SHOP DIRECT

very Littlewoods

MAKING GOOD THINGS EASILY ACCESSIBLE TO MORE PEOPLE

Annual Report and Group Financial Statements 2018/2019

THE NUMBER ONE DESTINATION FOR SHOPPERS WHO VALUE FLEXIBLE WAYS TO PAY

With annual sales of £2.0bn, Shop Direct is the UK's largest integrated pure play digital retailer and financial services provider. Our digital multi-category stores Very.co.uk, Littlewoods.com and LittlewoodsIreland.ie sell over 1,900 brands and receive 1.5m website visits a day, with 79% of online sales completed on mobile devices.

With our multi-category store range of famous brands, market-leading eCommerce and technology capabilities and unique financial services products offering flexible ways to pay, we make good things easily accessible to more people.

OUR AMBITION

To be the number one destination for shoppers who value flexible ways to pay.

OUR PURPOSE

Make good things easily accessible to more people.

STRATEGIC REPORT

GOVERNANCE

FINANCIAL STATEMENTS

Find out more:
www.shopdirect.com

OPERATING AND FINANCIAL HIGHLIGHTS

GROUP SALES

FY15	£1,783.6m	
FY16	£1,861.1m	
FY17	£1,929.9m	
FY18	£1,958.8m	
FY19	£1,993.4m	+1.8%

EBITDA[1]

FY15	£195.1m	
FY16	£230.5m	
FY17	£236.4m	
FY18	£262.3m	
FY19	£271.0m	+3.3%

PRE-EXCEPTIONAL OPERATING PROFIT[2]

FY15	£161.7m	
FY16	£203.3m	
FY17	£205.2m	
FY18	£224.6m	
FY19	£226.2m	+0.7%

MOBILE SALES MIX
(AS % TOTAL ONLINE SALES)

FY15	56%	
FY16	62%	
FY17	69%	
FY18	74%	
FY19	79%	+5%pts

1 EBITDA is defined in Note 6 to the Financial Statements (Pre-exceptional EBITDA).
2 Pre-exceptional operating profit calculated as profit before tax, exceptional items and net finance costs.

- Group sales up 1.8% to £1,993.4m (FY18: £1,958.8m)
- Very sales up 7.1% to £1,488.1m (FY18: £1,389.1m)
- Littlewoods controlled rate of sales decline improved – down 11.3% to £505.3m (FY18: £569.7m)
- Group gross margin down 0.3%pts to 39.6% (FY18: 39.9%)
- EBITDA[1] up 3.3% to £271.0m (FY18: £262.3m)
- Operating profit[2] (pre-exceptional) up 0.7% to £226.2m (FY18: £224.6m)
- Loss before tax £185.5m (FY18 loss before tax: £24.7m). Includes exceptional items of £310.2m driven by £241.0m increase in regulatory provision to cover customer redress payments for historical shopping insurance sales for which the Group is currently evaluating a number of funding options to meet this additional liability and as such the financial statements have a material uncertainty as detailed in Note 2. Other exceptional charges of £69.2m including impairment of goodwill associated with the Douglas Insurance business, closure of the Littlewoods Clearance business, and exceptional items associated with the new customer fulfilment centre
- Appetite for mobile grown +5%pts – now 79% of online sales (FY18: 74%)
- Very customers increased 5.7% to 2.98m, boosting total Group customers by 0.7% to 4.05m (FY18: 4.02m)

A unique digital business

OUR BUSINESS AT A GLANCE

VERY.CO.UK

Our digital multi-category store, focusing on style-conscious, aspirational men and women.

VERY SALES

FY15	£967.8m	
FY16	£1,122.1m	
FY17	£1,263.5m	
FY18	£1,389.1m	
FY19	£1,488.1m	+7.1%

+22.9%
Growth in smartphone app orders

SALES[1] (FY19)
£1,488.1m
(+7.1%)

EBITDA CONTRIBUTION[2] (FY19)
£344.3m
(+5.9%)

ONLINE VISITS (FY19)
406.7m
(+8.6%)

- A UK online multi-category store with big-name brands
- Offers customers a broad, curated and inspiring selection of products
- Flexible ways to pay via unique financial services products allowing customers to buy what they want when they need it most

1 Very sales include Very.co.uk and VeryExclusive.co.uk.
2 EBITDA contribution is stated before central costs. See Note 6 to the Financial Statements for more details.

We're a unique digital business with an integrated retail and financial services model – bringing desirable brands within reach of more customers.

Littlewoods

Established in 1923, our family-focused digital multi-category store has a loyal customer base.

LITTLEWOODS SALES

FY15	£815.8m	
FY16	£739.0m	
FY17	£666.4m	
FY18	£569.7m	
FY19	£505.3m	-11.3%

52.3%
credit customers retained for 5+ years[4]

SALES[3] (FY19)
£505.3m
(-11.3%)

EBITDA CONTRIBUTION[2] (FY19)
£139.9m
(-1.8%)

ONLINE VISITS (FY19)
138.9m
(-5.2%)

- Offers the big brands our customers desire, for themselves and all the family
- Services a wide range of customers
- Flexible ways to pay via unique financial services products allowing customers to buy what they want when they need it most

3 Littlewoods sales include Littlewoods.com and LittlewoodsIreland.ie.
4 Credit customer retention rate excludes Littlewoods Ireland.

Our transformation

OUR TIMELINE

Now transformed into a leading digital retailer, we've been serving UK customers for well over a century.

ESTABLISHING THE BRANDS

1890
Kay & Co founded

1932
Littlewoods Home Shopping founded

1980s
Telephone ordering launched

1990s
eCommerce launched

Our heritage dates back to Kay & Co mail-order catalogues in 1890 and Littlewoods founded in 1932.

MERGING THE BRANDS

2002–2003
- Littlewoods acquired
- Great Universal Stores catalogue business acquired, renamed Shop Direct

2005
- Index brand and stores sold
- Littlewoods stores sold
- Littlewoods and Shop Direct merge, forming UK's largest home shopping business

The Barclay family brings the brands together to form one retail giant, Shop Direct.

FOCUSED EXPANSION & GROWTH OF ECOMMERCE

2009
- Very.co.uk created to drive online growth, targeting younger customers

2014–2015
- Very overtakes Littlewoods to become our largest brand

From a modest start in the 1990s, eCommerce becomes our growth engine.

ACCELERATED TRANSFORMATION

2015–2019

- Catalogue distribution ends after 80 years
- Own brands simplified with launch of V by Very
- Focus on two retail power brands
- Very celebrates its 10th birthday

OUR FUTURE

- Shop Direct rebranding to The Very Group
- Maximising our proposition of brands and credit
- Utilising technology and data to fulfil the potential of the business
- Modern infrastructure and platforms

The development of our new automated fulfilment centre in the East Midlands will position the business for ongoing, sustainable growth.

GROUP CHIEF EXECUTIVE'S REVIEW

I am very pleased to be presenting a strong set of underlying results and good progress across our strategic objectives in my first full financial year as chief executive of Shop Direct.

OUTPERFORMING IN CHALLENGING TIMES

Our performance has been achieved against a changing, and often challenging, economic backdrop, but we have been able to continue to outperform the market in terms of sales and produce good EBITDA[1] growth.

