

Registered number: 237511

Arcadia Group Limited

**Annual report and financial statements
for the year ended 27 August 2016**

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Arcadia Group Limited

Company information

Directors

Paul Budge
Gillian Hague
Ian Grabiner
Christopher Harris
Richard Burchill

Company secretary

Michelle Gammon

Registered number

237511

Registered office

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Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
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Arcadia Group Limited

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Arcadia Group Limited

Strategic report for the year ended 27 August 2016

Principal activities

The Group's principal activities are the retailing of clothing and clothing accessories in the United Kingdom and internationally through stores and the internet. The Group trades primarily under the brand names Top Shop, Top Man, Dorothy Perkins, Burton, Wallis, Evans, Miss Selfridge and Outfit.

The Company's principal activity is that of an investment holding company. The Company also provides administrative and logistical services to its subsidiary undertakings.

Results for the year

Turnover for the year for continuing operations totalled £2,018.4 million (2015: £2,069.3 million) reflecting the ongoing challenging global market conditions. Retail margin was up 0.3% points on the previous year giving rise to an operating profit before goodwill amortisation and exceptional costs of £211.6 million (2015: £254.4 million).

The Group incurred exceptional costs during the year of £129.2 million (2015: £323.2 million). These relate to fixed asset impairment, provisions for onerous leases and costs related to the administration of Bhs in the year and subsequent regulatory investigations. These exceptional costs were principally non-cash in nature; the cash incurred being £13.2 million of the total. Further details are set out in note 6.

The profit for the financial year was £90.6 million (2015: loss of £81.2 million).

One of the Group's key performance measures is cash generation and earnings before interest, tax, depreciation, amortisation and exceptional items which totalled £281.8 million (2015: £329.8 million). The Group remains highly cash generative and at 27 August 2016 held cash at bank and in hand of £223.0 million (2015: £229.0 million).

A summary of the Group's operating cash flows is shown below.

	2016 £000	2016 £000	2015 £000	2015 £000
Operating profit before goodwill amortisation, losses from associates and joint ventures and exceptional items	211,640		254,398	
Goodwill amortisation	(647)		(995)	
Losses from associates and joint ventures	(2,226)		(354)	
Operating profit before exceptional items	208,767		253,049	
Depreciation and amortisation	73,066		76,718	
Headline cash generated (EBITDA)		281,833		329,767
Pension working capital movement	(48,212)		(28,983)	
Other working capital movements	(82,186)		(25,987)	
		(130,398)		(54,970)
Cash inflow from operating activities before exceptional items and tax		151,435		274,797

Arcadia Group Limited

Strategic report for the year ended 27 August 2016

Results for the year (continued)

During the year the Group incurred capital expenditure of £97.8 million (2015: £118.1 million) primarily in respect of additions and refurbishments to its store portfolio.

The profit of the Company for the year amounted to £34.1 million (2015: loss of £216.0 million).

At 27 August 2016, the Company had net assets of £3,063.9 million (2015: £3,259.8 million).

No dividends have been paid in the year (2015: £nil).

Business review

The retail industry continues to experience a period of major change as customers become ever more selective and value conscious and advances in technology open up more diverse, fast-changing and complex sales channels. Clothing has also become a less important part of the household budget. Our customers are continuing to adopt different shopping habits as a result of these fast-changing sales channels. This is set against an economic environment of a continued slow recovery from a deep recession and the uncertainty caused by Brexit. As a result the Group's financial performance is below prior year levels including a significant additional charge on its trading results through the deterioration in currency exchange rates.

Market conditions remain challenging and very competitive, with new entrants across all channels, particularly in digital. UK unemployment remains low and consumer credit availability continues to rise, however the slow growth in average earnings impacts the spending power of customers and consumers' spending profiles are changing. This, in addition to the ongoing volatility in currency markets, means the outlook is unclear. However, the Group is looking at initiatives to improve margin to offset the on-going impact of weaker sterling.

Our brands and culture

The Group operates 8 brands covering a diverse range of the clothing market. Brief details on each brand are set out below:

Burton – mid-market menswear specialising in formalwear

Dorothy Perkins – mid-market fashion for women

Evans – UK market leader in size 14+ fashionable womenswear

Miss Selfridge – young fashion womenswear

Outfit – out-of-town multi-brand fashion retailer, including the Group's brands and complementary concessions

Top Man – leading fashion menswear

Top Shop – leading fashion womenswear

Wallis – fashionable womenswear retailer

Each brand has its own intrinsic culture but the Group's overall values can be summarised within 5 key areas:

Customer focus

It is critical to the success of the business to ensure our customers are satisfied, so every aspect of their experience – whether online or in any stores worldwide – is important and every effort is made to ensure that customer service is tailored to suit the customers of each individual brand. We would like to thank our customers for their continued loyalty in shopping with our brands across multiple channels.

Commercial flair

Being intuitive and spotting opportunities ahead of the market is essential to sustaining growth. The Group continues to explore exciting new ways to develop the business and actively encourages original ideas and innovation. Our recruitment efforts are directed at introducing new talent with flair and forward thinking into the Group.

Arcadia Group Limited

Strategic report for the year ended 27 August 2016

Business review (continued)

Strategic focus

An ability to innovate rapidly is important but it is also key to maintain a longer term view to ensure value can be sustained. The Group looks to the future to spot challenges and opportunities that allow the Group to adapt to the fast-changing global retail environment. The Group continues to expand overseas with additional stores in the USA and in Germany, and has recently announced a major multi-channel expansion plan with Shangpin in China.

Energy and drive

The Group has high expectations, based upon having confidence in people who are driven by the passion and determination they have for their work. It's the ambition, energy and drive of its employees which helps underpin the success of the Group.

Our people

People are at the heart of all the Group's activities and great effort is made to place employees in the brand that is right for them and their personality. Our people are friendly and sociable but they're also professional, supportive, passionate and knowledgeable.

The Fashion Retail Academy ('The FRA') is a unique, employer-led college with charitable status. It was founded in 2005 via a private-public partnership between Arcadia, Next, Marks and Spencer, Tesco and Experian who funded its start-up, matched by investment from the Government.

The FRA offer a wide range of specialist fashion courses for students of all ages. The courses are developed to provide the student with a combination of an in-depth knowledge of Fashion Retail and hands-on practical experience of the work environment.

During the year to 27 August 2016, the Group offered 89 placements (2015: 65) to graduates of the academy. Placement roles varied from visual merchandising to buying and merchandising and the Group predicts a further 140 placements will be offered in 2017 which demonstrates the Group's commitment to finding and developing the top fashion talent of the future.

We would like to thank all of our people for their commitment and energy which has enabled us to deliver a robust performance in challenging times.

Store portfolio

As at 27 August 2016, the Group trades from 2,766 (2015: 3,034) outlets representing 6.4 million (2015: 6.9 million) square feet of space. During the year, the Group closed 307 concessions within Bhs. The Group also closed 296 and opened 335 solus, external business and franchise stores. The Group continues to review its store portfolio to ensure that it best fits with the fast-changing retail industry by investing in improving existing outlets and opening new retail outlets across the world either wholly-owned or through franchise operations. In total £97.8 million (2015: £118.1 million) was invested in capital projects.

Digital

The Group now trades 39 brand specific desktop websites and 28 mobile sites, as well as trading on other retailers' websites where there are synergies. The objective is to keep abreast of technological developments to ensure these websites allow us to provide the service and inspiration that our customers expect both online and in stores and continue to grow our social media presence.

Key performance indicators

The board uses a range of KPIs to monitor the Group's performance and progress towards its strategic objectives. The principal KPIs, which are reviewed regularly at both Group and brand level, include like for like sales ('LFL sales'), best and least performing stores/digital sites/product lines, margins, markdowns, cash flow and returns on capital invested in store openings/refits.

**Strategic report
for the year ended 27 August 2016**

Principal risks and uncertainties

It is important to the business that it identifies and manages risks. Key business risks are monitored on an ongoing basis by the directors, and strategies are developed as appropriate to mitigate against such risks and minimise their impact. The principal risks and the strategies adopted are set out below:

Financial risk management

The key financial risks to the Group are the availability of cashflows to meet business requirements, commodity price risks, credit risk and fluctuations in interest and foreign exchange rates. The Group operates a centralised Treasury function responsible for managing foreign exchange rate risk. The Group uses currency forward contracts to manage its exposure to foreign currency risk. The Group does not consider there to be a material exposure to changes in interest rates. Interest rate risk is monitored and if the situation changes the Group will take appropriate action.

Liquidity risk is managed by reviewing banking facilities and maintaining appropriate headroom to ensure adequate access to cash, focusing on cash generation within the business and reviewing performance against financial covenants and stress-testing these on a regular basis. The Group has substantial headroom and an ability to raise debt at short notice should the need arise to manage any cashflow risk.

Commodity prices are regularly reviewed and communicated to the sourcing teams, who are advised by a centralised sourcing function over options to minimise cost prices while trading in an ethical and sustainable manner. The cost of raw materials is managed using a diverse profile of suppliers worldwide and the Group places orders for a proportion of its merchandise on appropriate lead times to minimise this risk.

Due to the growth in the Group's wholesale business, it is important to focus on credit risk associated with business to business sales. The Group reviews counter-party risk and sets appropriate credit limits which are reviewed regularly in light of payment history and publicly available financial information. Where appropriate, specific risks are covered with credit insurance and/or bank guarantees.

Economic uncertainty

The Group is aware that its customers continue to face testing times driven by challenging economic conditions. Our offer to our customers is continuously reviewed to ensure that our product mix, pricing and promotional stance are appropriate to market conditions. Costs are reviewed regularly and are subject to robust approval processes.

Changing market dynamics

The current retail environment is very challenging as competitors seek to attract value-conscious customers using a variety of routes to market. Failure to keep pace with the changing retail environment would adversely impact on the Group's profitability. The Group regularly reviews both its own sales channels and those of its competitors. It has a continuing investment programme in its property portfolio, merchandise and logistics systems and digital architecture in order to be able to respond to customers' changing requirements to interact in different ways and improve the customer experience. The ongoing performance and opportunities presented by all sales channels is monitored closely.

Key suppliers and supply chain management

Fashion Footprint is the Group's programme to monitor and manage the social and environmental impacts of our business. We marked our tenth anniversary last year. Fashion Footprint continually reinforces our commitment to sustainability; a commitment that we believe makes just as much sense from a business perspective as it does from an ethical one. In 2017 we published our Modern Slavery Act statement, which will become an integral part of our existing programme.

Our Fashion Footprint vision provides us with a mission statement that all employees can support: to produce fashionable products in an ethical way and demonstrate a responsible attitude towards people and the environment.

Arcadia Group Limited

Strategic report for the year ended 27 August 2016

Principal risks and uncertainties (continued)

The Group relies on its suppliers to deliver goods on time, to the required quality standards and within a robust ethical framework. Meeting such targets is key to delivering the options and quality that our customers expect, and hence maintaining and enhancing the reputation of our brands. The Group also analyses its supplier performance in terms of cost, quality and delivery times in order to maintain the efficiency of its supply chain.

Loss of key personnel

The loss of key individuals or the inability to recruit and retain individuals with the relevant talent and experience would disrupt the operation of the business. Competitive incentive arrangements exist, with specific initiatives in place designed to retain key individuals. The Group regularly reviews talent and recruitment opportunities with continuous programmes of development and succession planning.

IT systems and business continuity

The Group's operations rely on the availability and integrity of its IT systems in order to trade efficiently. A failure in these systems could have a significant impact on the Group's operations and its reputation. A number of key controls are in place to maintain the integrity and efficiency of the Group's IT systems, including recovery plans which would be implemented in the event of a major failure. The Group's Business Continuity Plan is tested and reviewed on a regular basis. IT security is continually monitored and updated accordingly to ensure data is protected from corruption, unauthorised use and cyber-attacks.

Pension

The Group's pension schemes have been impacted by the reduction in gilt yields to unprecedented low levels and the pension deficit for the Group's two main schemes has increased as shown in note 29. During August 2016, and with the agreement of the pension schemes' trustees, the Group made an additional prepayment of £25,600,000 in respect of pension contributions for the year ending 26 August 2017. In January 2017, the Group completed its triennial actuarial valuation as at 31 March 2016 with the Group's pension schemes trustees and a new Schedule of Contributions has been agreed at £50,000,000 per year (previously £24,300,000) for the next three years.

This report was approved by the board on 24 May 2017 and signed by its order:



Michelle Gammon
Company secretary
Date: 25 May 2017

**Directors' report
for the year ended 27 August 2016**

The directors present their report and the audited consolidated financial statements for the year ended 27 August 2016.

Transition to FRS 102

This is the first year that the Group has presented its results under Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" ("FRS 102"). The impact of this transition is shown in note 36 of the financial statements.

