care of our world’.

The Committee has recognised the real synergy in embedding the CSR strategy fully into our commercial strategies. Through this we are living the GUSTO values that are so important to the business.

We continue to believe we can be a major force for good as well as a major force for fashion.

Fiona Laird
Chair of the CSR Committee

Corporate Social Responsibility

We are now commencing our new three year strategy. Our strategy is designed to embrace the three CSR pillars: ‘All People’, ‘One Planet’ and ‘Every Product’.

It aims to fully align our ethical policies with our commercial activities, achieving tangible results and benefits for all our stakeholders.

To find out more:
www.nbrown.co.uk/sustainability

All People
Dignity and respect
We want everyone who works for us, wherever they are, to be treated with fairness, dignity and respect. Because everything we achieve as a business, we achieve through people.

One Planet
Ways of working
We’re determined to understand our effect on the world, and find better, smarter and more sustainable ways of working. To learn and to teach, to recycle, reuse and respect, wherever we are on our big beautiful planet.

Every Product
Responsible
That means partnering with suppliers who share our standards, working together to create ever more responsible, sustainable products that our customers can enjoy with confidence and with conscience.

Taking care of our world
PROGRESS IN 2017

New dedicated ethical trading team.  ✔

To successfully launch our improved People reward and re-banding scheme.

New targets set for GHG emissions, waste and water.  ✔

To train staff in energy awareness.

Publication of our first Modern Slavery Statement.  ✔

To further reduce risk in the supply chain by continuing our work on supplier transparency.

PRIORITIES IN 2018
Three pillars, one passion

All People

Where people are concerned, so are we

Everything we achieve as a business is achieved through caring for our customers, our community and our people.

Our Customer Charter sets out our commitment to customers. We seek to establish enduring relationships for the mutual benefit of both customer and the company. In particular we recognise the importance of being a responsible lender. We continually monitor the experience of our customers in order to improve their experience and offer tailored products whilst being mindful of a customer’s individual needs.

In 2016 we launched our Make a Difference Day, allowing colleagues to take a day out of work to volunteer within a charity of their choice. See page 49 for a case study.

We are very proud of our Manchester heritage and of our investment in jobs in the North West. This year we will be a sponsor of the Manchester International Festival 2017.

All businesses are required to pay the living wage. We are delighted to report we have applied the living wage to all colleagues regardless of age. Internationally, we are proud to be one of the founding members of the ACT (Action, Collaboration & Transformation Working Group) which promotes fair, living wages for individuals working in overseas factories making products for retailers.

We want to ensure our colleagues feel valued, motivated and informed, and are equipped to succeed. We regularly seek out the opinions of our people through our annual #Vibe Survey to ensure we are delivering on this important commitment.

One Planet

Protecting the earth begins with respecting it

We’re determined to understand our effect on the world and find better, smarter and more sustainable ways of working. To learn and to teach, to recycle, reuse and respect, wherever we are on our big beautiful planet.

Over the last five years through the hard work of our colleagues, greater operational efficiencies and greater investment, we have achieved a 28% reduction in greenhouse gas emissions per million pound turnover and aim to reduce this further.

Reducing packaging is one method we have used to achieve this. Lighter, smaller packages have meant a reduction in the number of HGVs on the road.

To further reduce emissions we are looking to extend the hours of operation at our logistic sites so that less transportation occurs during peak times.

We continue to be a ‘zero to landfill’ organisation.

Our progress does not stop here – new targets have been set to 2023.

Management of our electricity usage is a key objective and we now purchase 100% green electricity, supporting renewable sources.

We voluntarily report to both the Carbon Disclosure Project (CDP) and the Forestry Disclosure Project (FDP) and are pleased with our progress to date. In particular, our FDP score is an A minus which puts us in the ‘leadership’ category.

Further information on our emissions profile can be found on page 51.

Every Product

Our products should make people feel as good as they look

The Group has been working closely with its suppliers over the last couple of years to improve customer experience and to promote responsible sourcing. This means partnering with suppliers who share our values and standards. By working together, we hope to create more responsible and sustainable products that our customers can enjoy with confidence.

Ethical trading is extremely important to N Brown Group, which is why a new team has been assembled to strengthen and drive through the core principles within the supply chain. The new team comprises a Head of Sourcing and Ethical Trading, an Ethical Trading Manager, a Regional Ethical Trading Manager based in Dhaka and an Ethical Trading Administrator.