BUILDING ON OUR DISTINCTIVE BUSINESS MODEL AND CUSTOMER BASE

Shop Direct's business model and customer base set the business apart in an increasingly competitive landscape. Our model, which combines multi-category retail with the provision of credit, has been at the heart of the business since its earliest days over 100 years ago. The channels for delivering that model have changed – from the doorstep to shops to the phone to digital – but we have remained the leading pioneers and innovators in our field. Our target customer base, those 11m customers in the UK who actively seek a retailer that provides ways of spreading the cost, is also tightly defined. While our digital 'doors' will always be open to all in the UK, we know and understand our core customers: 'customers who value flexible ways to pay'. That focus combined with a track record of resilience and adaptability mean we are well-positioned to sustain through economic or political uncertainties ahead.

CONTINUING TO INVEST FOR ADVANTAGE

We continue to invest across our business for today, through initiatives like our Customer Closeness Centre, and tomorrow, with the ongoing development of our new automated fulfilment centre in the East Midlands. We also continue to invest in our colleagues at every level: from a reshaped executive management team to hiring 50 of the best and brightest recent graduates. Our colleagues remain our greatest asset and their energy, focus and ingenuity give us competitive advantage.

KEEPING ON GROWING

Over the year ahead, we intend to continue to grow our business: adding more customers, driving growth in each of our retail categories and increasing our debtor book. We remain well-positioned for growth over the short and long term thanks to our differentiated and resilient business model, which combines our multi-category retail offer with financial services products, and our loyal and growing base of 4m customers.

FY19 PERFORMANCE

INCREASING REVENUE

Group revenue grew by 1.8% to £1,993.4m, driven by Very's performance and the popularity of the brand's mobile apps.

Revenue at Very climbed 7.1% to £1,488.1m, underpinned by strong showings in clothing and footwear and seasonal products, in particular. Very's performance was further supported by customer acquisition. Very customers grew 5.7% to 2.98m, boosting total Group customers by 0.7% to 4.05m. Very's expansion was partially offset by Littlewoods with revenue at the brand falling 11.3% to £505.3m, an improvement on the prior year decline of 14.5%.

Total sales via mobile devices increased 5%pts year-on-year to 79% of total online sales. Orders from our Very smartphone apps increased 22.9% year-on-year to represent 29.5% of total Very orders across all devices (FY18: 25.4%).

Our average debtor book grew by 0.9% while the percentage of bad debt within our debtor book reduced by 0.2%pts to 7.0% as a result of continuing to focus on the quality of the debtor book and improvements in collections strategy.

INCREASING EBITDA[1]

Group EBITDA[1] increased 3.3% to £271.0m, highlighting our strong fundamental operational performance in the face of sector headwinds.

EXCEPTIONAL ITEMS

We have been heavily impacted by exceptional items in the year. In line with other comparable businesses, the Group experienced a material increase in the volume of customer redress claims in the weeks leading up to the Financial Conduct Authority 'FCA' set deadline of 29 August 2019 with volumes increasing from 40,000 claims per month to more than 276,000 in August 2019. This late surge in claims has resulted in an additional £150.0m exceptional charge being recognised post balance sheet, bringing the total customer redress exceptional charge for the year to £241.0m. We expect the balance sheet provision of £174.6m could take up to 12 months to unwind.

In view of the significantly increased customer redress claims, we are actively evaluating a number of options to raise additional funding, including both debt and equity funding. However, due to the

+3.3%

growth in EBITDA[1]

1 EBITDA is defined in Note 6 to the Financial Statements (Pre-exceptional EBITDA).

very late emergence and unexpected increase in the amount of claims, we have not yet secured the additional £150.0m funding before the date of signing these financial statements. Further detail is provided in Note 2 to the accounting statements.

Customer redress, along with other exceptional items of £69.2m, has resulted in a statutory loss before tax of £185.5m (FY18 loss before tax: £24.7m).

FY19 PROGRESS

APPOINTING KEY PEOPLE

In the course of the financial year we made a series of key appointments to strengthen our Executive Board. We promoted former People Director Sarah Willett to Chief People Officer. We also recruited former Wonga UK CEO Tommy Jordan as CEO of our Financial Services business and appointed former Sky Betting and Gaming Chief Technology Officer Andy Burton as our Chief Technology Officer.

REORGANISING RETAIL

We changed the way we manage our retail categories to improve our range, availability and marketing of brands. We united our Product and Retail divisions under one Executive Director, Sam Perkins, and appointed four category directors to lead Fashion, Home, Electrical and Developing categories respectively. These category directors now head multifunctional teams which unify the buying and selling functions of our business for the first time.

GETTING EVER CLOSER TO CUSTOMERS

In customer experience, we handed the power to deliver service innovation to a team of 20 existing frontline advisors with the launch of our new customer closeness centre at our Liverpool headquarters. Members of the new team work in four-week cycles, spending two weeks advising customers, and another two weeks using the insight and data gathered to rewrite processes and test new technology. The team helped to increase our average first contact resolution rate to 68% from 59% last year and reduce call centre contact by 33% year-on-year, as more customers opt for digital self-serve options like our AI-powered chatbot. This contributed to our net promoter score (NPS) reaching its highest ever full year total in FY19.

FORGING AHEAD WITH OUR NEW FULFILMENT CENTRE

Meanwhile, the external shell of our new 850,000 sq. ft. fulfilment centre in the East Midlands is complete and the testing of automated technology is well underway. We're on course to be fully operational by 2021, delivering new options for our customers and benefits for our business. It will allow us to extend the cut-off time for next day delivery from 7pm to midnight and contribute significant efficiency savings to the Group. It will also give us the capability to offer same day delivery should we so choose.

MAKING OUR FLEXIBLE WAYS TO PAY EVEN BETTER

We made strides in making our flexible ways to pay even more efficient for customers. We continued to develop advanced credit decisioning in FY19; technology that uses machine learning to help detect fraud and make faster, more accurate credit decisions by quickly drawing on a broader and more diverse selection of customer assessment data.

THE FUTURE

BECOMING THE NUMBER ONE DESTINATION FOR SHOPPERS WHO VALUE FLEXIBLE WAYS TO PAY

By offering more of the brands our customers love, a seamless experience and new ways to pay, we believe we can offer a compelling destination for more of the 11m people who value and use flexible payment options in the UK. We have a wide-ranging plan to help us and we'll do it all as The Very Group, our new corporate brand which aligns our identity more closely with Very and will go live later this year.

INVESTING TO ATTRACT AND RETAIN MORE CUSTOMERS

We are investing to attract and retain more customers by developing our acquisition marketing. This will culminate in a new multi-platform campaign that will express our combined retail and credit offer better than ever before and reach more customers who value our proposition.

BRINGING BRANDS AND FLEXIBLE WAYS TO PAY TOGETHER

We are also bringing brands and flexible ways to pay together by using data to better understand and target customers with new features in the digital journey. This will include developing unique and relevant offers that combine products customers love with credit that meets their needs.

CREATING A SEAMLESS END-TO-END EXPERIENCE

To create a seamless experience, we'll make investments in the end-to-end customer journey. Improving the frequency and newness of products in our range will be a priority, as will upgrading our websites and making our AI-powered chatbot available on all of our digital channels.

> “We're committed to being the place to go for our core customers – the 11m people in the UK who value flexible ways to pay. This has always been at the heart of our business and continues to drive us on.”

PUTTING TECHNOLOGY AND DATA AT THE HEART OF THE BUSINESS

And to make all of this possible, we are putting technology and data at the heart of our business. This means developing new ways of working that use agile methodology and further enhancing our platforms.

CONCLUSION

MOVING FORWARD WITH PURPOSE AND CONFIDENCE

We delivered a strong underlying performance during FY19 against a challenging market backdrop. We also made considerable operational and strategic progress that sets us up for an exciting future.