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and the consolidated financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed in and explained in the financial statements;
- make judgments and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group or Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Dividends

The directors do not recommend the payment of a dividend in respect of the financial year (2015: £nil).

Charitable donations

During the year, the Group donated £287,000 (2015: £236,000) directly to various UK charitable organisations.

In addition, all of the Group's brands work closely with a selected charity partner to raise funds through corporate and individual employee initiatives. A number of the brands have created exclusive products, which are sold in-store, to generate proceeds for their selected charities.

During the year, the funds raised through the Group's charitable activities was £187,000 (2015: £301,000).

Arcadia Group Limited

Directors' report for the year ended 27 August 2016

Directors

The directors who served during the year and up to the date of approval of the financial statements were:

Paul Budge
Gillian Hague (appointed 25 September 2015)
Ian Grabiner
Christopher Harris
Richard Burchill (appointed 15 December 2015)
Richard de Dombal (appointed 15 December 2015, resigned 24 March 2016)
Sir Philip Green (resigned 15 December 2015)
Lord Grabiner QC (resigned 15 December 2015)

Future developments

A combination of the Group's portfolio of diverse, market-leading brands, international expansion, the growth of our wholesale business, e-commerce development and the close control of costs, together with a dedicated and enthusiastic workforce, lead the directors to view the Group's future performance with a degree of confidence despite the challenging economic conditions.

The Group will also continue with its goal to produce fashionable products in an ethical way. The 'Fashion Footprint' initiative is in its eleventh year and responsible retailing remains a key focus.

Employees and equal opportunities

All staff are informed about matters concerning their interests as employees and the financial position of the Group through a number of communication channels including face-to-face briefings, an intranet site supplemented by e-mail announcements and a staff magazine.

The Board recognises the importance of a highly motivated and well-trained workforce. It encourages employees' involvement in the Group's performance through their participation in a variety of incentive bonus schemes linked to the achievement of operational or financial targets in that part of the business for which they work, and it invests in training programmes aimed at achieving the highest standards of personal development and customer service.

The Group is an equal opportunities employer, recruiting and promoting employees on the basis of their suitability for the job and on no other grounds. Proper consideration is given to employment applications from disabled persons whose aptitude and skills can be utilised within the business and to their training and career progression. Wherever possible, this includes the retraining and retention of staff who become disabled during their employment.

Qualifying third party indemnity provisions

As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company's ultimate parent company (Taveta Investments Limited) also purchased and maintained throughout the financial year directors' and officers' liability insurance in respect of itself and its directors.

Matters covered in the strategic report

The principal activities, the business review and an indication of the financial risk management objectives and policies of the Group, including the Group's exposure to price risk, credit risk, liquidity risk and cash flow risk are all discussed in the strategic report on pages 1 - 5.

Arcadia Group Limited

Directors' report for the year ended 27 August 2016

Disclosure of information to auditors

In accordance with Section 418 of the Companies Act 2006, each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the Company and the Group's auditors are unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company and the Group's auditors are aware of that information.

Events since the end of the year

Since 25 March 2015, the Company's ultimate parent company, Taveta Investments Limited, and its subsidiary companies ("the Taveta Group") have been in dialogue with The Pensions Regulator ("the Regulator") which has been using its powers under section 72 of the Pensions Act 2004 to gather information and documentation from the Taveta Group in connection with the Bhs pension schemes and certain aspects of the Arcadia Group pension schemes. On 2 November 2016 the Regulator issued a Warning Notice to Sir Philip Green (a group director and shareholder), Taveta Investments Limited and Taveta Investments (No. 2) Limited (the Company's immediate parent company) indicating that it intended to apply to use its powers to issue Financial Support Directions and/or Contribution Notices. On 28 February 2017 following payment by Sir Philip Green of a settlement amount for the benefit of the members of the Bhs pension schemes, the Regulator has withdrawn its Warning Notice and has given clearance to Sir Philip Green, Taveta Investments Limited, Taveta Investments (No. 2) Limited and a number of other entities within the Taveta Group and a number of individuals in relation to the Bhs pension schemes and the Arcadia Group pension schemes. The Taveta Group does not anticipate any future financial exposure in relation to the matters cleared by the Regulator.

Independent auditors

The Company has passed an elective resolution to dispense with the annual appointment of auditors. PricewaterhouseCoopers LLP will therefore continue as auditors in accordance with, and subject to, Section 487 of the Companies Act 2006.

Going concern

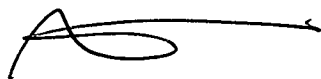
The Group and the Company continue to generate sufficient cash through operating activities to meet their working capital requirements.

The directors have assessed the current cash position of the Group and the Company, together with the latest forecast cash projections for the next 12 months and have stress-tested these projections against downside scenarios that they consider to be extreme. They have satisfied themselves that the business will have sufficient headroom available under its committed banking facilities even in these downside scenarios.

In addition, they have assessed the Group's forecast performance against its banking covenants, and have satisfied themselves that, both under the existing forecast, and in any realistic downside scenarios, the Group will be operating comfortably within its banking covenants.

The Group and the Company therefore continue to adopt the going concern basis in preparing the financial statements.

This report was approved by the board on 24 May 2017 and signed by its order:



Michelle Gammon
Company secretary
Date: 25 May 2017

Independent auditors' report to the members of Arcadia Group Limited

Report on the financial statements

Our opinion

In our opinion, Arcadia Group Limited's Group financial statements and Company financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the Company's affairs as at 27 August 2016 and of the Group's profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and financial statements (the "Annual Report"), comprise:

- the consolidated and Company balance sheets as at 27 August 2016;
- the consolidated profit and loss account and consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated and Company statements of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland and applicable law (United Kingdom Generally Accepted Accounting Practice)".

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Independent auditors' report to the members of Arcadia Group Limited

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the directors' responsibilities statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

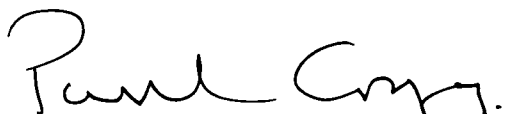
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Paul Cragg (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
Date: 25 May 2017

**Consolidated profit and loss account
for the year ended 27 August 2016**

		Before exceptional items 2016 £000	Exceptional items (note 6) 2016 £000	Total 2016 £000	Before exceptional items 2015 £000	Exceptional items (note 6) 2015 £000	Total 2015 £000
	Note						
Turnover	5	2,009,788	-	2,009,788	2,069,267	-	2,069,267
Cost of sales		(1,763,418)	(102,729)	(1,866,147)	(1,765,001)	(5,398)	(1,770,399)
Gross profit		246,370	(102,729)	143,641	304,266	(5,398)	298,868
Distribution costs		(35,766)	-	(35,766)	(47,498)	-	(47,498)
Administrative expenses		(26,342)	(26,441)	(52,783)	(35,258)	(6,891)	(42,149)
Other operating income	7	27,378	-	27,378	32,888	-	32,888
Operating profit before goodwill amortisation		211,640	(129,170)	82,470	254,398	(12,289)	242,109
Goodwill amortisation		(647)	-	(647)	(995)	-	(995)
Losses from associates and joint ventures		(2,226)	-	(2,226)	(354)	-	(354)
Operating profit	8	208,767	(129,170)	79,597	253,049	(12,289)	240,760
Net interest receivable and similar income	12	57,932	-	57,932	56,417	-	56,417
Other finance expense	13	(6,811)	-	(6,811)	(4,408)	-	(4,408)
Loss on sale of Bhs		-	-	-	-	(310,875)	(310,875)
Profit/(loss) on ordinary activities before taxation		259,888	(129,170)	130,718	305,058	(323,164)	(18,106)
Tax on profit/(loss) on ordinary activities	14	(40,100)	-	(40,100)	(63,107)	-	(63,107)
Profit/(loss) for the financial year		219,788	(129,170)	90,618	241,951	(323,164)	(81,213)
Profit/(loss) for the year attributable to:							
Non-controlling interests				18,541			17,197
Owners of the parent company				72,077			(98,410)
				90,618			(81,213)

The notes on pages 22 to 68 form part of these financial statements.

Arcadia Group Limited

**Consolidated statement of comprehensive income
for the year ended 27 August 2016**

	2016	2015
Note	£000	£000
Profit/(loss) for the financial year	90,618	(81,213)
Other comprehensive income/(expense):		
Remeasurements of defined benefit schemes	(278,619)	(89,783)
Movement on deferred tax relating to pension schemes	46,982	18,580
Exchange gain on overseas subsidiaries	213	87
Other comprehensive expense for the year	(231,424)	(71,116)
Total comprehensive expense for the year	(140,806)	(152,329)
Total comprehensive income/(expense) attributable to:		
Non-controlling interests	18,541	17,197
Owners of the parent company	(159,347)	(169,526)
	(140,806)	(152,329)

The notes on pages 22 to 68 form part of these financial statements.

Arcadia Group Limited
Registered number: 237511

Consolidated balance sheet
as at 27 August 2016


	Note	2016 £000	2015 £000
Fixed assets			
Intangible assets	15	68,538	51,655
Tangible assets	16	539,010	616,202
Investments	17	2,370,442	2,287,981
Investment property	18	41,500	24,500
		3,019,490	2,980,338
Current assets			
Stocks	19	142,991	134,334
Debtors: amounts falling due after more than one year	20	81,314	35,437
Debtors: amounts falling due within one year	20	123,104	133,354
Cash at bank and in hand		223,029	229,016
		570,438	532,141
Creditors: amounts falling due within one year	21	(428,609)	(449,749)
Net current assets		141,829	82,392
Total assets less current liabilities		3,161,319	3,062,730
Creditors: amounts falling due after more than one year	22	(140,118)	(142,996)
Other provisions	25	(80,898)	(75,844)
Pension liability	29	(426,825)	(189,606)
Net assets		2,513,478	2,654,284

Arcadia Group Limited
Registered number: 237511

Consolidated balance sheet
as at 27 August 2016

	Note	2016 £000	2015 £000
Capital and reserves			
Called up share capital	26	168,163	168,163
Share premium account		393,676	393,676
Capital redemption reserve		223,431	223,431
Retained earnings		1,637,763	1,797,110
Total equity attributable to owners of the parent		2,423,033	2,582,380
Non-controlling interests		90,445	71,904
Total equity		2,513,478	2,654,284

The financial statements on pages 11 to 68 were approved and authorised for issue by the board on 24 May 2017 and were signed on its behalf on 25 May 2017 by:


Paul Budge
Director

The notes on pages 22 to 68 form part of these financial statements.

Arcadia Group Limited
Registered number: 237511

Company balance sheet
as at 27 August 2016

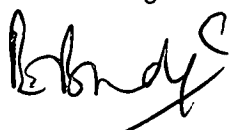
	Note	2016 £000	2015 £000
Fixed assets			
Intangible assets	15	21,791	21,300
Tangible assets	16	15,773	18,416
Investments	17	4,055,466	3,942,424
		<u>4,093,030</u>	<u>3,982,140</u>
Current assets			
Stocks	19	244	833
Debtors: amounts falling due after more than one year	20	557,180	534,436
Debtors: amounts falling due within one year	20	53,973	54,647
Cash at bank and in hand		-	4,691
		<u>611,397</u>	<u>594,607</u>
Creditors: amounts falling due within one year	21	(1,201,983)	(1,108,512)
Net current liabilities		<u>(590,586)</u>	<u>(513,905)</u>
Total assets less current liabilities		<u>3,502,444</u>	<u>3,468,235</u>
Creditors: amounts falling due after more than one year	22	(13,275)	(19,124)
Pension liability	29	(425,275)	(189,330)
Net assets		<u><u>3,063,894</u></u>	<u><u>3,259,781</u></u>

Arcadia Group Limited
Registered number: 237511

Company balance sheet
as at 27 August 2016

	Note	2016 £000	2015 £000
Capital and reserves			
Called up share capital	26	168,163	168,163
Share premium account		393,676	393,676
Capital redemption reserve		223,431	223,431
Retained earnings		2,278,624	2,474,511
Total equity		3,063,894	3,259,781

The financial statements on pages 11 to 68 were approved and authorised for issue by the board on 24 May 2017 and were signed on its behalf on 25 May 2017 by:



Paul Budge
Director

The notes on pages 22 to 68 form part of these financial statements.