Our continued focus has been to work closely with suppliers to promote responsible sourcing and ensure that the supply chain workers are treated with fairness, respect, and are safe at work.

We are one of the founding members of the Bangladesh Accord which in the four years of its existence has identified and improved conditions for thousands of workers across Bangladesh. Our commitment to safety in this is now further supplemented by inspections conducted by our own compliance manager in Dhaka.

We continue to improve supplier engagement by visiting key suppliers regularly.

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1 Reduction of GHG per turnover compared to the base year of 2007-8 for electricity, gas and diesel.
For our UK and European suppliers we have set up a monthly ‘Close to Home’ Supplier day inviting suppliers into head office to showcase what they do and encouraging open dialogue.

For suppliers who are further afield we have implemented a strict supplier engagement ‘Gatekeeper’ process that will encompass a balanced scorecard review including factory compliance standards in line with the ETI base code.

For all suppliers there is an on boarding due diligence process and ongoing reviews to ensure factory compliance standards.

**Make a Difference Day:**

**Proud to work at N Brown**

The Operating Board took part in a number of activities with its patrons, including decorating gingerbread men, games and bingo!

The Centre performs a vital function in enabling older people to avoid isolation, and in promoting social and physical wellbeing among the older population.

Over 70 colleagues have booked in nearly 500 hours to ‘Go MAD’, with hundreds more colleagues’ eagerly discussing ways to volunteer and ‘Make a Difference’.

**Operating Board supports Age UK**

Leading by example was our executive team. Our CEO and five of the Operating Board Directors volunteered to work with Age UK. Age UK is the country’s largest charity that helps older people make the most of later life.

The Operating Board chose to spend its MAD day at the Openshaw Resource Centre in Manchester. Funding from Age UK helps to support the Openshaw Resource Centre, which offers a stimulating and enjoyable day out for older people who would otherwise have to spend all day at home.
**Environment**

**Overview**
As a worldwide, multi-channel retailer, we recognise that we have a responsibility to minimise the impact that our operations have on the environment. We have been working towards environmental targets for several years and our performance against these targets has been formally assessed this year. New targets have recently been set reflecting our efforts to continually improve our performance and the expectations of our customers, staff and investors.

Group-wide responsibility for sustainability is assigned to Ian Carr, Director of Logistics, who sits on the Operational Board of JD Williams and Company Limited and who reports to the Chief Executive Officer and, through him, to the Board of Directors.

For the past ten years, we have been actively working alongside our environmental partners, Envantage Ltd and Viridor Limited to boost our environmental performance and increase Group-wide environmental awareness, accountability and disclosure. We have strived to reduce our carbon emissions profile, water consumption and waste impact through ongoing investment into energy efficiency, efficient operations, waste management, water minimisation initiatives and investment into green energy.

**Carbon Disclosure Project**

The Carbon Disclosure Project (CDP) is a voluntary, investor-led programme, requesting companies to respond to a range of carbon and energy management related questions, as well as providing full carbon footprint disclosure. Companies are scored and results are published annually. Since 2008, the Group has responded to the climate change questionnaire and our performance is shown in the table below.

<table>
<thead>
<tr>
<th>Year</th>
<th>Disclosure Score</th>
<th>Performance Score</th>
<th>New Scoring</th>
<th>FDP Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>84</td>
<td>Not Scored</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>2009</td>
<td>75</td>
<td>Not Scored</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>2010</td>
<td>86</td>
<td>B</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>2011</td>
<td>77</td>
<td>C</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>2012</td>
<td>76</td>
<td>C</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>2013</td>
<td>75</td>
<td>B</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>2014</td>
<td>86</td>
<td>B</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>2015</td>
<td>93</td>
<td>C</td>
<td>N/A</td>
<td>B</td>
</tr>
<tr>
<td>2016</td>
<td>N/A</td>
<td>N/A</td>
<td>B</td>
<td>A-</td>
</tr>
</tbody>
</table>

In the last reporting year, a new scoring methodology was introduced which combined the previously separate disclosure and performance scores to provide one alphabetical score only (A to D-). In 2016, we achieved a score of B which is above the industry and sector average score (of C), placing us firmly in the ‘Management’ category.

We also report on the forests module of the CDP which encourages participants to look at how they procure and use forest commodities both directly and through the supply chain. As a direct consumer and onward retailer of forest products, we have a responsibility to ensure that our procurement is not at the expense of the future world’s forests, but positively supports responsible forest management.