We know that the industry and wider economic landscape will continue to be unpredictable in the year ahead but we are prepared and we have a resilient and diversified business model that has a strong track record of weathering economic change and uncertainty. Our company purpose – making good things easily accessible to more people – remains both our guiding force and a reflection of why we will remain a relevant and successful organisation long into the future. There is huge untapped potential for our business and we have both the people and the model to realise it.

HENRY BIRCH
Group Chief Executive

Continually measuring our progress

KEY PERFORMANCE INDICATORS

We measure the performance of our business using the following Key Performance Indicators for the year ended 30 June 2019.

EBITDA[1]
£271.0m
(+3.3%)

OPERATING PROFIT[2]
(pre-exceptional)
£226.2m
(+0.7%)

LOSS BEFORE TAX
£185.5m
(FY18 loss before tax £24.7m)

GROUP SALES

● Very ● Littlewoods

£1,488.1m (+7.1%) | £505.3m (-11.3%)

£1,993.4m
(+1.8%)

FINANCIAL SERVICES

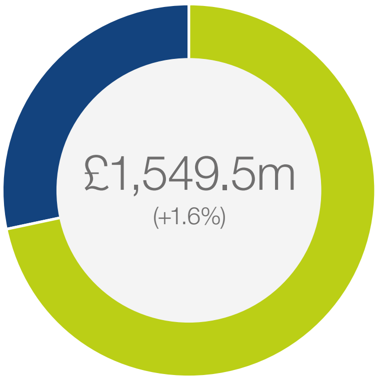
AVERAGE DEBTOR BOOK
£1,665.8m
(+0.9%)

INTEREST INCOME
(% OF AVERAGE DEBTOR BOOK)
23.2%
(+0.4%pts)

BAD DEBT
(% OF AVERAGE DEBTOR BOOK)
(7.0)%
(0.2%pts lower)

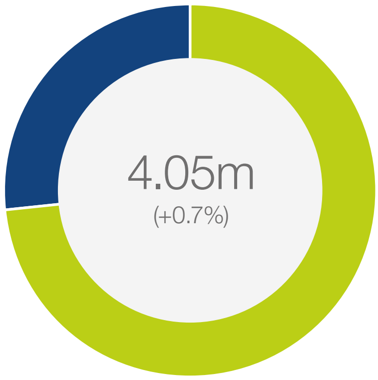
RETAIL

RETAIL SALES[3]



● Very	**£1,112.6m** (+6.7%)
● Littlewoods	**£436.9m** (-9.3%)

TOTAL ACTIVE CUSTOMERS[4]
(Cash and Credit)



● Very	**2.98m** (+5.7%)
● Littlewoods	**1.07m** (-10.8%)

DEMAND PER CUSTOMER[5]

● Shop Direct ● Very ● Littlewoods

£704.9 +0.8%
£678.2 +1.2%
£779.3 +1.5%

SALES CONVERSION[6]
54.3%
(+0.1%pts)

Commentary around these KPIs is contained in the Finance Review on page 16.

1 EBITDA is defined in Note 6 to the Financial Statements (Pre-exceptional EBITDA).
2 Pre-exceptional operating profit calculated as profit before tax, exceptional items and net finance costs.
3 Retail sales is on a management accounts basis excluding statutory adjustments, therefore differs to revenue from the sale of goods presented in Note 5.
4 Defined as having shopped in the last 12 months.
5 Average order frequency multiplied by average order value stated before customer returns, VAT, not yet despatched goods and credit approval.
6 Impact of customer returns, VAT, not yet despatched goods (due to time lag/stock availability) and credit approval (insufficient credit, fraud detection).

ACHIEVING OUR AMBITION

We are clear on how we will deliver our Ambition and Purpose through the Strategy.

OUR AMBITION

To be the number one destination for shoppers who value flexible ways to pay

OUR PURPOSE

MAKE GOOD THINGS

EASILY ACCESSIBLE

TO MORE PEOPLE

OUR STRATEGY

1. Focus on shoppers who value flexible ways to pay
2. Lead the market in giving our target customers access to the brands they love with payment options
3. Create the best shopping experience for our target customers
4. Transform our technology and platforms so we can serve our target customers better
5. Explore new ideas to serve and delight our target customers

UNDERPINNED BY

PEOPLE

PROCESS

TECHNOLOGY

OUR STRATEGY: A BRAND NEW CHAPTER

We have a new strategy designed to drive growth and extend our competitive advantage. It sets out a clear path for us to become the number one destination for shoppers who value flexible ways to pay.

Through the year we started to implement our new strategy centred on five strategic pillars. Our strategy is designed to drive short and long term growth, and to protect and extend our competitive advantage.

We believe that the most successful retailers know who their customers are and what their customers value. We also believe that digital retail will continue to grow and that retailers with the agility and experience to adapt to changing customer needs will thrive.

FOCUSING ON OUR CORE AND MOST VALUABLE CUSTOMERS

Building on these beliefs, we have put understanding our core and most valuable customers at the heart of our strategy. There are approximately 48m UK adults who shop online. While we will always look to serve everyone who wants to shop with us, within this group there are 11m people who actively seek retailers that provide ways to spread the cost of purchases.

These shoppers who value flexible ways to pay were over a quarter of our 4m active customers last year. These highly engaged customers shop across different categories, spend more than twice as much as our other customers, have longer customer lifetimes and spread the cost of purchases. Shoppers who value flexible ways to pay span demographic and socio-economic categories, but they are bound by their attitudes and practical approach to flexible ways to pay for their purchases. Retaining and acquiring more of these customers will drive growth and ensure we remain relevant and successful.

Our five strategic pillars lay out a framework for our plans and investment over the next three years. We believe they will help us to become the number one destination for shoppers who value flexible ways to pay.

OUR FIVE STRATEGIC PILLARS

1 FOCUS ON SHOPPERS WHO VALUE FLEXIBLE WAYS TO PAY

What it means
Everything we do has shoppers who value flexible ways to pay in mind. This includes changing our marketing approach and being clearer on our proposition.

Our Progress in FY19

- Identified and defined our highly engaged customers.
- Continued to build and enhance data-driven customer relationship management models including improved personalised and relevant digital marketing and customer retention models.
- Delivered our biggest ever toy campaign, resulting in a highly successful peak trading period for this category. Families play a huge part in the lives of shoppers who value flexible ways to pay.

2 LEAD THE MARKET IN GIVING OUR TARGET CUSTOMERS ACCESS TO THE BRANDS THEY LOVE WITH PAYMENT OPTIONS

What it means
We are creating the best combination of the brands our customers love with flexible ways to pay, including personalised offers which combine retail and credit.

Our Progress in FY19

- Continued to improve our credit to account offers, giving customers even better value.
- Embedded the first phase of advanced credit decisioning – which uses machine learning to give customers faster, more accurate credit decisions and helps to detect fraud – in credit risk.
- Onboarded over 400 new brands to take our total number of brands to over 1,900, focusing on new brands we know our customers love, like Bugaboo, Rangemaster and Gtech.
- Successfully migrated Very Exclusive to Very, resulting in increased premium and luxury fashion sales year-on-year. The move made brands such as Kenzo, Alexander McQueen and Vivienne Westwood more accessible to Very customers.

PRIORITIES IN FY20

REFRESH OUR VERY BRAND PROPOSITION

We will be relaunching our brand proposition which speaks to retail and financial services. Centred around our wider target market, we'll create an emotional connection with shoppers who value flexible ways to pay through integrated retail and financial services communications.