Arcadia Group Limited

Consolidated statement of changes in equity
for the year ended 27 August 2016

	Called up share capital	Share premium account	Capital redemption reserve	Retained earnings	Total equity attributable to owners of parent company	Non- controlling interests	Total equity
	£000	£000	£000	£000	£000	£000	£000
At 30 August 2015	168,163	393,676	223,431	1,797,110	2,582,380	71,904	2,654,284
Comprehensive income/(expense) for the year							
Profit for the financial year	-	-	-	72,077	72,077	18,541	90,618
Remeasurements of defined benefit schemes	-	-	-	(278,619)	(278,619)	-	(278,619)
Deferred tax movements	-	-	-	46,982	46,982	-	46,982
Exchange gain on overseas subsidiaries	-	-	-	213	213	-	213
Other comprehensive expense for the year	-	-	-	(231,424)	(231,424)	-	(231,424)
Total comprehensive (expense)/income for the year	-	-	-	(159,347)	(159,347)	18,541	(140,806)
At 27 August 2016	168,163	393,676	223,431	1,637,763	2,423,033	90,445	2,513,478

Arcadia Group Limited

Consolidated statement of changes in equity
for the year ended 29 August 2015

	Called up share capital	Share premium account	Capital redemption reserve	Retained earnings	Total equity attributable to owners of parent company	Non- controlling interests	Total equity
	£000	£000	£000	£000	£000	£000	£000
At 31 August 2014	168,163	393,676	223,431	1,966,636	2,751,906	54,707	2,806,613
Comprehensive income/(expense) for the year							
(Loss)/profit for the financial year	-	-	-	(98,410)	(98,410)	17,197	(81,213)
Remeasurements of defined benefits schemes	-	-	-	(89,783)	(89,783)	-	(89,783)
Deferred tax movements	-	-	-	18,580	18,580	-	18,580
Exchange gain on overseas subsidiaries	-	-	-	87	87	-	87
Other comprehensive expense for the year	-	-	-	(71,116)	(71,116)	-	(71,116)
Total comprehensive income/(expense) for the year	-	-	-	(169,526)	(169,526)	17,197	(152,329)
At 29 August 2015	168,163	393,676	223,431	1,797,110	2,582,380	71,904	2,654,284

The notes on pages 22 to 68 form part of these financial statements.

Arcadia Group Limited

**Company statement of changes in equity
for the year ended 27 August 2016**

	Called up share capital £000	Share premium account £000	Capital redemption reserve £000	Retained earnings £000	Total equity £000
At 30 August 2015	168,163	393,676	223,431	2,474,511	3,259,781
Comprehensive income/(expense) for the year					
Profit for the financial year	-	-	-	34,137	34,137
Remeasurements of defined benefits schemes	-	-	-	(277,030)	(277,030)
Deferred tax movements	-	-	-	47,006	47,006
Other comprehensive expense for the year	-	-	-	(230,024)	(230,024)
Total comprehensive income/(expense) for the year	-	-	-	(195,887)	(195,887)
At 27 August 2016	168,163	393,676	223,431	2,278,624	3,063,894

**Company statement of changes in equity
for the year ended 29 August 2015**

	Called up share capital £000	Share premium account £000	Capital redemption reserve £000	Retained earnings £000	Total equity £000
At 31 August 2014	168,163	393,676	223,431	2,762,002	3,547,272
Comprehensive income/(expense) for the year					
Loss for the financial year	-	-	-	(216,043)	(216,043)
Remeasurements of defined benefits schemes	-	-	-	(91,432)	(91,432)
Deferred tax movements	-	-	-	19,984	19,984
Other comprehensive expense for the year	-	-	-	(71,448)	(71,448)
Total comprehensive expense for the year	-	-	-	(287,491)	(287,491)
At 29 August 2015	168,163	393,676	223,431	2,474,511	3,259,781

The notes on pages 22 to 68 form part of these financial statements.

Arcadia Group Limited

Consolidated statement of cash flows for the year ended 27 August 2016

	2016 £000	2015 £000
Cash flows from operating activities		
Profit/(loss) for the financial year	90,618	(81,213)
Tax on profit/(loss) on ordinary activities	40,100	63,107
Other finance expenses	6,811	4,408
Net interest received	(57,932)	(56,417)
Loss on sale of Bhs	-	310,875
Operating profit	79,597	240,760
Adjustments for:		
Exceptional costs relating to Bhs	26,441	-
Amortisation of goodwill	647	995
Amortisation of software assets	10,774	11,582
Depreciation of tangible assets	61,645	64,141
Impairment of tangible assets	80,955	-
(Increase)/decrease in stocks	(8,657)	3,021
Increase in debtors	(3,654)	(9,300)
Decrease in creditors	(35,670)	(3,585)
Difference between pension charge and cash contributions	(48,212)	(28,983)
Loss/(profit) on disposal of assets	4,569	(3,834)
Revaluation of investment property	(17,000)	-
Cash inflow from operating activities	151,435	274,797
Corporation tax paid	(29,029)	(36,029)
Exceptional cash flow relating to Bhs	(13,163)	-
Net cash generated from operating activities	109,243	238,768
Cash flows from investing activities		
Purchase of intangible assets	(29,853)	(47,037)
Purchase of tangible assets	(67,932)	(71,017)
Proceeds from disposal of tangible assets	2,622	6,818
Purchase of subsidiary undertaking	-	(53,000)
Interest received	1,770	1,423
Funding provided to fellow subsidiaries	(20,871)	(45,177)
Net cash used in investing activities	(114,264)	(207,990)

Arcadia Group Limited

**Consolidated statement of cash flows
for the year ended 27 August 2016**

	2016	2015
	£000	£000
Cash flows from financing activities		
Interest paid	(1,179)	(1,757)
Net cash used in financing activities	<u>(1,179)</u>	<u>(1,757)</u>
Net (decrease)/increase in cash and cash equivalents	<u>(6,200)</u>	29,021
Cash and cash equivalents at the beginning of the year	229,016	199,995
Foreign exchange gains and losses	213	-
Cash and cash equivalents at the end of the year	<u>223,029</u>	<u>229,016</u>
Cash and cash equivalents at the end of the year comprise:		
Cash at bank and in hand	<u>223,029</u>	<u>229,016</u>

The notes on pages 22 to 68 form part of these financial statements.

**Notes to the financial statements
for the year ended 27 August 2016**

1. General information

Arcadia Group Limited ("the Company") and its subsidiaries (together "the Group") operate a number of retailing stores throughout the UK and internationally, selling clothing and clothing accessories. The Group trades primarily under the brand names Top Shop, Top Man, Dorothy Perkins, Burton, Wallis, Evans, Miss Selfridge and Outfit.

The Company is a private company limited by shares and is domiciled and incorporated in the United Kingdom. The address of its registered office is Colegrave House, 70 Berners Street, London, W1T 3NL.

2. Statement of compliance

The Group and Company financial statements of Arcadia Group Limited have been prepared in compliance with United Kingdom Accounting Standards, comprising Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

3. Accounting policies

The principal accounting policies applied in the preparation of these consolidated and separate financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. This is the first year that the Group has presented its results under Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" ("FRS 102"). The impact of this transition is shown in note 36 of the financial statements.

3.1 Basis of preparation of financial statements

The financial statements have been prepared for the 52 weeks ended 27 August 2016 (2015: 52 weeks ended 29 August 2015).

These consolidated and Company financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the recognition of certain financial assets and liabilities and investment properties measured at fair value.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group and Company accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

**Notes to the financial statements
for the year ended 27 August 2016**

3. Accounting policies (continued)

3.2 Going concern

The directors consider the Company to be a going concern due to the continued profitability of the underlying group.

The Group and the Company continue to generate sufficient cash through operating activities to meet their working capital requirements.

The directors have assessed the current cash position of the Group and the Company, together with the latest forecast cash projections for the next 12 months and have stress-tested these projections against downside scenarios that they consider to be extreme. They have satisfied themselves that the business will have sufficient headroom available under its committed banking facilities even in these downside scenarios.

In addition, they have assessed the Group's forecast performance against its banking covenants, and have satisfied themselves that, both under the existing forecast, and in any realistic downside scenarios, the Group will be operating comfortably within its banking covenants.

The Group and the Company therefore continue to adopt the going concern basis in preparing the financial statements.

3.3 Basis of consolidation

The Group financial statements include the financial statements of the Company and all its subsidiaries together with the Group's share of the results of associates made up to 27 August 2016. Each subsidiary has adopted the Group's accounting policies.

A subsidiary is an entity controlled by the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Where control of a subsidiary is lost, the gain or loss on disposal is recognised in the consolidated profit and loss account.

An associate is an entity, being neither a subsidiary nor a joint venture, in which the Group holds a long-term interest and where the Group has significant influence. The Group considers that it has significant influence where it has the power to participate in the financial and operating decisions of the associate. The Group's interests in associates are determined using the equity accounting method. Where the associate has net liabilities, a provision is recognised when the Group has a legal or constructive obligation.

The financial statements of all subsidiary undertakings or associates are consolidated from the date of their acquisition to the date of their sale using the acquisition method of accounting.

All material intercompany transactions, balances and unrealised profits and losses on transactions between group companies have been eliminated on consolidation.

The Group's share of its joint ventures' results is included in the consolidated profit and loss account. The Group's share of its joint ventures' net assets is included in the consolidated balance sheet using the equity accounting method. Where the joint venture has net liabilities, a provision is recognised when the Group has a legal or constructive obligation.

Non-controlling interests represent the amount of capital and reserves attributable to shares in subsidiary undertakings not held by the Group.

The Company has taken advantage of the exemption contained within 408 of the Companies Act 2006 not to present its own profit and loss account. The profit of the Company for the financial year was £34,137,000 (2015: loss of £216,043,000).

**Notes to the financial statements
for the year ended 27 August 2016**

3. Accounting policies (continued)

3.4 Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been applied with, including notification of, and no objection to, the use of the exemptions by the Company's shareholders.

The Company has taken advantage of the exemption from preparing a statement of cash flows, on the basis that it is a qualifying entity and the consolidated statement of cash flows, included in these financial statements, includes the Company's cash flows.

In addition, the Group has elected not to apply Section 19 'Business combinations and goodwill' to business combinations that were effected before the date of transition to FRS 102.

**Notes to the financial statements
for the year ended 27 August 2016**

3. Accounting policies (continued)

3.5 Turnover

Turnover is measured at the fair value of the consideration received or receivable and represents the amount receivable for goods supplied, net of returns, discounts and value added taxes. An estimate is made for future returns (based on accumulated experience).

The Group recognises turnover when (a) the significant risks and rewards of ownership have been transferred to the buyer; (b) the Group retains no continuing involvement or control over the goods; (c) the amount of turnover can be measured reliably; (d) it is probable that future economic benefits will flow to the entity and (e) when the specific criteria relating to each of the Group's sales channels have been met, as described below.

(i) Sale of goods - retail

The Group operates retail shops for the sales of a range of own-branded products. Retail sales are usually settled by cash, credit or payment card. Turnover is recognised at the point of sale in the store.

Sales are made to customers with a right to return within 28 days, subject to certain conditions regarding the usage.

(ii) Sale of goods - internet-based transactions

The Group sells goods via its websites for delivery to the customer or collection from one of its retail stores. Turnover is recognised when the risks and rewards of the stock is passed to the customer. For deliveries to the customer this is the point of acceptance of the goods by the customer and for collection from store this is at the time of collection. Transactions are settled by online money transfer, credit or payment card.

Sales are made to customers with a right to return within 28 days, subject to certain conditions regarding the usage.

(iii) Income from concession arrangements

The Group operates concession arrangements whereby the Group receives a fixed percentage payment based on the concessionaires' turnover. The turnover is recognised on an accruals basis.

(iv) Income from franchise fees

In certain locations the Group has franchised its brands to third parties. Fees charged for the use of the rights granted by the agreement and related services are recognised as turnover as the rights are used and the services are provided.

(v) Income from wholesale arrangements

The Group fulfils a number of wholesale arrangements. Turnover is recognised when goods are dispatched and the risks and rewards of the stock are passed to the customer.

3.6 Other operating income

Upfront cash contributions towards the Group's store card business are deferred and are released to the profit and loss account over the term of the related contract.

**Notes to the financial statements
for the year ended 27 August 2016**

3. Accounting policies (continued)

3.7 Exceptional items

The Group classifies certain one-off charges or credits that have a material impact on the Group's financial results as 'exceptional items'. These are disclosed separately to provide further understanding of the financial performance of the Group.

3.8 Goodwill and business combinations

Business combinations are accounted for by applying the purchase method.

The cost of a business combination is the fair value of the consideration given, liabilities incurred or assumed and of equity instruments issued plus the costs directly attributable to the business combination.

On acquisition of a business, fair values are attributed to the identifiable assets and liabilities, unless the fair value cannot be reliably measured, in which case the value is incorporated in goodwill.

Goodwill is the difference between amounts paid on the acquisition of a business and the fair value of the identifiable assets and liabilities. It is amortised to the profit and loss account over its estimated economic life (not greater than 20 years). Goodwill is assessed for impairment when there are indicators of impairment and any impairment is charged to the profit and loss account.