Our first submission to the Forestry Disclosure Project (FDP) was made in 2015 and a score of B was achieved. In 2016, we improved on this achieving a Leadership score of A- for the timber module which was above the sector average of B.
Emissions profile

Our Green House Gas (GHG) emissions inventory is calculated for the global Group1 under the operational control approach, in accordance with the GHG Protocol and GHG emissions factors published by Department of Energy and Climate Change (DECC). 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 which we have direct control over; ie operation of our sites and vehicles. As a responsible retailer, we have also taken steps to quantify as many optional scope 3 emission sources that relate to our operations.

The table and chart below illustrate our GHG emissions across all our reporting areas, for the global Group from 1 March 2016 to 28 February 2017 and the previous year.

---

<table>
<thead>
<tr>
<th>Scope</th>
<th>Source</th>
<th>2015 – 2016 (Previous year)</th>
<th>2016 – 2017 (Current year)</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scope 1</td>
<td>Gas</td>
<td>1,475.7</td>
<td>1,656.6</td>
<td>+12%</td>
</tr>
<tr>
<td></td>
<td>Diesel</td>
<td>533.4</td>
<td>393.0</td>
<td>-26%</td>
</tr>
<tr>
<td></td>
<td>HFCs</td>
<td>51.5</td>
<td>146.4</td>
<td>+184%</td>
</tr>
<tr>
<td></td>
<td>Gas oil</td>
<td>74.4</td>
<td>102.7</td>
<td>+38%</td>
</tr>
<tr>
<td></td>
<td>Company and pool car</td>
<td>73.6</td>
<td>63.0</td>
<td>-14%</td>
</tr>
<tr>
<td>Scope 2</td>
<td>Electricity</td>
<td>8,411.0</td>
<td>7,737.1</td>
<td>-8%</td>
</tr>
<tr>
<td>Total scope 1 and 2</td>
<td>Electricity (2)</td>
<td>10,619.6</td>
<td>10,098.9</td>
<td>-5%</td>
</tr>
<tr>
<td>Scope 3</td>
<td>Water</td>
<td>29.5</td>
<td>31.7</td>
<td>+7%</td>
</tr>
<tr>
<td></td>
<td>Employee commuting</td>
<td>1,713.9</td>
<td>1,621.4</td>
<td>-5%</td>
</tr>
<tr>
<td>Business travel (air, road and rail)</td>
<td>1,604.8</td>
<td>1,827.4</td>
<td>+14%</td>
<td></td>
</tr>
<tr>
<td>Waste</td>
<td>253.3</td>
<td>233.5</td>
<td>-8%</td>
<td></td>
</tr>
<tr>
<td>Well to tank (all)</td>
<td>1,691.5</td>
<td>1,612.3</td>
<td>-5%</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>15,912.6</td>
<td>15,425.2</td>
<td>-3%</td>
</tr>
<tr>
<td>Outside scopes</td>
<td>Biogenic element Diesel</td>
<td>17.2</td>
<td>9.1</td>
<td>-47%</td>
</tr>
</tbody>
</table>

---

1 Emissions figures detailed cover all active entities during the reporting year.
2 Emissions associated with electricity usage at the Bangladesh and Ireland office are reported in CO2 rather than CO2e. This is because overseas emissions factors are only available on a CO2 basis.

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N BROWN GROUP PLC EMISSIONS PROFILE 2016 – 2017 (tCO2e)

- Electricity: 50.2%
- Business travel (air, road and rail): 11.8%
- Gas: 10.7%
- Employee commuting: 10.5%
- Well to tank (all): 10.5%
- Diesel: 2.5%
- Waste: 1.5%
- HFCs: 0.9%
- Gas oil: 0.7%
- Company and pool car: 0.4%
- Water: 0.2%
### Emissions change from previous year

We have reduced our Group GHG emissions by 3% compared to the previous reporting period. A breakdown of the reduction in emissions by source is shown in the chart to the right.

#### Relative performance using intensity ratios

As a growing organisation, evaluation of scope 1 and 2 emissions performance using intensity ratios allows a more meaningful comparison to be made between inventory periods. The table to the right shows the scope 1 and 2 GHG emissions in relation to both Group turnover (£million) and million items dispatched. GHG emissions relating to scope 1 and 2 sources have decreased considerably in terms of our relative performance against both turnover and items dispatched, as shown in the table and charts to the right.