BRING BRANDS AND CREDIT TOGETHER

We will create the best personalised and relevant offers combining brands and credit together across the digital journey. We have a significant opportunity in onboarding Topshop, which we see as a significant growth driver.

3

CREATE THE BEST SHOPPING EXPERIENCE FOR OUR TARGET CUSTOMERS

What it means
We are continuing to invest in and focus on improving every part of our customer experience, from our website and apps to order fulfilment and customer service.

Our Progress in FY19
- Launched our Customer Closeness Centre, handing the power to deliver customer service innovation to a team of 20 frontline advisors. Advisors use their first-hand experience to rewrite processes and add new innovations to improve the customer journey. It contributed to a Net Promoter Score (NPS) of 48 compared to 41 last year.
- Finished the external shell and began installation of automated technology at our new fulfilment centre in the East Midlands. The site will contribute significant efficiency savings to the Group per year and improve next day order cut off time from 7pm to midnight.
- Unified the buying and selling functions of our business by bringing the Product and Retail divisions under one Executive Director, Sam Perkins. Four category directors now lead multifunctional Fashion, Home, Electrical and Developing category teams respectively.

4

TRANSFORM OUR TECHNOLOGY AND PLATFORMS SO WE CAN SERVE OUR TARGET CUSTOMERS BETTER

What it means
We are continuing to invest in data and technology to allow us to make even faster and better improvements to our customer journey.

Our Progress in FY19
- Andy Burton joined us from Sky Betting and Gaming as Chief Technology Officer. He leads our tech team where we plan to continue to transform our platforms and align our ways of working with our customers' needs.
- Built tools to help us understand and serve our customers better. These include improved pricing and forecasting models, machine learning models for more effective marketing decisions and natural language processing to analyse customer feedback.
- Developed our big data capabilities, enabling more personalised marketing triggered by customers' browsing patterns.
- Built near real-time operations reporting to ensure we keep our delivery promises.

5

EXPLORE NEW IDEAS TO SERVE AND DELIGHT OUR TARGET CUSTOMERS

What it means
We want to identify and grow new opportunities that appeal to and improve the lives of our target customers.

Our Progress in FY19
This is something new and will be a focus for the coming financial year. We are excited about where this could lead us and already have ideas in development.

DELIVER ACROSS OUR CATEGORIES

We will continue to focus on growing both revenue and margin across our categories by optimising our range and category plans. We'll be focusing on understanding new fulfilment models, such as stockless, to improve availability, newness of ranges and customer experience.

PUT TECH AND DATA AT THE HEART OF OUR BUSINESS

We're focusing on attracting and recruiting the best talent across a number of tech roles this year with an aim to build agile teams who will be focused on delivering change faster and better. We want to be able to release changes to the customer experience daily in a secure, stable and scalable way.

IDENTIFY AREAS WE CAN HELP CUSTOMERS MORE

We'll be investing our time in exploring new ideas and opportunities that we don't currently offer to delight and serve our customers even more.

Case studies

GETTING EVER CLOSER TO OUR CUSTOMERS

Through our Customer Closeness Centre (CCC), we're giving our obsession with putting customers first a real boost.

We're obsessed with putting our customers at the forefront of everything we do, and the Customer Closeness Centre (CCC) has given us a step-change in doing exactly that. Not by coincidence, it was launched into our head office on 14 February 2019 – a sure sign of our love and dedication to the customers we serve. The space itself is an agile, creative and modern area which reflects our new ways of working and fresh approach to continuous improvement.

EMPOWERING FRONTLINE ADVISORS

The sole purpose of this industry-leading model office is to empower a team of frontline advisors who have the jurisdiction to improve and innovate our processes and procedures by seeking out customer requirements. The team handles core customer service contact and identifies issues that create a negative experience.

A cross-functional squad then uses a mix of skills, channels and technologies to develop and create solutions to fix them, powered by our data and insight. We've been able to test and learn new ways of working and see results in real time.

FOCUSING ON KEY ISSUES

We focus on three clear metrics:

- Reduced number of contacts: Customers will need to call us less and less as we get things right first time within our customer journey
- First Contact Resolution (FCR): We'll resolve a customer's query on their first call to us
- Touchpoint Net Promoter Score (TNPS): Our customers are satisfied that we've dealt with their query and would recommend us as a result.

IMPROVING CUSTOMER SERVICE AND EFFICIENCY

The benefits have been multifaceted. As well as enhancing customer service we have also reduced costs, which has resulted in a more efficient business and, in turn, enabled us to divert spend to other improvement initiatives – helping us to deliver value where it matters most.

ACHIEVING GREAT RESULTS ON ALL FRONTS

The CCC has been fundamental in transforming our customer services. So far, we've delivered very strong results across all three metrics – we've seen continued growth in our TNPS score to +24, a higher average FCR rate of +68% (compared to an average of +59% last year) and 3.8m less calls into the contact centre compared to last year (33% reduction). On top of this, we've managed to land some key improvements to help make things easier and better for customers. These include a new bot-led approach to lost parcels which will resolve customer issues within 15 minutes, a new online knowledge tool for our people and significant changes to our returns processes.

PROVIDING WORLD CLASS CUSTOMER EXPERIENCES

We've only just begun, and in the year ahead we'll be focusing on further efficiencies for customers and colleagues, removing customer pain points and transforming the way we work to optimise operations – building solid foundations for world class customer experiences.

THE PROCESS

Re-writing and testing

Gather insights and data and process re-writing and testing

4-week cycle

Identify

Dealing directly with customers and identify improvement opportunities

+24

Touchpoint Net Promoter Score (TNPS)

+68%

First Contact Resolution (FCR)

33%

reduction in calls to our contact centre

"The CCC helps us reach our ambition to create empowered frontline colleagues of the future, equipped with complex problem-solving abilities, digital skills and the latest technology."

Case studies

USING ADVANCED DATA TECH TO DO MORE FOR OUR CUSTOMERS

With advanced credit decisioning continuum (ACDC), we're gaining a deeper understanding of our customers and, in turn, making better, faster decisions for them.

Advanced credit decisioning continuum (ACDC) is a method of using multiple data sources, algorithms and tech driven by artificial intelligence to help us better understand our customers and make more informed, faster decisions for them in real time. Using this method will move us further forward in scaling up our data capabilities.

FOCUSING ON CREDIT RISK

We know that ACDC has huge potential across the business and our first step has been to focus on embedding it within our Credit Risk teams to help enhance and optimise decision-making across fraud, credit and customer offers. In an environment where retail and credit are becoming ever more available, it's critical in ensuring we can continue to compete in this digital credit and retail space.

IMPROVING CUSTOMER OUTCOMES; REDUCING REVENUE LOSSES

ACDC enables us to use new credit bureau alerts and scores, which has helped us improve customer experience and minimise business risk. We can now access more up to date (less than 24 hours old) data, speed up our order authorisation decisions and protect our customers even better.

We've moved to more advanced models of preventing fraud by using near real time web behavioural analytics data as well as predictive customer behaviour data to assess risk.

HELPING CUSTOMERS WHEN THEY NEED US MOST

ACDC has also enabled us to help our customers when they need us the most. It's given us the tools and data to improve our contact, interaction and credit limit strategies – preventing customers from falling into arrears and giving them control of their credit account.

MAKING THE MOST OF THE TECH

As we move into next year, we'll focus on delivering real time capability so we can dynamically change a customer's journey in a live environment, fuelling our digital marketing and exploring how we can embed ACDC more widely across the business – unlocking further capabilities centred around our customer.