3.9 Intangible assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated, using the straight-line method, to allocate the depreciable amount of assets to their residual values over their estimated useful lives (ranging from 1 year to 10 years).

Amortisation is charged to administrative expenses in the profit and loss account.

The assets are reviewed for impairment where there are indicators that they may be impaired.

Costs that are associated with maintaining computer software are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use;
- management intends to complete the software;
- there is an ability to use the software;
- it can be demonstrated how the software will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use the software are available; and
- the expenditure attributable to the software during its development can be reliably measured.

Other development expenditure that does not meet these criteria is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

**Notes to the financial statements
for the year ended 27 August 2016**

3. Accounting policies (continued)

3.10 Tangible assets and depreciation

Tangible assets are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Group adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the Group. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to profit or loss account during the period in which they are incurred.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Freehold property	- depreciated to their estimated residual value over their estimated useful economic life
Long-term leasehold property	- life of lease
Short leasehold property	- life of lease
Fit out	- 15 years
Motor vehicles	- 25% per annum on a reducing balance basis
Retail fixtures and fittings	- 3 to 10 years
Office equipment	- 10 years
Computer equipment	- 2 to 4 years
Land	- land is not depreciated

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within the profit and loss account.

3.11 Impairment of fixed assets and goodwill

The Group considers that each trading property is a separate cash generating unit ("CGU") and therefore considers every property for an indication of impairment annually. If there is such an indication, the Group calculates each property's recoverable amount and compares this amount to its book value. The recoverable amount is determined as the higher of 'value in use' and 'fair value less costs to sell'. If the recoverable amount is less than the book value, an impairment charge is recognised based on the following methodology:

'Value in use' is calculated by projecting individual store pre-tax cash flows over the remaining useful life of the store, based on forecasting assumptions for the next three years and then applying the Group's long-term growth rate assumption. These cashflows are discounted using a pre-tax discount rate based on the Group's weighted average cost of capital.

'Fair value less costs to sell' is estimated by the directors based on their knowledge of individual stores and the markets they serve and likely demand from other retailers. The directors may also obtain valuations for property prepared by independent valuers and consider these in carrying out their estimate of 'fair value less cost to sell' for the purposes of testing for impairment.

**Notes to the financial statements
for the year ended 27 August 2016**

3. Accounting policies (continued)

3.12 Pensions

The Group operates a number of defined benefit schemes to provide pension and other benefits expressed in terms of a percentage of pensionable salary. The amounts charged to operating profit, as part of employee costs, are the current service costs. Past service costs are recognised in the profit and loss account in the period in which the existing plan is amended or a new plan is introduced with a retrospective effect. If the benefits have not vested, the costs are recognised over the period until vesting occurs. The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets and the resulting cost is recognised in the profit and loss account.

Actuarial gains and losses are recognised immediately in the statement of comprehensive income. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the schemes' liabilities. Actuarial valuations are obtained triennially and are updated at each balance sheet date.

The assets of the schemes are held separately from those of the Group in independently administered funds.

The Group also operates a number of defined contribution schemes for eligible staff. For these schemes, the amounts charged to the profit and loss account are the contributions payable during the period.

3.13 Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in the statement of comprehensive income or directly in equity. In this case tax is also recognised in the statement of comprehensive income or directly in equity respectively.

(i) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

**Notes to the financial statements
for the year ended 27 August 2016**

3. Accounting policies (continued)

3.14 Leased assets

Rentals payable under operating leases are charged to the profit and loss account on a straight-line basis over the lease term. Incentives to enter into an operating lease are credited to the profit and loss account, to reduce the lease expense, on a straight-line basis over the period of the lease.

Where the Group has leasehold stores that are loss-making, and projections indicate that their future cash flows will be insufficient to meet the related property costs, provision is made for the expected net cash outflows. These cash flows are discounted using an appropriate rate of return.

Where the Group is committed to disposing of a leasehold property, provision is made for the expected direct costs of disposal, together with any net cash outflows under the lease during the period prior to disposal. The Group also provides for the unavoidable costs of vacant properties and, where properties are sublet, any shortfall between the rents payable to its landlords and those recovered under tenancy agreements. These provisions are discounted where the impact is material and unwind upon the earlier of lease expiry and disposal.

The Group also provides for dilapidations where there is an obligation to repair damages which occur during the life of the lease such as wear and tear. The cost is charged to the profit and loss account as the obligation arises.

Rental income is recognised in the profit and loss account on a straight-line basis over the term of the lease.

3.15 Stock valuation

Stock is stated at the lower of cost and estimated selling price less costs to sell and represents goods for resale. Cost represents actual purchase price and includes the direct costs of warehousing and transportation to the stores. Provision is made where necessary for obsolete, slow-moving and defective stock.

3.16 Foreign exchange

The Group and Company financial statements are presented in pound sterling and rounded to thousands.

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Profits and losses of overseas branches and subsidiaries which have currencies of operation other than sterling are translated into sterling at the average rates of exchange for the period. Monetary assets and liabilities recorded in foreign currencies are at the rates ruling at the balance sheet date. Exchange differences arising from the re-translation of the opening net assets of overseas subsidiaries are recognised in the statement of comprehensive income. Other exchange differences are dealt with in the profit and loss account.

3.17 Finance costs

Costs associated with the issue of bank and other borrowings are deferred and are charged to the profit and loss account over the term of the respective loan at a constant rate to the loan's carrying value. The carrying value of bank borrowings and subordinated loan notes in the balance sheet are stated net of unamortised issue costs.

3.18 Investments

Investments are shown at cost less amounts impaired. Provision is made where, in the opinion of the directors, there has been an impairment in the investments' carrying value.

**Notes to the financial statements
for the year ended 27 August 2016**

3. Accounting policies (continued)

3.19 Investment properties

Investment property is carried at fair value determined annually and derived from the current market rents and investment property yields for comparable real estate, adjusted if necessary for any difference in the nature, location or condition of the specific asset. No depreciation is provided. Changes in fair value are recognised in the profit and loss account.

3.20 Provisions for liabilities

A provision is recognised when the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

3.21 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the consolidated statement of cash flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Company's cash management.

**Notes to the financial statements
for the year ended 27 August 2016**

3. Accounting policies (continued)

3.22 Financial instruments

(i) Financial assets

Basic financial assets, including trade and other debtors and cash and bank balances are initially recognised at transaction price. Such assets are subsequently measured at amortised cost using the effective interest method.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the profit and loss account.

(ii) Financial liabilities

Basic financial instruments, including trade and other creditors and loans from fellow group companies are initially recognised at transaction price.

Trade creditors are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

(iii) Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

(iv) Derivative instruments

The Group uses forward currency contracts to reduce exposure to foreign exchange rates.

Derivative financial instruments are initially measured at fair value on the date on which a derivative contract is entered into and is subsequently measured at fair value through the profit and loss account. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of the forward currency contract is calculated by reference to current forward exchange contracts with similar maturity profiles.

The Group only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities such as trade and other accounts receivable and payable, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

**Notes to the financial statements
for the year ended 27 August 2016**

4. Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) Impairment of tangible fixed assets

The Group considers whether tangible assets are impaired. Where an indication of impairment is identified, the Group calculates each cash generating unit's ("CGUs") recoverable amount and compares this amount to its book value. This requires estimation of the future cash flows from the CGUs and also selection of appropriate discount rates in order to calculate the net present value of those cash flows.

During the year, the directors have taken the opportunity to re-evaluate their approach to the impairment of tangible fixed assets and concluded that sufficient cash flow information exists at an individual property level in order to conduct an impairment assessment based on each property as a CGU. This represents a change in the estimate methodology from the previous brand level approach, which is treated prospectively. See note 6 for details of the current year impairment.

(ii) Provision for onerous leases

Provision is made for future leasing obligations of the Group's loss-making stores. These provisions require management's estimate of the costs that will be incurred based on contractual requirements. In addition, the timing of the cash flows and the discount rates used to establish net present value of the obligations require management's judgement. See note 6 for details of onerous lease provisions in the year.

(iii) Taxes

Determining current tax provisions involves judgements on the tax treatment of certain transactions.

Deferred tax is recognised on tax losses not yet used on timing differences where it is probable that there will be taxable income against which these can be offset. See note 24 for details of deferred tax recognised.

(iv) Defined benefit pension scheme

The Group has obligations to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including: life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience, current trends and are in line with those of similar pensions schemes. See note 29 for further details of the key pension estimates and judgements.

(v) Investments

The Group considers whether fixed asset investments are impaired. Where an indication of impairment is identified, an estimation of recoverable value is prepared for that investment. This requires estimation of the future cash flows from the investment and also selection of appropriate discount rates in order to calculate the net present value of those cash flows.

Notes to the financial statements
for the year ended 27 August 2016

5. Turnover

An analysis of turnover by geographical destination (to the Group's customers, not necessarily the end consumer) is as follows:

	2016 £000	2015 £000
UK	1,717,798	1,862,091
Europe	123,982	103,942
USA	109,468	78,139
Rest of the World	58,540	25,095
	2,009,788	2,069,267

Substantially, all the turnover above is attributable to the Group's principal activity, that of the retailing of clothing and clothing accessories through stores and the internet.

6. Exceptional items

	2016 £000	2015 £000
Provision for onerous leases on loss-making stores	21,774	(1,012)
Overseas pre-opening costs	-	6,410
Enhanced transfer value settlement loss (note 29)	-	6,891
Costs relating to Bhs	26,441	-
Impairment of tangible assets	80,955	-
Loss on disposal of Bhs	-	310,875
	129,170	323,164

As in the prior year, the Group has reviewed those leasehold stores currently making a loss to assess whether their future operating cash flows are projected to meet their rental and other property cost obligations. Where appropriate, the projected shortfall between the operating cash flows and the property costs for the period of the lease or, if earlier, to the expected date of disposal, has been provided for. The figure above reflects an increase in the provision which was recognised against leases in prior years of £14,439,000, and also an increase in the provision for new loss-making stores of £7,335,000. The resultant provision has been discounted to net present value at a rate of 4%.

The Group considers that each trading property is a separate cash generating unit (CGU) and therefore considers every property for an indication of impairment annually. The Group calculates each property's recoverable amount and compares this amount to its book value. The recoverable amount is determined as the higher of 'value in use' and 'fair value less costs of disposal' and is discounted to net present value at a pre-tax discount rate of 10.4%. If the recoverable amount is less than the book value, an impairment charge is recognised. Having applied the above methodology, the Group has recognised an impairment charge of £80,955,000 (2015: £nil) during the year. For further details see note 4(i).

At 27 August 2016, the key assumption to which the 'value-in-use' calculation is most sensitive is the sales growth rate over the forecast period. Specific sensitivity analysis with regard to this assumption shows that a further decrease of 1% would result in an additional impairment charge of approximately £8,300,000.

**Notes to the financial statements
for the year ended 27 August 2016**

6. Exceptional items (continued)

During the year the Group incurred exceptional administrative costs - including lease guarantee costs, legal and professional fees and redundancy costs - totalling £26,441,000 in relation to ongoing costs following the administration of Bhs in the year and subsequent regulatory investigations. The cash outflow associated with these costs was £13,163,000.

The exceptional charges relating to onerous leases, fixed asset impairment, overseas pre-opening costs are all recognised within exceptional costs of sales in the profit and loss account. The tax credit arising on these items is £10,720,000 (2015: £1,112,000).

2015

The Group opened 6 new overseas stores (in the USA and Europe) during the year ended 29 August 2015 and incurred pre-opening costs (primarily marketing and PR) of £6,410,000.

On 31 January 2015, an enhanced transfer value exercise was undertaken by the Arcadia Group Pension Scheme and the Arcadia Group Senior Executives Pension Scheme (see note 30) which resulted in a settlement loss of £6,891,000, recognised as an exceptional charge within administrative expenses in the year ended 29 August 2015. This settlement loss represents the enhanced cost of transferring the members' liabilities, together with associated professional fees. Enhanced transfer value exercises are commonplace and involve a sponsoring employer offering members the opportunity to transfer their benefits out to another scheme at an 'enhanced' value.