#### Market based electricity emissions

As well as making efforts to reduce emissions by reducing energy consumption, the Group are also committed to reducing emissions by purchasing energy from greener technologies and sources.

In January 2015, the Greenhouse Gas Protocol updated their Scope 2 reporting guidelines on how organisations report their emissions relating to purchased electricity, heat and steam. Companies shall now report two sets of Scope 2 emissions: one using a location based method and another using a market based method. This is termed ‘dual reporting’.

The location based method reflects the average emissions intensity of grids on which energy consumption occurs; the same way that electricity emissions have been reported historically. The market based method reflects the emissions for the energy that a company is purchasing, as supplies under different contracts emit different levels of greenhouse gases depending on the energy source or technology used. Our market based and location based electricity emissions are shown in the table to the right.

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1 Financial figures and items shipped figures used for intensity ratios cover all active entities during the reporting year.
REGO backed green electricity
The Group have continued to purchase green electricity for all our UK sites, and since November 2016 we have purchased 100% renewable electricity which is backed with REGO (Renewable Energy Guarantees of Origin) certificates. The REGO certificates provide confidence that we are purchasing energy which was generated from renewable sources as each megawatt-hour produced is evidence with a REGO. In accordance with the GHG Protocol, we are now able to report our REGO backed electricity as zero carbon. In addition to purchasing green electricity we have been generating our own green electricity via a solar PV array at our distribution centres since 2016.

We have a small number of sites outside the UK for which we are unable to purchase green electricity. We also operate several landlord managed sites and are not responsible for the procurement of electricity. Overall, 97% of the electricity for our directly controlled sites is from zero carbon and renewable sources.

Performance against 2017 targets
Since 2010 the Group has been working towards three environmental targets focusing on waste, water and greenhouse gas emissions. The targets were set against a base year of 2007 – 2008, with a goal of them being met by 2017. Our performance against these targets has been reviewed and the results are outlined below.

Waste

| Achieve zero waste to landfill | Most of our waste is generated from activities carried out at our head office and distribution sites. We recognise that we have a responsibility to manage our waste so that it has the least impact on the environment as possible. A key part of this is ensuring our waste does not end up in landfill. |
| Target: zero waste to landfill | We have achieved our target of zero waste to landfill for the past two years by taking advantage of new, cleaner disposal technologies such as energy from waste and mechanical biological treatment. |

| Performance: zero waste to landfill |

| YEARLY PERCENTAGE OF WASTE SENT TO LANDFILL (%) |
| Base year | Last year | Current year |
| 20.3% | 15.3% | 4.8% | 2.4% | 2.0% | 3.0% | 7.0% | 0.4% | 0.0% | 0.0% |

Water

| Reduce water consumption (m³) | Despite experiencing a growth in operations, the Group has achieved a 28% reduction in the volume of water consumed at our main sites compared to the 2007 – 2008 base year, thus exceeding our target. |
| Target: 25% reduction | Since this target was set, we have appointed water management consultancy, Cadantis to work alongside us to improve the management of our water consumption. We have also invested in water saving controls. |
| Performance: 28% reduction |

| WATER CONSUMPTION AGAINST TARGET (m³) |
| Base year | Last year | Current year |
| 50,000 | 40,000 | 30,000 | 20,000 | 10,000 | |

4 This excludes any UK sites where we do not have control over the purchase of the electricity used.
5 This is based on a sample representative period of February 2017.
6 This target relates to the waste managed by the Group’s main waste contract. This covers the head office, logistics sites, and some stores.
7 This target relates to the head office, logistics sites, Figleaves, and House of Bath.
Greenhouse gas emissions

Most of the Group’s direct (scope 1 and 2) greenhouse gas emissions are associated with electricity, natural gas and diesel (used for internal haulage) across our facilities and vehicles.

We almost achieved our relative emissions target and despite significant business growth, there has still been a reduction.

Since our emissions target was set, we have had a shift in business strategy, with an increased focus towards the volume of items distributed from our warehouses. This change in direction has been accounted for in our new targets, which are detailed opposite.

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Relative</td>
<td>4</td>
<td>8</td>
<td>12</td>
<td>16</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Gas</td>
<td>4</td>
<td>8</td>
<td>12</td>
<td>16</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Diesel</td>
<td>4</td>
<td>8</td>
<td>12</td>
<td>16</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
</tr>
</tbody>
</table>

New targets for 2017 – 2023

We have recently committed to new, Group-wide environmental targets. The targets have been carefully considered and account for our changing business strategy, making them relevant and challenging.