“Advanced credit decisioning continuum (ACDC) is a method of using multiple data sources, algorithms and tech driven by artificial intelligence to help us better understand our customers and make more informed, faster decisions for them in real time.”

<24H

We can now access more up to date data; it is less than 24 hours old

Continued growth

FINANCE REVIEW

Through the year our focus on making good things easily accessible to more people continued to drive our growth.

FY19 RETAIL SALES MIX (%)
BY PRODUCT DIVISION

	2019 %	2018 %
● Clothing & Footwear	**34**	34
● Electrical	**38**	39
● Seasonal	**16**	15
● Furniture & Homeware	**12**	12

Group sales were up 1.8% to £1,993.4m. Active customers grew 0.7% to 4.05m. EBITDA[1] increased by 3.3% to £271.0m. Loss before tax of £185.5m driven by exceptional items of £310.2m.

GROUP SALES

Group sales[2] increased by 1.8% to £1,993.4m as the business continues to focus on driving profitable growth.

Our flagship retail brand Very once again outperformed the highly competitive online retail market[3], with sales growing 7.1% to £1,488.1m. The external environment remains challenging but the business continues to benefit from its online positioning, particularly its strength in mobile, with Very mobile sales reaching 80% of the brand's online sales for the first time. This reflects our continued investment in our mobile apps and focus on user experience. In early 2019 our luxury fashion proposition was migrated from Very Exclusive into Very, allowing customers to shop the entire range in one place. Very Exclusive sales have been included within Very in both years, originating from the standalone Very Exclusive site in FY18 and first half of FY19 and the Very site in the second half of FY19.

Littlewoods sales of £505.3m (FY18: £569.7m) show a lower rate of reduction of 11.3% compared to 14.5% in the prior year as we successfully controlled the decline of the Littlewoods brand. Littlewoods mobile sales also showed a significant step up in total online sales participation, from 72% in FY18 to 77% in FY19.

The decline in Littlewoods was partly offset by 5.7% growth in Littlewoods Ireland, driven by continued strong electrical performance, with growth of over 30%.

	FY19 £ m	FY18 £ m	Change %
Very	**1,488.1**	1,389.1	7.1
Littlewoods	**505.3**	569.7	(11.3)
Group sales	**1,993.4**	1,958.8	1.8

FY19 RETAIL SALES GROWTH
BY PRODUCT DIVISION

	Change %
Clothing & Footwear	2.9
Electrical	1.2
Seasonal	2.6
Furniture & Homeware	(1.7)
Retail sales	**1.6**

Retail sales[4] grew 1.6% as we continued to benefit from a wide-ranging multi-category store offer that does not over-rely on a single product category. Solid growth in Clothing & Footwear and Seasonal was supported by a more tempered performance in Electrical compared to prior year growth, reflecting fewer new product launches in the market. The combined growth, across these three categories outweighed the decline in Furniture & Homeware retail sales, which is only 12% of the mix and has improved relative to the level of decline seen in FY18.

Clothing & Footwear grew 2.9%, with full price participation up in the year by 5%pts to 63%, supporting underlying retail margin improvements. Sportswear was the standout category, posting growth of over 11%.

Electrical grew 1.2% with smart tech and mobiles posting the strongest growth over the year of 12.9% and 7.5% respectively. Seasonal growth of 2.6% was underpinned by a strategic focus on Toys. Effective marketing campaigns drove a highly successful peak trading period for this category, enabling the business to beat the market's performance and increase market share. Furniture & Homeware declined 1.7% for the full year, compared to a 9.5% decline in the prior year. Over the year we have focused on improving product ranges, availability and stock health, alongside investment in a pay per click marketing strategy. This paid dividends in the second half of FY19 when retail sales returned to growth (+1.7%), demonstrating a significant improvement compared to the first half of FY19 and during FY18.

1 EBITDA is defined in Note 6 to the Financial Statements (Pre-exceptional EBITDA).

2 Group sales defined as net despatches excluding VAT and inclusive of Financial Services and Littlewoods Clearance revenues and IFRS adjustments for discounts and vouchers.

3 BRC online retail market (non-food).

4 Retail sales is on a management accounts basis excluding statutory adjustments therefore differs to revenue from the sales of goods presented in Note 5 to the financial statements.

FINANCIAL SERVICES REVENUE

Financial services revenue increased by 1.0% to £431.2m (FY18: £427.1m). Growth in interest income has been partly offset by lower warranty volumes. Interest income as a percentage of the average debtor book grew by 0.4%pts, thanks to the shift in brand mix towards Very, with its greater interest-bearing element.

CUSTOMERS

Active customers (those shopping with us over the previous 12 months) grew 0.7% to 4.05m. This was driven by Very – up 5.7%, reflecting our continued focus on improving our customers' experience. In Littlewoods, active customers reduced by 10.8%. The percentage of Littlewoods credit customers retained for five or more years increased to 52.3%[5] (FY18: 50.1%) reflecting high customer loyalty for this famous, historic and profitable brand.

Demand per customer (average order value multiplied by average order frequency) increased by 0.8%. Growth in Very average order values of 0.5%, including the benefit from an increase in full price mix and a lower volume of promotional discounts, was bolstered by an increase in the average order frequency across both brands (Very 0.7% and Littlewoods 1.1%).

Sales conversion was marginally ahead of the prior year, benefiting from lower returns rates in Seasonal and Furniture & Homeware categories.

	FY19	FY18	Change %
Active customers[6] (m)	**4.05**	4.02	0.7
Demand per customer[7] (£)	**704.9**	699.1	0.8
Sales conversion[8] (%)	**54.3**	54.2	0.1

COSTS AND PROFIT

EBITDA[1] increased by 3.3% to £271.0m (FY18: £262.3m), reflecting continued revenue growth and cost discipline despite the challenging external environment and a highly competitive online retail market.

Group gross margin rate reduced by 0.3%pts to 39.6% (FY18: 39.9%). Retail margin rates saw an improvement in underlying rate due to strong full price performance. Financial Services contribution was impacted by lower warranty volumes year-on-year. Higher interest income and a reduction in bad debt, driven by our continued focus on customer quality and customer-centric collections strategies, have helped to mitigate the impact of the performance of other Financial Services income.

Despite the slight decline in gross margin rate, we grew EBITDA[1] margin rate by 0.2%pts to 13.6% (FY18: 13.4%) through our continued strong focus on driving cost efficiency.

Distribution expenses increased to £226.4m (FY18: £215.8m) as costs as a percentage of Group sales also increased by 0.4%pts to 11.4%, including the impact of higher fuel rates, inflation and Clothing & Footwear growth.

Administrative expenses before exceptional items decreased to £338.9m (FY18: £342.0m). As a % of revenue they have fallen by 0.5%pts to 17.0%. During the year we focused on communicating with our customers more efficiently, for example through shorter TV advertisement run-times and by reducing spend which does not drive demand. We also delivered efficiencies within head office costs.

Higher net finance costs of £101.5m (FY18: £84.5m) reflect the full year impact of interest on £550m Senior Secured Notes raised in November 2017.

Loss before tax of £185.5m (FY18 Loss before tax: £24.7m) was driven by an increase in exceptional items to £310.2m (FY18: £164.8m). During the year the regulatory provision was increased by £241.0m to cover customer redress payments for historical shopping insurance sales made before the FCA's claims deadline of August 2019. The charge follows an unprecedented increase in the volume of claims observed by the Group and across the industry, the rate of which continued to increase up to the final deadline of 29 August 2019 encouraged by the FCA marketing campaign, which ran from August 2017 until the August 2019 deadline. At the balance sheet date the regulatory provision is £174.6m (FY18: £100.4m).