On 11 March 2015 the Group's immediate parent company, Taveta Investments (No. 2) Limited, completed the sale of the Bhs sub-group to Retail Acquisitions Limited for consideration of £1. Arcadia Group Limited incurred charges of £310,875,000 following the sale of Bhs as shown in the table below:

	29 August 2015 £000
Bhs disposal impact	
Waiver of amounts due from Bhs to Arcadia Group Limited	216,751
Provisions relating to Bhs disposal	58,500
Cash transferred to Bhs by the Group on disposal	23,660
Additional cash transferred to Bhs after sale	6,500
Impairment of system development assets previously utilised by Bhs	3,124
Cash costs of disposal borne by the Group	2,340
Total	<u><u>310,875</u></u>

**Notes to the financial statements
for the year ended 27 August 2016**

7. Other operating income

	2016	2015
	£000	£000
Other operating income	27,378	32,888

Other operating income includes an upwards revaluation of investment property of £17,000,000 (2015: £nil) and income relating to shared service charges levied on Bhs Limited of £8,591,000 (2015: £26,890,000). Bhs Limited was a fellow subsidiary undertaking of Taveta Investments Limited up to 11 March 2015. The shared service charges related to costs recharged from Arcadia Group Limited for services such as logistics, finance, IT, HR, tax and treasury. The shared service charge was calculated at actual cost incurred by Arcadia Group Limited with no profit mark up.

The residual income is from the operation of the Group's store cards.

8. Operating profit

The operating profit before exceptional items is stated after charging/(crediting):

	2016	2015
	£000	£000
Depreciation of tangible fixed assets	61,645	64,141
Impairment of tangible fixed assets	80,955	-
Amortisation of intangible assets	10,774	11,582
Amortisation of goodwill	647	995
Stock recognised as an expense	766,294	811,333
Impairment of stock	7,058	7,631
Loss/(profit) on disposal of assets	4,569	(3,834)
Property rentals paid	195,379	203,188
Property rentals received	(10,768)	(11,659)
Losses/(gains) on derivative financial instruments	4,003	(9,264)
Other operating lease charges	1,942	1,699

9. Auditors' remuneration

	2016	2015
	£000	£000
Fees payable to the Group's auditors for the statutory group audit (including Company of £20,000 (2015: £20,000))	185	115
Fees payable to the Group's auditor and its associates in respect of:		
Statutory audit of subsidiaries and associates	248	240
Tax compliance and other tax services	243	363
Pension advisory services	215	1,151
All other non-audit assurance services not included above	41	284

**Notes to the financial statements
for the year ended 27 August 2016**

10. Staff costs

Staff costs were as follows:

	2016	2015
	£000	£000
Wages and salaries	358,505	358,055
Social security costs	23,813	24,445
Other pension costs	6,881	10,152
	389,199	392,652

The average monthly number of employees, including the directors, during the year was as follows:

	2016	2015
	No.	No.
Retail	23,128	24,374
Head Office	2,838	2,832
	25,966	27,206

The average number of employees above includes 18,273 (2015: 19,133) part-time employees. The equivalent average number of full-time employees was 12,126 (2015: 12,856).

11. Directors' remuneration

	2016	2015
	£000	£000
Directors' emoluments	4,526	4,276

During the year retirement benefits were accruing to 4 directors (2015: 4) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £1,626,000 (2015: £1,955,000).

**Notes to the financial statements
for the year ended 27 August 2016**

12. Interest receivable and similar income

	2016	2015
	£000	£000
Interest receivable from group companies	61,590	62,270
Bank deposits	1,769	1,381
	<hr/> 63,359	<hr/> 63,651
Interest payable:		
Bank interest payable	(692)	(482)
Other interest payable	(487)	(1,136)
Unwind of discount rate on provisions	(4,248)	(5,616)
	<hr/> (5,427)	<hr/> (7,234)
Net interest receivable and similar income	<hr/> 57,932	<hr/> 56,417

During the year the Company accrued interest of £61,590,000 (2015: £62,270,000) on loans made available to Taveta Investments Limited and Taveta Investments (No. 2) Limited, the Company's ultimate parent company and immediate parent company respectively. These loans are unsecured and accrue interest at a rate attached to LIBOR.

The other interest payable represents settlement payments relating to a tax dispute with the Kuwaiti tax authorities.

During the year, losses of £4,003,000 (2015: gains of £9,264,000) arose on derivative financial instruments and are recognised within operating profit (see note 8).

13. Other finance expense

	2016	2015
	£000	£000
Net interest expense on pension scheme liabilities	6,811	4,408

Notes to the financial statements
for the year ended 27 August 2016

14. Tax on profit/(loss) on ordinary activities

	2016 £000	2015 £000
Current tax		
UK corporation tax charge on profit/(loss) for the financial year	25,903	59,903
Adjustments in respect of prior years	(1,004)	(2,749)
Foreign tax		
Foreign tax on income for the year	192	24
	<u>192</u>	<u>24</u>
Total current tax	<u>25,091</u>	<u>57,178</u>
Deferred tax		
Origination and reversal of timing differences	17,686	5,680
Adjustments in respect of prior years	(3,796)	(493)
Re-measurement of deferred tax - change in UK tax rates	1,119	742
	<u>15,009</u>	<u>5,929</u>
Taxation on profit/(loss) on ordinary activities	<u>40,100</u>	<u>63,107</u>

A tax credit of £46,982,000 (2015: £18,580,000) arises in the consolidated statement of comprehensive income in respect of deferred tax relating to the Group's pension schemes, of which a charge of £8,478,000 (2015: £nil) is in respect of changing tax rates.

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2015: higher than) the standard rate of corporation tax in the UK of 20.0% (2015: 20.6%). The differences are explained below:

	2016 £000	2015 £000
Profit/(loss) on ordinary activities before tax	<u>130,718</u>	<u>(18,106)</u>
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 20.0% (2015 - 20.6%)	26,144	(3,730)
Effects of:		
Expenses not deductible for tax purposes	17,831	69,270
Adjustments in respect of prior years	(4,800)	(3,242)
Adjustment in respect of foreign tax rates	(194)	67
Re-measurement of deferred tax - change in UK tax rates	1,119	742
	<u>40,100</u>	<u>63,107</u>
Taxation on profit/(loss) on ordinary activities	<u>40,100</u>	<u>63,107</u>

Notes to the financial statements
for the year ended 27 August 2016

14. Tax on profit/(loss) on ordinary activities (continued)

Factors that may affect future tax charges

A change to the UK corporation tax rate was announced in the Chancellor's Budget on 16 March 2016. The change announced is to reduce the main rate to 17% from 1 April 2020. Changes to reduce the UK corporation tax rate to 19% from 1 April 2017 and to 18% from 1 April 2020 had already been substantively enacted on 26 October 2015.

As the change to 17% had not been substantively enacted at the balance sheet date its effects are not included in these financial statements. The overall effect of that change, if it had applied to the deferred tax balance at the balance sheet date, would be to reduce the deferred tax asset by an additional £2,197,000 and increase the tax expense for the year by £2,197,000 (being a charge of £4,239,000 within the statement of comprehensive income and a credit of £2,042,000 within the profit and loss account).

15. Intangible assets

Group

	Software £000	Goodwill £000	Total £000
Cost			
At 30 August 2015	120,740	15,607	136,347
Additions	29,853	-	29,853
Disposals	(3,508)	-	(3,508)
At 27 August 2016	147,085	15,607	162,692
Accumulated amortisation			
At 30 August 2015	71,244	13,448	84,692
Charge for the year	10,774	647	11,421
Disposals	(1,959)	-	(1,959)
At 27 August 2016	80,059	14,095	94,154
Net book value			
At 27 August 2016	67,026	1,512	68,538
At 29 August 2015	49,496	2,159	51,655

Goodwill is amortised over the period during which the value of the underlying business acquired is expected to exceed the value of the underlying net assets. This period is assessed for each acquisition on its individual merits.

Notes to the financial statements
for the year ended 27 August 2016

15. Intangible assets (continued)

Company

	Software £000
Cost	
At 30 August 2015	77,948
Additions	7,508
Disposals	(2,244)
	<hr/>
At 27 August 2016	83,212
	<hr/>
Accumulated amortisation	
At 30 August 2015	56,648
Charge for the year	6,231
Disposals	(1,458)
	<hr/>
At 27 August 2016	61,421
	<hr/>
Net book value	
At 27 August 2016	21,791
	<hr/> <hr/>
At 29 August 2015	21,300
	<hr/> <hr/>

Notes to the financial statements
for the year ended 27 August 2016

16. Tangible assets

Group

	Land and buildings £000	Fit out, fixtures and equipment £000	Total £000
Cost			
At 30 August 2015	513,672	528,577	1,042,249
Additions	38,500	32,550	71,050
Disposals	(33,881)	(28,008)	(61,889)
At 27 August 2016	518,291	533,119	1,051,410
Accumulated depreciation and impairment			
At 30 August 2015	25,151	400,896	426,047
Charge for the year	19,984	41,661	61,645
Disposals	(29,067)	(27,180)	(56,247)
Transfers between classes	(1)	1	-
Impairment charge for the year	62,552	18,403	80,955
At 27 August 2016	78,619	433,781	512,400
Net book value			
At 27 August 2016	439,672	99,338	539,010
At 29 August 2015	488,521	127,681	616,202

The Group and Company have no assets held under finance leases or hire purchase contracts (2015: £nil).

Analysis of net book value of land and buildings:

	2016 £000	2015 £000
Freehold	122,653	103,180
Long leasehold	186,340	214,434
Short leasehold	130,679	170,907
	439,672	488,521

Notes to the financial statements
for the year ended 27 August 2016

16. Tangible assets (continued)

Company

	Land and buildings £000	Fit out, fixtures and equipment £000	Total £000
Cost			
At 30 August 2015	2,897	65,215	68,112
Additions	33	330	363
Disposals	(14)	(3,339)	(3,353)
At 27 August 2016	2,916	62,206	65,122
Accumulated depreciation and impairment			
At 30 August 2015	92	49,604	49,696
Charge for the year	12	2,827	2,839
Disposals	(5)	(3,293)	(3,298)
Impairment charge for the year	112	-	112
At 27 August 2016	211	49,138	49,349
Net book value			
At 27 August 2016	2,705	13,068	15,773
At 29 August 2015	2,805	15,611	18,416

Analysis of net book value of land and buildings:

	2016 £000	2015 £000
Long leasehold	2,665	2,631
Short leasehold	40	174
	2,705	2,805

The Group and Company have no assets held under finance leases or hire purchase contracts (2015: £nil).

Arcadia Group Limited

**Notes to the financial statements
for the year ended 27 August 2016**

17. Investments

Group

	Loans to Taveta Investments Limited group undertakings £000
Cost	
At 30 August 2015	2,287,981
Additions	82,461
	<hr/>
At 27 August 2016	2,370,442
	<hr/>

Net book value

At 27 August 2016	2,370,442
	<hr/>
At 29 August 2015	2,287,981
	<hr/>

Company

	Shares in subsidiary undertakings £000	Loans to Taveta Investments Limited group undertakings £000	Total £000
Cost			
At 30 August 2015	1,746,791	2,634,660	4,381,451
Additions	-	113,042	113,042
	<hr/>	<hr/>	<hr/>
At 27 August 2016	1,746,791	2,747,702	4,494,493
	<hr/>	<hr/>	<hr/>
Impairment			
At 30 August 2015 and 27 August 2016	292,741	146,286	439,027
	<hr/>	<hr/>	<hr/>
Net book value			
At 27 August 2016	1,454,050	2,601,416	4,055,466
	<hr/>	<hr/>	<hr/>
At 29 August 2015	1,454,050	2,488,374	3,942,424
	<hr/>	<hr/>	<hr/>

For a full list of the Company's related undertakings see note 35.

Arcadia Group Limited

Notes to the financial statements for the year ended 27 August 2016

18. Investment property

Group

	Long leasehold £000
Valuation	
At 30 August 2015	24,500
Surplus on revaluation	17,000
	<hr/>
At 27 August 2016	41,500
	<hr/> <hr/>

The Group's investment property is 7-15 Gresse Street & 12-13 Rathbone Place, London W1.

The 2016 valuations were made by the directors, on an open market value for existing use basis.

The Company has no investment properties (2015: none).

19. Stocks

	Group 2016 £000	Group 2015 £000	Company 2016 £000	Company 2015 £000
Goods for resale	142,991	134,334	244	833
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Group stocks are stated after provision for impairment of £9,300,000 (2015: £11,300,000).

Notes to the financial statements
for the year ended 27 August 2016

20. Debtors

	Group 2016 £000	Group 2015 £000	Company 2016 £000	Company 2015 £000
Amounts falling due after more than one year				
Vendor loan note	-	-	475,000	500,000
Deferred tax asset	80,205	35,437	81,071	34,436
Derivative financial assets	1,109	-	1,109	-
	81,314	35,437	557,180	534,436
Amounts falling due within one year				
Trade debtors	59,574	59,250	1,406	108
Vendor loan note	-	-	25,000	25,000
Other debtors	9,387	7,358	10,783	6,558
Tax recoverable	34	-	2,681	-
Deferred tax asset	6,169	18,964	4,561	9,691
Derivative financial assets	5,821	4,465	5,821	4,465
Prepayments and accrued income	42,119	43,317	3,721	8,825
	123,104	133,354	53,973	54,647

Trade debtors are stated after provisions for impairment of £2,200,000 (2015: £3,700,000).