Having met our water reduction target, we consider that it is appropriate to shift our focus to another area of our operations: our haulage. Our haulage fleet is a key aspect of our operations that we have influence over in terms of reducing our environmental impact and we are keen to take on this challenge. As well as creating a new haulage focused target we have also expanded the scope of our emissions targets for our buildings.

Greenhouse gas emissions Buildings (offices and logistics sites)

We aim to reduce our emissions from our offices and logistics sites in relation to the number of items we ship to our customers.

Separate targets have been set for our offices/logistics sites and retail stores to reflect the different energy drivers and energy intensities of the buildings, allowing for a more meaningful evaluation of how efficiently we are performing across our estate.

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8 This target relates to the Group’s key scope 1 and scope 2 greenhouse gas emissions: electricity, gas and diesel.

9 This target covers electricity, gas, hfc releases, and bulk fuels.
Greenhouse gas emissions Buildings (retail stores)\textsuperscript{10}

Target: Reduce GHG emissions (tCO\textsubscript{2}e/1,000 m\textsuperscript{2})

Base year: 2014 – 2015

Target 1: 20% reduction (Simply Be and Jacamo)

Target 2: 15% reduction (High & Mighty)

The Group is committed to reducing emissions and gaining a better understanding of the way energy is used across our portfolio of stores. We have already taken a step towards meeting this target by voluntarily upgrading our non-automated electricity meters to automatic, half-hourly meters. The energy data will feed into a monitoring platform allowing detailed analysis to take place and for energy wastages to be highlighted, targeted, and eliminated.

Waste

Maintain zero waste to landfill

We are committed to maintain zero waste to landfill for the sites managed under our main waste contract. We are also keen to expand the scope of this contract, where possible, to cover more of our smaller offices and stores.

Transport\textsuperscript{11}

Target: increase km/litre fuel used

Base year: 2015 – 2016

Target: 14% improvement

Over the next five years we will track our fuel usage against the distance that our haulage fleet travels. Our vehicles will be monitored within four categories (split by vehicle type), allowing a detailed analysis of how efficiently we are transporting our goods.

Mandatory GHG reporting notes

The data disclosed is in conformance with the Companies Act 2006 (Strategic Report and Directors’ Report Regulations). GHG emissions disclosed under the required reporting categories fall within the Group’s consolidated financial statements. Scope 1 and 2 emissions have been calculated on a global scale where the Group has operation control using the GHG protocol. The quantified emissions are for the reporting year 1 March 2016 to 28 February 2017.

GHG emissions factors published by DECC for 2016 have been used to calculate GHG emissions.

Noted change in emissions for 2015 – 2016

- **Data accuracy:** Some data for the 2015-2016 inventory has been updated based on actual data or more accurate data for some sources.
- **Update in DECC emissions factors:** Emissions from the previous published report for the period 2015 – 2016 have been recalculated with the newly published factors for 2016, affecting the months of January and February 2016 (2016 factors were not available at time of publishing). This has resulted in a slight change in emissions compared to those originally reported.
- **Improved waste quantification:** Data relating to waste at the retail sites has been updated for 2015 – 2016 as waste audits were carried out this year, providing a more accurate indication of the emissions arising from waste disposal.

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, for example if energy is billed as part of a landlord service charge, energy consumption has been estimated using floor areas and published benchmarks. Some data has been estimated where quarterly bills have not yet been published.
- **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 and internal records of gas oil deliveries. Generator fuel usage has been estimated using generator fuel demand per hour and activation information.
- **Company car:** Data is calculated based on actual fuel consumption taken from invoices.
- **HFC:** Refrigeration emissions have been calculated from the F-Gas register for applicable plant where provided. Where this is not possible, leakages have been estimated using DECC leakage tables. Emissions for plant not affected by this regulation (smaller systems) have been calculated using data provided by full service records. Where service records were not available for a very small number of shops, refrigeration losses have been estimated using DECC leakage tables. For a very small number of shops and the Bangladesh office, details of the systems were not known and therefore estimation of emissions has not been possible.

\textsuperscript{10} This target covers electricity and hfc releases.

\textsuperscript{11} This target covers our haulage owned fleet only.