Exceptional items also include charges of £50.0m for the impairment of the goodwill which arose on the acquisition of Douglas Insurance Ltd (see Note 15), £13.0m for restructuring costs, reflecting expenditure on the rationalisation of processes and functions within the Group and £3.7m relating to the impairment of brands which are no longer being used by the Group.

INCOME STATEMENT

	FY19 £m	FY18 £m
Group sales	**1,993.4**	1,958.8
Gross margin	**788.8**	780.7
Gross margin rate %	**39.6**	39.9
Distribution expenses	**(226.4)**	(215.8)
Administrative expenses	**(338.9)**	(342.0)
Other operating income	**2.7**	1.7
Operating profit before exceptional items	**226.2**	224.6
Net finance costs	**(101.5)**	(84.5)
Profit before tax and exceptional items	**124.7**	140.1
Exceptional items	**(310.2)**	(164.8)
Loss before tax	**(185.5)**	(24.7)

RECONCILIATION OF OPERATING PROFIT BEFORE EXCEPTIONAL ITEMS TO EBITDA

	FY19 £m	FY18 £m
Operating profit before exceptional items	**226.2**	224.6
Adjusted for: Depreciation & amortisation	**44.8**	37.7
EBITDA	**271.0**	262.3

5 Excludes Littlewoods Ireland customers who have been retained for 5+ years
6 Defined as having shopped in the last 12 months.
7 Defined as average order frequency multiplied by average order value stated before customer returns, VAT, not yet despatched goods and credit approval.
8 Impact of customer returns, VAT, not yet despatched goods (due to time lag/stock availability) and credit approval (insufficient credit, fraud detection).

Continued growth

FINANCE REVIEW (continued)

TAXATION

Loss after tax £170.0m (FY18 Loss after tax: £9.2m) includes a tax credit of £15.5m (FY18: credit £15.5m), comprised of a current tax charge of £8.3m and a credit of £23.8m in relation to an increase in the deferred tax asset.

FINANCIAL POSITION

Net (liabilities)/assets decreased to £(88.5)m (FY18: £185.3m), driven by the £116.2m impact on opening net assets of the first-time adoption of IFRS 9 – Financial Instruments during the financial year, and the Group's loss after tax. Non-current assets increased to £576.9m (FY18: £571.1m), driven by the business's recent capital investment of £51.7m (FY18: £86.1m), an increase in the deferred tax asset due to both the adoption of IFRS 9 and increase in regulatory provision and partly offset by the impairment of goodwill associated with the Douglas Insurance business. Inventory decreased to £94.2m (FY18: £101.9m), driven by a targeted reduction in inventory cover days. Working capital efficiency through inventory management remains a key priority. Trade debtors decreased to £1,374.4m (FY18: £1,516.3m), driven by the first-time adoption of IFRS 9. Trade and other payables reduced to £502.6m (FY18: £557.8m), driven by year-on-year timing differences in payment of trade payables.

Securitisation borrowings increased to £1,372.6m (FY18: £1,317.4m), driven by the new issue of £5.0m "B" Notes and £40.0m "C" Notes together with the increase in gross trade debtors. The securitisation facility expires in December 2021 for "AS" Notes (£1,143.3m), "AJ" Notes (£181.7m) and "B" and "C" Notes (£210.0m) with a total maximum value of £1,535.0m. The securitisation borrowings also include £24.5m relating to a new securitisation facility for the balance sheet receivables of Shop Direct Ireland Limited.

PENSIONS

The Group operates a defined benefit pension scheme. There are four main elements of the defined benefit pension scheme, namely the Scheme, the Plan, UURBS and Ex-gratia.

In the prior year the Group completed buy-in agreements for the Littlewoods Pensions Scheme ("Scheme"). The buy-in was completed on 31 May 2018 and is reflected in the comparative numbers in these financial statements as detailed in Note 25.

On 9 November 2018 the Group completed the buy-out of the Shop Direct Group Littlewoods Pension Plan ("Plan"). As such, the liability has been fully extinguished and on 20 February 2019 a net surplus of £14.4m crystallised and has been reflected in these financial statements as detailed in Note 25.

The Group also operates a defined contribution pension scheme for all employees – the Shop Direct Group Personal Pension Plan. The pension cost charge for the year represents contributions payable by the Group to the scheme and amounted to £6.2m (FY18: £6.1m).

IFRS 9 – FINANCIAL INSTRUMENTS

From 1 July 2018 the Group has applied IFRS 9 retrospectively with an election not to restate comparative information. As a result, the comparative information provided in these financial statements continues to be accounted for in accordance with the Group's previous accounting policy under IAS 39.

As an expected loss model, IFRS 9 changed the profile of the bad debt expense line during the year but over the course of the full year FY19 amounted to an additional charge to the Income Statement of only £0.1m relative to accounting under IAS 39. The impact of IFRS 9 at 1 July 2018 was to decrease retained earnings by £116.2m (net of deferred tax impact). This is a non-cash accounting change. (See Note 4).

IFRS 16 – LEASES

IFRS 16 replaces the provisions of IAS 17 that relate to the recognition, classification and measurement of lease transactions.

IFRS 16 is effective for accounting periods beginning on or after 1 January 2019. The Group will therefore apply IFRS 16 from 1 July 2019.

On the adoption of IFRS 16, the Group will recognise a right of use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The right of use asset will be depreciated on a straight-line basis over the term of the lease. Interest will be recognised on the lease liability resulting in a higher interest charge in the earlier periods of the lease and reducing over the lease term. There will be no change to the total expense recognised over the period of the lease, but under IFRS 16 the expense will be recognised as depreciation and interest payable rather than as an operating expense as is the case under IAS 17. There will be a favourable impact on EBITDA.

The estimated impact at 1 July 2019 is to increase tangible assets within a range of £75.0m to £85.0m with the recognition of an opposing lease liability. There is no impact on the brought forward reserve position.

CASH FLOWS

The cash and cash equivalents balance decreased by £125.5m to £(87.8)m during the year (FY18 cash and cash equivalents: £37.7m). This was driven by customer redress payments, capital expenditure and working capital movements, partially offset by the new issue of "B" Notes and "C" Notes.

	FY19 £m	FY18 £m
Loss for the year	**(170.0)**	(9.2)
Depreciation & amortisation	**44.8**	37.7
Working capital	**(104.8)**	(87.4)
Borrowings	**55.2**	138.6
Pension	**9.6**	(15.4)
Capital expenditure	**(51.7)**	(86.1)
Other[9]	**91.4**	9.0
Total cash outflow	**(125.5)**	(12.8)
Opening cash and cash equivalents	**37.7**	50.5
Closing cash and cash equivalents	**(87.8)**	37.7

9 Other is driven by provision movements, reflecting timing differences between the recognition of exceptional customer redress charges and the associated cash outflows, the non-cash impact of impairment charges, relating to the impairment of Douglas Insurance Ltd and Tax.

CAPITAL INVESTMENT

Capital expenditure for the year totalled £51.7m (FY18: £86.1m) across business as usual and strategic investment.

Over the year we have continued to invest in the systems that support our colleagues. Data is at the heart of what we do and we have further developed the cloud based, big data technologies to give our analysts and decision makers better access to the data they need, when they need it. We have invested in software that will help improve our decision-making capabilities surrounding customer credit risk. The software employs machine-based learning to detect fraud earlier and improve credit decisioning.