Vendor loan note

Prior to the sale of a 25% equity interest in Top Shop/Top Man (Holdings) Limited to Leonard Green & Partners, the Company entered into a loan agreement with Top Shop/Top Man Limited to the value of £600 million. A capital repayment of £25 million and interest at 5% is payable per annum.

Notes to the financial statements
for the year ended 27 August 2016

21. Creditors: amounts falling due within one year

	Group 2016 £000	Group 2015 £000	Company 2016 £000	Company 2015 £000
Bank overdrafts	-	-	69,885	15,180
Bank loans	1,700	1,700	-	-
Trade creditors	187,324	204,975	22,769	23,195
Amounts owed to group undertakings	-	-	1,034,171	999,751
Corporation tax payable	-	19,416	-	4,324
Other taxation and social security	23,248	25,882	1,856	865
Other creditors	74,883	70,010	24,651	23,561
Derivative financial liabilities	5,736	1,128	5,736	1,128
Accruals and deferred income	135,718	126,638	42,915	40,508
	428,609	449,749	1,201,983	1,108,512

Amounts owed to group undertakings are unsecured, interest free and repayable on demand.

22. Creditors: amounts falling due after more than one year

	Group 2016 £000	Group 2015 £000	Company 2016 £000	Company 2015 £000
Other creditors	11,411	19,124	11,411	19,124
Derivative financial liabilities	1,860	-	1,860	-
Accruals and deferred income	126,847	123,872	4	-
	140,118	142,996	13,275	19,124

**Notes to the financial statements
for the year ended 27 August 2016**

23. Financial instruments

	Group 2016 £000	Group 2015 £000	Company 2016 £000	Company 2015 £000
Financial assets				
Financial assets measured at fair value through profit and loss	6,930	4,465	6,930	4,465
Financial assets that are debt instruments measured at amortised cost	68,961	66,608	512,188	531,666
	75,891	71,073	519,118	536,131
Financial liabilities				
Financial liabilities measured at amortised cost	(537,883)	(546,320)	(1,135,921)	(1,106,140)
Financial liabilities measured at fair value through profit and loss	(7,596)	(1,128)	(7,596)	(1,128)
	(545,479)	(547,448)	(1,143,517)	(1,107,268)

The Group enters into forward currency contracts to mitigate the exchange rate risk for certain foreign currency payables. At 27 August 2016, the outstanding contracts all mature within 16 months (2015: 8 months) from the year end. At 27 August 2016, the Group was committed to sell €26,200,000, buy \$155,000,000 and sell \$155,000,000.

Financial assets and liabilities measured at fair value through profit and loss comprise derivative financial instruments that are initially measured at fair value on the date on which the contract is entered into and are subsequently measured at fair value through the profit and loss account. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The fair value of the forward currency contract is calculated by reference to current forward exchange contracts with similar maturity profiles. The key assumptions used in valuing the derivatives are the forward exchange rates for GBP:USD and GBP:EUR.

Notes to the financial statements
for the year ended 27 August 2016

24. Deferred taxation

Group

	Deferred tax £000
At 30 August 2015	54,401
Charged to the profit and loss account	(15,009)
Credited to other comprehensive income	46,982
	<hr/>
At 27 August 2016	86,374
	<hr/> <hr/>

Company

	Deferred tax £000
At 30 August 2015	44,127
Charged to the profit and loss account	(5,502)
Credited to other comprehensive income	47,006
	<hr/>
At 27 August 2016	85,631
	<hr/> <hr/>

The deferred tax asset is made up as follows:

	Group 2016 £000	Group 2015 £000	Company 2016 £000	Company 2015 £000
Capital allowances	12,247	4,016	5,409	3,451
Post-employment benefits	76,301	37,646	76,549	37,866
Other timing differences	(2,174)	12,739	3,673	2,810
	<hr/>	<hr/>	<hr/>	<hr/>
	86,374	54,401	85,631	44,127
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Notes to the financial statements
for the year ended 27 August 2016

25. Provisions

Group

	Onerous leases £000	Joint ventures and associates £000	Property provisions £000	Total £000
At 30 August 2015	54,671	1,558	19,615	75,844
Charged/(credited) to the profit and loss account	21,774	2,226	(319)	23,681
Discount unwind	4,248	-	-	4,248
Utilised in year	(20,851)	-	(2,024)	(22,875)
At 27 August 2016	59,842	3,784	17,272	80,898

Onerous leases

The onerous lease provision relating to loss-making stores is discounted at a rate of return of 4%. A decrease in the discount rate of 1% would result in an increase in the provision of approximately £3,500,000 (2015: £2,500,000). Provision has been made for the remaining period of the leases, which on average is 5.0 years (2015: 6.4 years).

The exceptional charge of £21,774,000 reflects an increase in the provision on properties for which a provision was recognised in prior years of £14,439,000, and also an increase in the provisions for new loss-making stores of £7,335,000.

Property provisions

The Group provides for the unavoidable costs of vacant properties and where properties are sublet, any shortfall between the rents payable to its landlords and those recovered under tenancy agreements.

The Group also provides for dilapidations where there is an obligation to repair damages which occur during the life of the lease such as wear and tear. The cost is charged to the profit and loss account as the obligation arises.

Joint ventures and associates

The Group owns 50% of the issued ordinary share capital of Muse Retail Limited ('Muse'), a joint venture of the Group. Muse was engaged in the retailing of fashion accessories and operated in the United Kingdom; it ceased to trade during the year ended 29 August 2015. As Muse had net liabilities at 27 August 2016 the Group has provided for its share of the deficiency.

The Group owns 37.5% of the issued ordinary share capital of Parkwood Topshop Athletic Limited ('Parkwood'), an associate of the Group. Parkwood is engaged in the retailing of athletic wear. As Parkwood had net liabilities at 27 August 2016 the Group has provided for its share of the deficiency.

The Company has no provisions (2015: £nil).

Notes to the financial statements
for the year ended 27 August 2016

26. Called up share capital

	2016 £000	2015 £000
Group and Company Allotted and fully paid		
210,204,000 (2015: 210,204,000) ordinary shares of £0.80 each	168,163	168,163

27. Acquisitions

During the previous financial year the Company purchased the share capital of Wilton Equity Limited (which had the same ultimate controlling party). Wilton Equity Limited was a company which held a single asset only, being a property (Marylebone House, 129/137 Marylebone Road, London). The sale was conducted on an arm's length basis following advice received from a third party valuer for £53,000,000.

	Vendor's book value £000	Fair value adjustments £000	Fair value to the Group £000
Assets and liabilities acquired			
Tangible fixed assets	37,500	15,500	53,000
Deferred tax liabilities	(1,903)	-	(1,903)
Fair value of net assets	35,597	15,500	51,097

The acquisition was satisfied by way of cash consideration of £53,000,000.

The fair value adjustment was required to increase the book value of the property to its market value.

28. Capital commitments

At 27 August 2016 the Group had capital commitments as follows:

	Group 2016 £000	Group 2015 £000	Company 2016 £000	Company 2015 £000
Contracted for but not provided in these financial statements	64,787	34,742	31,495	29,379

**Notes to the financial statements
for the year ended 27 August 2016**

29. Pension commitments

The Group operates four funded defined benefit schemes, for the benefit of eligible current and former employees. All of these schemes provide retirement benefits based on members' final salary and are closed to new entrants and future accruals. Their assets are held in separate trustee administered funds.

One of the schemes has been closed for a number of years and now only provides benefits for deferred and pensioner members. Of the other schemes, two provide benefits for different categories of United Kingdom employees, the Arcadia Group Pension Scheme ('AGPS') and the Arcadia Group Senior Executives Pension Scheme ('AGSEPS'). Hereafter, these schemes are referred to as the 'the UK schemes'. Arcadia Group Limited is the sponsoring employer of the UK schemes and therefore recognises the entire net defined benefit cost in its financial statements.

The final scheme caters specifically for employees based in Ireland. Hereafter, the UK schemes and the Ireland scheme together are referred to as 'the schemes'.

All above employees, and those qualifying employees who weren't previously eligible for membership of the above schemes, are able to join the defined contribution scheme.

The Group also operates a hybrid pension scheme, which has both a defined benefit and a defined contribution section, for the benefit of the former employees of Matte plc. There are no active members of the defined benefit section of this scheme and the liability in this regard is not material for the purposes of disclosure under FRS 102.

On 31 January 2015, an enhanced transfer value exercise was undertaken on the UK Schemes which resulted in a settlement loss of £6,891,000 recognised as an exceptional charge within administrative expenses in the prior year. This represents the enhanced cost of transferring the members' assets and liabilities together with associated professional fees and payments direct to members.

During August 2016, and with the agreement of the trustees of the UK schemes, the Group made an additional prepayment of £25,600,000 in respect of pension contributions for the year ending 26 August 2017. In January 2017, the Group completed its triennial actuarial valuation as at 31 March 2016 with the Group's trustees of the UK schemes and a new Schedule of Contributions has been agreed at £50,000,000 per year (previously £24,300,000) for the next three years.

Group

A reconciliation of the present value of the schemes' liabilities is set out below:

	2016	2015
	£000	£000
Opening present value	947,116	944,719
Pension administration costs	953	1,967
Interest cost	35,472	49,303
Settlement of liabilities in ETV exercise	-	(66,082)
Actuarial losses	330,479	50,567
Net benefits paid out	(39,889)	(32,900)
Foreign exchange movements	645	(458)
	<hr/>	<hr/>
Closing present value	1,274,776	947,116
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Notes to the financial statements
for the year ended 27 August 2016

29. Pension commitments (continued)

A reconciliation of the fair value of the schemes' assets is set out below:

	2016 £000	2015 £000
Opening fair value	757,510	820,821
Return on plan assets (excluding interest income)	51,860	(39,216)
Employer contributions	49,421	42,484
Settlement of assets in ETV exercise	-	(72,973)
Administrative expenses paid out	(14)	-
Net benefits paid out	(39,889)	(32,900)
Foreign exchange movements	402	(254)
Interest income	28,661	39,548
Closing fair value	847,951	757,510

Composition of plan assets:

	2016 £000	2015 £000
Equities	1,949	1,654
Bonds	882,411	697,333
Hedge funds	975	772
Property	303	565
Cash	67,157	80,633
Other	(104,844)	(23,447)
Total plan assets	847,951	757,510

Other plan assets include interest rate swaps which are used to generate a return from the gilt swap spread. The value of these derivatives varies with the market conditions through changes in government bond and swap yields.

Notes to the financial statements
for the year ended 27 August 2016

29. Pension commitments (continued)

	2016 £000	2015 £000
Fair value of plan assets	847,951	757,510
Present value of plan liabilities	(1,274,776)	(947,116)
Net pension scheme liability	(426,825)	(189,606)

The amounts recognised in the profit and loss account are as follows:

	2016 £000	2015 £000
Pension administration costs	(967)	(1,967)
ETV settlement loss	-	(6,891)
Total operating charge	(967)	(8,858)

The other finance expense is analysed below:

Net interest on net defined benefit liability	(6,811)	(4,408)
Net expense	6,811	4,408

The pension administration costs are included within administrative expenses.

The ETV settlement loss was included within exceptional administrative expenses.

The return on the plan assets was:

	2016 £000	2015 £000
Interest income	28,661	39,548
Actuarial gains/(losses)	51,860	(39,216)
Total return/(loss) on plan assets	80,521	332

**Notes to the financial statements
for the year ended 27 August 2016**

29. Pension commitments (continued)

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages):

	2016	2015
	%	%
Discount rate	2.1	3.9
RPI inflation	2.9	3.1
CPI inflation	1.9	2.0
Mortality rates		
- for a male aged 65 now	86.8	87.0
- at 65 for a male aged 45 now	88.5	88.7
- for a female aged 65 now	89.1	89.3
- at 65 for a female aged 45 now	91.0	91.2

Amounts for the current and previous four years are as follows:

	2016	2015	2014	2013	2012
	£000	£000	£000	£000	£000
Fair value of the schemes' assets	847,951	757,510	1,339,943	1,237,213	1,149,190
Present value of the schemes' liabilities	(1,274,776)	(947,116)	(1,603,468)	(1,529,642)	(1,418,527)
Deficit	(426,825)	(189,606)	(263,525)	(292,429)	(269,337)

Defined contribution schemes

Employer contributions to the Group's defined contribution scheme were £5,868,000 (2015: £6,365,000). Employer contributions of £nil (2015: £861,000) were paid to the Bhs defined contribution scheme, relating to the balances due up to the point of sale in March 2015.