In head office, we have created multiple work streams, backed by capital investment, which will develop the internal core systems our colleagues use, in turn allowing them to further increase their focus on improving our customers' experience during their day to day work. As part of the build phase of the new customer fulfilment and returns centre in the East Midlands, we have invested in the infrastructure and delivery of the systems that will support our future supply chain capabilities.

GOING CONCERN

In line with many comparable businesses, the Group experienced a material increase in the volume of customer redress claims in the weeks leading up to the FCA set deadline of 29 August 2019. The Group saw the volume of submitted claims increase to more than 276,000 in August 2019 versus the average monthly run rate of approximately 40,000 claims and consequently the claims were significantly in excess of the allowance that had been made. Whilst the expiry of the claims deadline concludes the long-running claims process, the late surge in claims has resulted in an additional £150.0m provision being recognised as at 30 June 2019, bringing the total customer redress claims provision at the year end to £174.6m. The full customer redress claims provision is expected to unwind as claims are cash settled over the next 12 months.

Whilst the total customer redress claims provision at the year end is materially higher than had been expected, the Directors do not anticipate making any further provision for customer redress claims following expiry of the claims deadline. Whilst the provision recorded is the Directors' best estimate of the likely outcome, there is naturally a degree of estimation as the claims are validated and processed. Further detail of this matter is provided in Note 26 to the financial statements.

In view of the significantly increased customer redress claims provision, the Directors have carefully considered the Group's cash flows and cash resources and have resolved to seek additional funding of £150.0m. The Directors consider that this additional funding is required in order to meet the final customer redress claims liability and ensure that the Group has sufficient liquidity to continue its business activities as a going concern. The total customer redress claims provision of £174.6m could take up to 12 months to unwind, which allows some of the additional cash requirement to be met through normal trading activities, whilst giving time to secure appropriate financing.

The Directors are actively evaluating a number of options to raise this additional funding, including both debt and equity funding. However, due to the very late emergence and unexpected increase in the amount of the customer redress claims provision, the Directors have not secured the additional £150.0m funding before the date of signing these financial statements. The Directors have chosen to sign the financial statements at this date, without the committed funding, in order to meet the covenant on the senior secured notes of delivering audited accounts within 120 days of the balance sheet date.

The Directors are confident that such funding can be secured within the necessary timeframe and that, but for the increased customer redress cash requirement, the Group has sufficient liquidity headroom for the foreseeable future. In particular, the Directors consider the Group's business activities and operating cash flow performance remain robust. The Group has sufficient liquidity over the coming months to cover all known liabilities which are due for settlement and in addition the Directors have a number of mitigating actions available to them to manage liquidity, on the basis that there is no acceleration or repayment of long-term borrowings or other liabilities.

In determining whether the Group's accounts can be prepared on a going concern basis, the Directors considered the Group's business activities together with factors likely to affect its future development, performance and financial position including cash flows, liquidity and borrowing facilities and the principal risks and uncertainties relating to its business activities, including those outlined above. Given the current uncertain economic climate, realistic assumptions for working capital performance have been used to determine the level of financial resources available to the Group and to assess liquidity risk. The key risk identified for these assumptions is the impact that a deterioration in the economic climate would have on revenues and the debtor book. After sensitivities to take account of reasonably foreseeable changes in trading performance, our forecasts and projections show that the Group, albeit in a net liability position, will have sufficient headroom within its current loan facilities with the aforementioned additional funding. After making appropriate enquiries the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operation for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in the preparation of the financial statements.

However, since the Group has not secured the required £150.0m of additional committed funding, prior to signing of these financial statements, the Directors recognise that there is a material uncertainty which may cast significant doubt as to the Group's and Company's ability to continue as a going concern and therefore the Group and Company may be unable to realise their assets and discharge their liabilities in the normal course of business.

RISK MANAGEMENT AND PRINCIPAL RISKS

We face a number of risks and uncertainties in our operations and delivery of our strategy. We summarise the key ones here, setting out their nature, impact and our mitigation.

RISK AND CHANGE	NATURE AND IMPACT	MITIGATION
Economy and market conditions	Our business depends on customer spending which can be influenced by factors beyond our control. A significant change in the UK economy could lead to a decline in Group performance. We could be affected by issues such as consumer confidence, currency/interest rate volatility (see below) or the political environment including an uncertain Brexit outcome and implications. Potential Brexit risks include how goods are moved in and out of Ireland, foreign exchange movements, adverse impacts from changes in import taxes/tariffs and consumer confidence.	While we are a UK-focused business, we have a robust business model which performed resiliently through the 2008/09 UK economic downturn and is a model which we believe allows us to meet the opportunities and challenges ahead. Our financial services offering enables customers to spread the cost of purchases if they need to and we have a diverse multi-category product range. Management is proactively planning for Brexit by identifying risks and driving mitigation actions against these risks including continuing our rolling foreign exchange hedging programme. Given the high level of uncertainty around the outcome and implications of Brexit, the success of mitigation activities is very difficult to predict.
Competition	Retail, both online and on the high street, is an increasingly competitive market and consumer behaviour is difficult to predict. Customers are sensitive to price, service, product quality, the customer journey and availability. Failure to meet customer expectations in any of these areas could reduce sales and result in excessive stockholding. Any negative impact on the reputation of and value associated with our brand could adversely affect the business.	We continue to add big brands – who we work with to ensure competitive pricing – to our roster, invest in data and personalisation to improve the customer journey, and provide options to spread the cost of purchases. In addition, we have a strong focus on service and monitor competitors' pricing.
Credit	Credit is a key part of our customer offering and a significant majority of customers use it to make purchases. Credit risk is the risk that a proportion of these customers will not repay the money borrowed.	Our decision analytics continue to improve decision making, controlling customer credit behaviour and fraud prevention. We keep a close watch on individual customer exposures and have clear procedures for establishing credit limits and monitoring exposure. The concentration of credit risk is limited due to the customer base being large and unrelated.
Regulatory environment	We are subject to a range of legislative and regulatory changes, notably in relation to consumer credit and data protection. Our consumer credit operations, which are primarily based in the UK, are subject to licensing and regulation by governmental and regulatory bodies in the UK. At present, our activities in the UK are principally regulated by the UK Financial Conduct Authority, the UK Information Commissioner's Office and the UK Office of Communications.	We have a comprehensive compliance risk management framework which oversees compliance risk across the business in the context of the overarching FCA regulatory regime as well as conduct rules and other applicable regulations. A key element of this framework ensures an open and transparent relationship with all regulatory bodies and compliance with regulatory regime. The framework is managed through our dedicated compliance function and proactive management approach.
Securitisation	We use securitisation to fund a significant portion of our receivables book. Increases in securitisation costs could adversely impact our financial performance. Failure to renew the securitisation facility could have a material adverse effect on the business.	We maintain strong relationships with supporting banks and have a rolling three-year funding programme with a fixed margin over LIBOR. Metrics in relation to the securitisation facility are monitored on an ongoing basis and reported to the supporting banks regularly.