The pension cost under the defined contribution section of the Matte plc pension scheme, referred to earlier, was £nil (2015: £nil). The Group also operates a personal pension plan for the benefit of Matte plc's former employees, to which it contributed £46,000 (2015: £51,000) during the year.

Total pension charge

The Group's net pension charge, including other finance costs, for the year ended 27 August 2016 was £7,778,000 ((2015: £13,266,000).

The Company's net pension charge, including other finance costs, for the year ended 27 August 2016 was £7,754,000 (2015: £13,262,000).

Notes to the financial statements
for the year ended 27 August 2016

29. Pension commitments (continued)

Company

A reconciliation of the present value of the UK schemes' liabilities is set out below:

	2016 £000	2015 £000
Opening present value	938,482	948,845
Pension administration costs	941	1,610
Interest cost	35,196	36,173
Actuarial losses	328,018	50,586
Settlement of liabilities in ETV exercise	-	(66,082)
Net benefits paid out	(39,674)	(32,650)
Closing present value	1,262,963	938,482

A reconciliation of the fair value of the UK schemes' assets is set out below:

	2016 £000	2015 £000
Opening fair value	749,152	825,006
Return on plan assets (excluding interest income)	50,459	(46,422)
Employer contributions	49,368	37,431
Settlement of assets in ETV exercise	-	(72,973)
Net benefits paid out	(39,674)	(32,650)
Interest income	28,383	38,760
Closing fair value	837,688	749,152

Composition of plan assets:

	2016 £000	2015 £000
Bonds	881,593	696,675
Property	144	381
Cash	67,143	80,622
Other	(111,192)	(28,526)
Total plan assets	837,688	749,152

Notes to the financial statements
for the year ended 27 August 2016

29. Pension commitments (continued)

	2016 £000	2015 £000
Fair value of plan assets	837,688	749,152
Present value of plan liabilities	(1,262,963)	(938,482)
Net pension scheme liability	(425,275)	(189,330)

The amounts recognised in the profit and loss account are as follows:

	2016 £000	2015 £000
Pension administration costs	(941)	(1,610)
ETV settlement loss	-	(6,891)
Total operating charge	(941)	(8,501)

The pension administration costs are included within administration expenses.

The ETV settlement loss was included within exceptional administrative expenses.

Net interest on net defined benefit liability of £6,813,000 (2015: £4,408,000) is included within other finance expense.

The return on the plan assets was:

	2016 £000	2015 £000
Interest income	28,383	38,760
Actuarial gains/(losses)	50,459	(46,422)
Total return/(loss) on plan assets	78,842	(7,662)

**Notes to the financial statements
for the year ended 27 August 2016**

30. Operating lease commitments

At 27 August 2016 the Group had total minimum lease payments under non-cancellable operating leases as follows:

	Group	Group	Company	Company
	2016	2015	2016	2015
	£000	£000	£000	£000
Within 1 year	188,418	188,081	2,263	1,228
Between 2 and 5 years	464,620	464,984	4,218	3,562
After more than 5 years	767,900	832,988	5,844	6,425
Total	1,420,938	1,486,053	12,325	11,215

31. Related party transactions

During the previous financial year, the Company purchased the share capital of Wilton Equity Limited (which had the same ultimate controlling party). Wilton Equity Limited owned a property (Marylebone House, 129/137 Marylebone Road, London). The purchase was conducted on an arm's length basis following advice received from a third party valuer for £53,000,000 (see note 28).

Muse Retail Limited ('Muse') is a joint venture between the Company and DCK Concessions Limited. The Group sub-let premises to Muse and provided it with support in a number of areas including marketing, finance, treasury and IT. During the year the Group invoiced Muse £nil (2015: £168,000) in this regard. At the year end Muse owed the Group £1,547,000 (2015: £1,909,000), which has been fully provided against.

Parkwood Topshop Athletic Limited ('Parkwood') is an associate investment held by Top Shop/Top Man Limited ('TSTM') and Parkwood Athletic LLC to develop a brand for athletic wear. During the year, TSTM provided funding of £5,129,000 (2015: £981,000) to Parkwood.

The Company is a member of Fashion Retail Academy ('FRA'), a private training provider delivering a range of higher and further education courses with an emphasis on fashion retailing. FRA is a company limited by guarantee. During the year, the Group invoiced FRA £1,475,000 (2015: £1,402,000), mainly in respect of property and marketing expenditure, and made a donation to FRA of £1,997,000 (2015: £1,488,000). The Group also provided FRA with other services on a gratis basis. During the year, FRA charged the Group £nil (2015: £23,000) for the use of its facilities. At the year end FRA owed the Group £166,000 (2015: the Group owed FRA £387,000).

On 10 March 2017, a wholly-owned subsidiary of the Company entered into a redevelopment agreement with Thackeray Estates Group Limited ("Thackeray"), in the ordinary course of business. Thackeray is a company controlled by a close family member and director of the Company's ultimate controlling party. Thackeray has been appointed by the subsidiary company noted above to manage a property redevelopment project. No monetary transactions have taken place prior to the approval of the financial statements. As a result, no balances are outstanding as at the date the financial statements were approved by the board.

Arcadia Group Limited

Notes to the financial statements for the year ended 27 August 2016

32. Post balance sheet events

Since 25 March 2015, the Company's ultimate parent company, Taveta Investments Limited, and its subsidiary companies ("the Taveta Group") have been in dialogue with The Pensions Regulator ("the Regulator") which has been using its powers under section 72 of the Pensions Act 2004 to gather information and documentation from the Taveta Group in connection with the Bhs pension schemes and certain aspects of the Arcadia Group pension schemes. On 2 November 2016 the Regulator issued a Warning Notice to Sir Philip Green (a group director and shareholder), Taveta Investments Limited and Taveta Investments (No. 2) Limited (the Company's immediate parent company) indicating that it intended to apply to use its powers to issue Financial Support Directions and/or Contribution Notices. On 28 February 2017 following payment by Sir Philip Green of a settlement amount for the benefit of the members of the Bhs pension schemes, the Regulator has withdrawn its Warning Notice and has given clearance to Sir Philip Green, Taveta Investments Limited, Taveta Investments (No. 2) Limited and a number of other entities within the Taveta Group and a number of individuals in relation to the Bhs pension schemes and the Arcadia Group pension schemes. The Taveta Group does not anticipate any future financial exposure in relation to the matters cleared by the Regulator.

33. Contingent liabilities

The Company has given a guarantee in respect of the borrowings of its immediate parent company, Taveta Investments (No. 2) Limited, which amounted to £369,000,000 (2015: £318,300,000). The guarantee is secured by a charge on Company's freehold property.

The Company has given guarantees in respect of property leases held by other group companies, which at 27 August 2017 amounted to £20,269,000 (2015: £18,079,000).

34. Ultimate parent undertaking and controlling party

The Company's immediate parent company is Taveta Investments (No. 2) Limited, a company incorporated in England. The Company's ultimate parent company is Taveta Investments Limited, a company incorporated in England. The largest and smallest group to consolidate these financial statements is Taveta Investments Limited ("Taveta"). Taveta consolidated financial statements can be obtained by writing to the secretary at Colegrave House, 70 Berners Street, London, W1T 3NL.

The Company's ultimate controlling party is Lady Cristina Green.

Arcadia Group Limited

Notes to the financial statements for the year ended 27 August 2016

35. Related undertakings

With the exception of Gresse Street Limited (53%), Muse Retail Limited (50%), Parkwood Topshop Athletic Limited (37.5%) and the Top Shop/Top Man (Holdings) Limited group (denoted *) (75%), the Group owns the whole of the issued share capital of the group undertakings listed below.

Name	Country of operation	Country of registration	Principal activity
Arcadia Group Brands Limited*	United Kingdom	England	Holding company
Arcadia Group Design & Development Limited	United Kingdom	England	Store design and fit-out
Arcadia Group Fashion Holdings Limited	United Kingdom	England	Holding company
Arcadia Group Holdings Limited	United Kingdom	England	Non-trading
Arcadia Group (Hong Kong) Limited	Hong Kong	Hong Kong	Fashion procurement
Arcadia Group Pension Trust Limited	United Kingdom	England	Corporate trustee
Arcadia Group Retail Limited	United Kingdom	England	Dormant
Arcadia Group (USA) Limited *	USA	England	Fashion retailing
Arcadia Retail Group Limited	United Kingdom	England	Dormant
Arcadia Stancepower Holdings Limited	United Kingdom	England	Holding company
Arcadia (401k) Trustee Limited	United Kingdom	England	Dormant
AG Clothing Limited	United Kingdom	England	Brand management
AG Clothing (Holdings) Limited	United Kingdom	England	Holding company
AG Fashion Limited	United Kingdom	England	Dormant
AG Insurance Company Limited	Guernsey	Guernsey	Captive insurer
AG Retail Holdings (Ireland) Limited	Ireland	Ireland	Holding company
AG Senior Executives Pension Trustee Limited	United Kingdom	England	Corporate trustee
Arcadia Group Multiples (Ireland) Limited	Ireland	Ireland	Fashion retailing
BE Leasing Limited	United Kingdom	England	Dormant
Boothouse Limited	United Kingdom	England	Dormant
Burton/Dorothy Perkins Properties Limited	United Kingdom	England	Property investment
Burton Property Trust Limited	United Kingdom	England	Dormant
Burton Retail Limited	United Kingdom	England	Fashion retailing
Burton Trading Limited	United Kingdom	England	Fashion retailing
Caraway Group Limited	United Kingdom	England	Dormant
Castle Trustee Limited	United Kingdom	England	Corporate trustee
Collier Finance Limited	United Kingdom	England	Non-trading
Dorothy Perkins Limited	United Kingdom	England	Property investment
Dorothy Perkins Retail Limited	United Kingdom	England	Fashion retailing
Dorothy Perkins Trading Limited	United Kingdom	England	Fashion retailing

Arcadia Group Limited

**Notes to the financial statements
for the year ended 27 August 2016**

35. Related undertakings (continued)

Name	Country of operation	Country of registration	Principal activity
Evans Limited	United Kingdom	England	Fashion retailing
Evans Retail Limited	United Kingdom	England	Fashion retailing
Evans Retail Properties Limited	United Kingdom	England	Property investment
GE Investors Jersey (No.2) Limited	Jersey	Jersey	Dormant
Gresse Street Limited	United Kingdom	England	Property investment
Hudson Accounting (No 1) Limited	United Kingdom	England	Dormant
Hudson Accounting (No 2) Limited	United Kingdom	England	Dormant
Matte Card Services Limited	United Kingdom	England	Dormant
Miss Selfridge Retail Limited	United Kingdom	England	Fashion retailing
Miss Selfridge Retail (Ireland) Limited	Ireland	Ireland	Fashion retailing
Miss Selfridge Properties Limited	United Kingdom	England	Property investment
Montague Burton Employees Savings Trustee Limited	United Kingdom	England	Dormant
Montague Burton Properties Limited	United Kingdom	England	Dormant
Montague Burton Property Investments Limited	United Kingdom	England	Dormant
Muse Retail Limited	United Kingdom	England	Fashion retailing
Outfit Retail Limited	United Kingdom	England	Fashion retailing
Outfit Retail Properties Limited	United Kingdom	England	Property investment
Parkwood Topshop Athletic Limited	United Kingdom	England	Fashion retailing
Redcastle Limited	United Kingdom	England	Property investment
Redcastle (214 Oxford Street) Limited	United Kingdom	England	Property investment
Redcastle Finance Limited	United Kingdom	England	Holding company
Redcastle (Holdings) Limited	United Kingdom	England	Holding company
Redcastle Investments Limited	United Kingdom	England	Dormant
Redcastle Properties Limited	United Kingdom	England	Dormant
Redcastle Property Mortgage Limited	United Kingdom	England	Property investment
Redcastle (Freeholds) Limited	United Kingdom	England	Property investment
Redcastle (Leaseholds) Limited	United Kingdom	England	Property investment
Redcastle (TS/TM) Limited	United Kingdom	England	Property investment
Richards Investment Limited	United Kingdom	England	Holding company
Stancepower	United Kingdom	England	Dormant
SVML Limited	United Kingdom	England	Dormant
Tammy (Girlswear) Limited	United Kingdom	England	Dormant
Top Shop/Top Man Limited *	United Kingdom	England	Fashion retailing

**Notes to the financial statements
for the year ended 27 August 2016**

35. Related undertakings (continued)

Name	Country of operation	Country of registration	Principal activity
Top Shop/Top Man (Germany) Limited*	United Kingdom	England	Dormant
Top Shop/Top Man (Holdings) Limited *	United Kingdom	England	Holding company
Top Shop/Top Man (Ireland) Limited *	Ireland	Ireland	Fashion retailing
Top Shop/Top Man Properties Limited *	United Kingdom	England	Property investment
Top Shop/Top Man (Trinity) Limited*	United Kingdom	England	Dormant
Top Shop/Top Man (Wholesale) Limited *	United Kingdom	England	Fashion retailing
Top Shop/Top Man (Netherlands) B.V. *	Netherlands	Netherlands	Property holding
Wallis (London) Limited	United Kingdom	England	Dormant
Wallis Retail Limited	United Kingdom	England	Fashion retailing
Wallis Retail (Ireland) Limited	Ireland	Ireland	Fashion retailing
Wallis Retail Properties Limited	United Kingdom	England British Virgin Islands	Property investment Property investment
Wilton Equity Limited	United Kingdom	Islands	investment
Zoom.co.uk Limited	United Kingdom	England	E-commerce

Arcadia Group Limited

Notes to the financial statements
for the year ended 27 August 2016

36. First time adoption of FRS 102
Group

		As previously stated 31 August 2014 £000	Effect of transition 31 August 2014 £000	FRS 102 (as restated) 31 August 2014 £000	As previously stated 29 August 2015 £000	Effect of transition 29 August 2015 £000	FRS 102 (as restated) 29 August 2015 £000
Fixed assets	6	3,176,373	-	3,176,373	3,017,127	(36,789)	2,980,338
Current assets	1,5,6	444,705	65,984	510,689	479,793	52,348	532,141
Creditors: amounts falling due within one year	1,2,3	(491,343)	(61,067)	(552,410)	(504,073)	54,324	(449,749)
Net current (liabilities)/assets		(46,638)	4,917	(41,721)	(24,280)	106,672	82,392
Total assets less current (liabilities)/assets		3,129,735	4,917	3,134,652	2,992,847	69,883	3,062,730
Creditors: amounts falling due after more than one year		(100,314)	-	(100,314)	(78,788)	(64,208)	(142,996)
Provisions for liabilities	7	(175,373)	(52,352)	(227,725)	(212,269)	(53,181)	(265,450)
Net assets		2,854,048	(47,435)	2,806,613	2,701,790	(47,506)	2,654,284
Total equity		2,854,048	(47,435)	2,806,613	2,701,790	(47,506)	2,654,284

Notes to the financial statements
for the year ended 27 August 2016

36. First time adoption of FRS 102 (continued)

		As previously stated 29 August 2015 £000	Effect of transition 29 August 2015 £000	FRS 102 (as restated) 29 August 2015 £000
	Note			
Turnover		2,069,267	-	2,069,267
Cost of sales	1,2,3	(1,771,379)	980	(1,770,399)
Gross profit		297,888	980	298,868
Distribution costs		(47,498)	-	(47,498)
Administrative expenses		(42,149)	-	(42,149)
Other operating income		32,888	-	32,888
Operating profit before goodwill amortisation and losses from associates and joint ventures		241,129	980	242,109
Loss from associates and joint ventures		(354)	-	(354)
Goodwill amortisation		(995)	-	(995)
Loss on sale of Bhs		(310,875)	-	(310,875)
Interest receivable and similar income		63,651	-	63,651
Interest payable and similar charges		(7,234)	-	(7,234)
Other finance expense	4	2,589	(6,997)	(4,408)
Loss on ordinary activities before tax		(12,089)	(6,017)	(18,106)
Tax on loss on ordinary activities	5	(63,443)	336	(63,107)
Loss for the financial year		(75,532)	(5,681)	(81,213)

Explanation of changes to previously reported profit and equity:

1 Derivative financial instruments

FRS 102 requires derivative financial instruments to be recognised at fair value. Previously under UK GAAP the Group did not recognise these instruments in the financial statements. The Group uses currency forward contracts to manage its exposure to foreign currency risk. Accordingly, at transition, current assets of £4,167,000 and current liabilities of £10,094,000 were recognised with the net impact of £5,927,000 reducing retained earnings. A pre-tax credit of £9,264,000 was recognised in the profit and loss account for the year ended 29 August 2015. Current assets of £4,465,000 and current liabilities of £1,128,000 were recognised at 29 August 2015.

**Notes to the financial statements
for the year ended 27 August 2016**

36. First time adoption of FRS 102 (continued)

2 Holiday pay

FRS 102 requires short term employee benefits to be charged to the profit and loss account as the employee service is received. Previously holiday pay accruals were not recognised and were charged to the profit and loss account as they were paid. This has resulted in the Group recognising a liability for holiday pay of £1,327,000 on transition to FRS 102. In the year to 29 August 2015 a credit of £51,000 was recognised in the profit and loss account and the liability at 29 August 2015 was £1,276,000.

3 Lease incentives

Under previous UK GAAP, operating lease incentives, including rent free periods and fit-out contributions, were spread over the shorter of the lease period or the period to when the rental was set to a fair market rent. FRS 102 requires that such incentives to be spread over the lease period. The Group has elected for a full conversion meaning the FRS 102 accounting policy has been applied to all leases existing before and after the transition date. Accordingly at transition, deferred income of £50,048,000 was recognised with a corresponding reduction in retained earnings. For the year to 29 August 2015 there was an increase in the operating lease charge of £7,988,000. Deferred income of £57,340,000 was recognised at 29 August 2015.

4 Defined benefit scheme

Under previous UK GAAP the Group recognised the expected return on defined benefit plan assets in the profit and loss account. Under FRS 102 a net interest expense, based on the net defined benefit liability, is recognised in the profit and loss account. There has been no change in the defined benefit liability at 29 August 2015. The effect of the change has been to charge the profit and loss account in the year to 29 August 2015 with £6,997,000 and to credit other comprehensive income by the equivalent amount.

5 Deferred taxation

The impact of deferred tax as a result of the adjustments noted items 2 to 5 increased the deferred tax asset by £9,679,000 at the transition date. The movement in the year to 29 August 2015 resulted in a credit to the profit and loss account of £185,000 and a debit to other comprehensive income of £1,903,000. The asset in respect of deferred tax on items 2 to 5 at 29 August 2015 totalled £7,591,000.

FRS 102 also requires deferred tax to be provided in respect of reserves held in overseas subsidiaries which would give rise to a tax liability if such reserves were repatriated back to the UK. As a result of this, the deferred tax provision at the transition date has increased by £188,000. Subsequent movements in the year to 29 August 2015 resulted in a credit to the profit and loss account of £6,000. The liability in respect of deferred tax on unremitted earnings at 29 August 2015 totalled £182,000.

**Notes to the financial statements
for the year ended 27 August 2016**

36. First time adoption of FRS 102 (continued)

6 Other adjustments arising on transition to FRS 102

In addition to the transition adjustments identified above which affect profit for the financial year, the following adjustments have arisen which have had no effect on net equity or the profit and loss account but which have affected the presentation of these items on the balance sheet. The main items are:

(a) Computer software, with a net book value of £33,731,000 at 31 August 2014, has been reclassified from tangible to intangible assets as required under FRS 102. This has no effect on the Group's net assets nor on the profit for the year, except that the previous depreciation charge is now described as amortisation. The amount reclassified at 29 August 2015 was £49,496,000.

(b) Under FRS 102 the deferred tax asset at 31 August 2014 of £52,352,000, arising on the post employment benefit liability, is now included within deferred tax on the balance sheet. Under the previous UK GAAP, and applying FRS 17 and FRS 19, the deferred tax asset arising on the post employment liability was offset against the liability. This has no effect on the Group's equity or profit for the year.

(c) Under FRS 102, revaluation movements on investment property are reflected within profit rather than in a separate revaluation reserve and are considered to be non-distributable in nature. Therefore, the revaluation reserve at 31 August 2014 of £6,482,000 is now included within retained earnings.

7 Statement of cash flows

The Group's cash flow statement reflects the presentation requirements of FRS 102, which is different to that prepared under FRS 1. In addition the cash flow statement reconciles to cash and cash equivalents whereas under previous UK GAAP the cash flow statement reconciled to cash at bank and in hand. There has been no impact of this change on the Group.

Arcadia Group Limited

Notes to the financial statements
for the year ended 27 August 2016

36. First time adoption of FRS 102 (continued)

Company

	As previously stated 31 August 2014 £000	Effect of transition 31 August 2014 £000	FRS 102 (as restated) 31 August 2014 £000	As previously stated 29 August 2015 £000	Effect of transition 29 August 2015 £000	FRS 102 (as restated) 29 August 2015 £000
Fixed assets	4,069,914	-	4,069,914	3,982,140	-	3,982,140
Current assets	594,320	18,849	613,169	553,106	41,501	594,607
Creditors: amounts falling due within one year	(122,256)	(5,999)	(128,255)	(136,702)	(971,810)	(1,108,512)
Net current assets/(liabilities)	472,064	12,850	484,914	416,404	(930,309)	(513,905)
Total assets less current liabilities	4,541,978	12,850	4,554,828	4,398,544	(930,309)	3,468,235
Creditors: amounts falling due after more than one year	(878,250)	-	(878,250)	(989,716)	970,592	(19,124)
Provisions for liabilities	-	(129,306)	(129,306)	-	(189,330)	(189,330)
Net assets	3,663,728	(116,456)	3,547,272	3,408,828	(149,047)	3,259,781
Capital and reserves	3,663,728	(116,456)	3,547,272	3,408,828	(149,047)	3,259,781

**Notes to the financial statements
for the year ended 27 August 2016**

36. First time adoption of FRS 102 (continued)

Explanation of changes to previously reported profit and equity:

1 Defined benefit scheme

FRS 102 requires pension deficits, and the associated deferred tax asset, to be recognised on the balance sheet of the sponsoring company. Previously, under UK GAAP, deficits were recognised on consolidation. As a result, the Company recognised a pension deficit of £129,306,000 and a deferred tax asset of £17,882,000 at the transition date, with the net impact of £111,424,000 reducing retained earnings.

A debit of £71,448,000 was recognised in retained earnings and a credit of £31,408,000 was recognised in the profit and loss account for the year ended 29 August 2015. A pension deficit of £189,330,000 and a deferred tax asset of £37,866,000 was recognised at 29 August 2015.

2 Holiday pay

FRS 102 requires short term employee benefits to be charged to the profit and loss account as the employee service is received. Previously holiday pay accruals were not recognised and were charged to the profit and loss account as they were paid. This has resulted in the Company recognising a liability for holiday pay of £73,000 on transition to FRS 102. In the year to 29 August 2015 a credit of £37,000 was recognised in the profit and loss account and the liability at 29 August 2015 was £36,000.

3 Derivative financial instruments

FRS 102 requires derivative financial instruments to be recognised at fair value. Previously under UK GAAP the Company did not recognise these instruments in the financial statements. The Company uses currency forward contracts to manage its exposure to foreign currency risk. Accordingly, at transition, current assets of £4,167,000 and current liabilities of £10,094,000 were recognised with the net impact of £5,927,000 reducing retained earnings. A pre-tax credit of £9,264,000 was recognised in the profit and loss account for the year ended 29 August 2015. Assets of £4,465,000 and liabilities of £1,128,000 were recognised at 29 August 2015.

4 Lease incentives

Under previous UK GAAP, operating lease incentives, including rent free periods and fit-out contributions, were spread over the shorter of the lease period or the period to when the rental was set to a fair market rent. FRS 102 requires that such incentives to be spread over the lease period. The Company has elected for a full conversion meaning the FRS 102 accounting policy has been applied to all leases existing before and after the transition date. Accordingly at transition, deferred income of £244,000 was recognised with a corresponding reduction in retained earnings. For the year to 29 August 2015 there was an decrease in the operating lease charge of £10,000. Deferred income of £234,000 and an intercompany creditor of £6,000 was recognised at 29 August 2015.

5 Deferred taxation

The impact of deferred tax as a result of the adjustments noted items 2 to 5 increased the deferred tax asset by £1,212,000 at the transition date. The movement in the year to 29 August 2015 resulted in a debit to the profit and loss account of £1,862,000. The liability in respect of deferred tax on items 2 to 5 at 29 August 2015 totalled £650,000.

**Notes to the financial statements
for the year ended 27 August 2016**

36. First time adoption of FRS 102 (continued)

6 Other adjustments arising on transition to FRS 102

In addition to the transition adjustments identified above which affect profit for the financial year, the following adjustments have arisen which have had no effect on net equity or the profit and loss account but which have affected the presentation of these items on the balance sheet. The main items are:

(a) Computer software, with a net book value of £21,230,000 at 29 August 2015, has been reclassified from tangible to intangible assets as required under FRS 102. This has no effect on the Company's net assets nor on the profit for the year, except that the previous depreciation charge is now described as amortisation. There was no software held at the date of transition which required reclassification.