RISK AND CHANGE	NATURE AND IMPACT	MITIGATION
Foreign exchange	We purchase some of the goods we sell in foreign currencies, while recognising our costs in Pounds Sterling. The Group therefore has potential exposure to changes in foreign exchange rates.	The major foreign currency which we purchase goods in is US Dollars (less than 10% of goods we purchase) and we use a rolling 18-month foreign exchange outlook and a hedging programme to manage this exposure.
Data and IT	Our operational and commercial success depends on the continued availability and integrity of our IT systems, including our websites and payments systems, and our ability to keep pace with growth and change in the business. Our business is subject to data security risks including security breaches. Our business relies heavily on social media, email and other messaging services. We rely on technology and data to forecast customer demand and to manage our supply chain. We use search engine marketing in order to bring a proportion of customers to the websites. We select our customers, manage their accounts and establish terms and credit limits using scoring models and other analytical techniques.	We have a detailed technology roadmap covering all areas of the business to ensure capacity for growth. We continue to invest in IT systems, infrastructure, security and people and we have comprehensive back-up and disaster recovery procedures, which are regularly reviewed, tested and updated.
People	Almost all sectors that are relevant to our business are very competitive. Our performance depends on our ability to attract, motivate and retain key employees.	All employees are provided with the opportunity to have fulfilling careers through employment policies, competitive remuneration and benefits packages, and career development opportunities. We have an in-house team of recruitment partners to attract talent.
Interest rate	Our borrowings expose us to cash flow interest rate risk.	Our Treasury team is responsible for reducing exposure to this risk and securing sufficient liquidity to meet foreseeable needs.
Liquidity	We need sufficient cash flow to fund day to day business operations and meet financial obligations as they fall due including remaining customer redress payments for historical shopping insurance sales.	We manage liquidity risk by maintaining adequate banking and borrowing facilities and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. In order to address the exceptional level of customers redress claims received post balance sheet, the Group have resolved to seek additional funding of £150.0m.
Supply chain management	We are dependent on relationships with third-party suppliers and service providers. Our business depends on our ability to source a range of products from well-recognised brands on commercially reasonable terms. Political instability may disrupt our supply chain, adversely affecting the availability of our merchandise.	We use a diverse sourcing and supply chain encompassing both own-brand manufacture and third-party brands. We seek ways to develop a supplier base to reduce reliance on individual suppliers and maintain quality and competitiveness. We have our in-house overseas sourcing function to assist with this.
Warehousing and distribution	We are dependent on our distribution centres. Our distribution centres are either operated by us or operated on an outsourced basis by our logistics partners. Any failure by us or our logistics partners to perform their obligations could result in a prolonged or significant interruption to our ability to deliver products to customers in a timely and satisfactory manner. We rely on our affiliates (Yodel and Arrow XL) and third-party delivery companies to transport our products.	Construction of a purpose-built automated distribution and returns centre in the East Midlands began in May 2018. The internal fit out and installation of technology is underway ahead of taking possession in early 2020. The centre is expected to be fully operational by peak 2021. We closely monitor service levels to ensure that goods are delivered to customers on a timely basis. Business continuity plans and insurance are in place to mitigate the impact of business interruption.
Litigation	Litigation and other adversarial actions in the ordinary course of business could have a material adverse effect on our business. Infringement or misappropriation of our intellectual property could harm our business.	We manage litigation risk through an appropriate approach to stakeholders including customers, suppliers and employees. Our in-house legal team includes individuals experienced in intellectual property law, and we also use external legal advisers.

CORPORATE RESPONSIBILITY

We're determined to behave responsibly, with strong ethical and environmental standards, and to be the best possible citizen we can in the communities we live and work in.

ENHANCING ETHICS AND SUSTAINABILITY

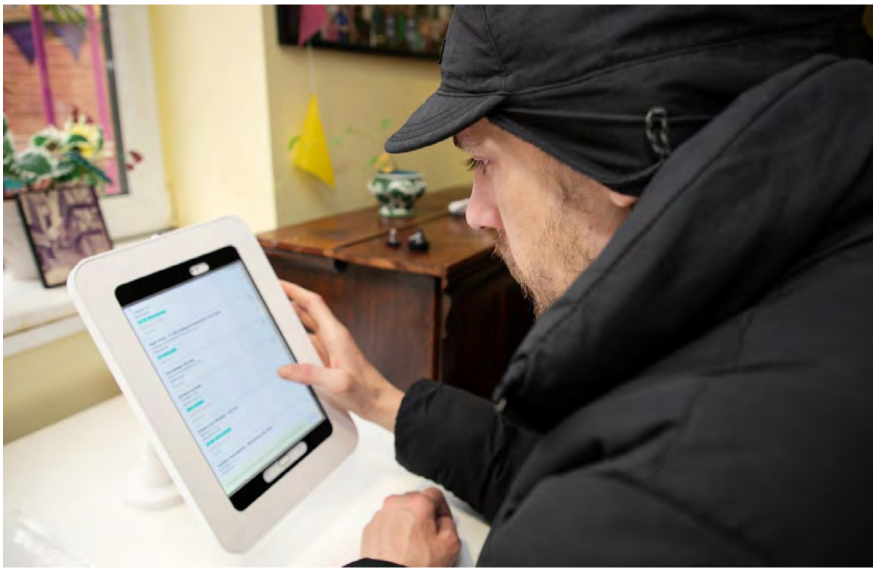
TRULY COMMITTED

We maintain and abide by rigorous policies on labour, human rights and sourcing across our supply chain. To support this, we are a participant member of the United Nations Global Compact, a member of the Ethical Trading Initiative, Fast Forward and Sedex, and a signatory to the Bangladesh Accord on Fire and Building Safety. This year, to increase our commitment to finding and tackling modern slavery in our supply chains both at home and abroad, we also signed a revolutionary agreement with UK enforcement bodies including the Gangmasters and Labour Abuse Authority (GLAA), Department for Work and Pensions (DWP), Health and Safety Executive (HSE) and HMRC to help eradicate modern slavery in the UK textiles industry.

WORKING TOGETHER ACROSS OUR SUPPLY CHAIN

We have a broad and varied supply chain, sourcing both own brand clothing and footwear and home and living products from over 700 factories in 30 countries worldwide, including key regions such as China, India, Bangladesh, Malaysia, Poland and Turkey.

We are aware that our supply chain is complex and constantly evolving, so we work in collaboration with our suppliers to ensure visibility of sites manufacturing our products through the use of third-party audits and the Sedex system. In order to maintain transparency, we continue to publish a full list of our manufacturing sites and are working to include factories and processing plants in the lower tiers. Sharing this data supports our efforts to better understand and make improvements to our supply chain.



UNDERSTANDING THE RISKS

Our dedicated responsible sourcing team, both in the UK and key sourcing countries, works hard to understand the specific risks in our supply chain and the countries we source from. To this end we use internal expertise and databases as well as third-party information, including audits, ETI updates, trade union risk maps and NGO country reports.

MOVING BEYOND AUDIT

Over the past 12 months, we have continued to focus on moving our responsible sourcing beyond audit to training and development. We launched new projects with suppliers in both India and Bangladesh where, for the first time, we are directly training workers within our supply chain. Alongside this, we continued our partnership with impact in China and launched a new partnership with United Work in Turkey, looking at the responsible recruitment of Syrian workers.

REDUCING OUR CARBON CONSUMPTION

We have maintained our Carbon Trust certification, the industry standard for enhancing organisational sustainability, and began the recertification process in the summer of 2019. This is underpinned by a further year of reduced gas and electricity consumption.

DECREASING WASTE AND INCREASING AWARENESS

Supported by our strategic partnerships with Veolia and Baxter Storey, we have made further progress in reducing waste and enhancing colleague awareness.

Initiatives include simplifying onsite recycling, removing plastic cutlery (resulting in one tonne less of waste per year), introducing reusable coffee cups and colleague awareness events. This is alongside existing initiatives including the "we don't do rubbish" incentive scheme, which provides coffee grounds to our green-fingered colleagues for use as a natural fertiliser.

ENHANCING HEALTH AND SAFETY

We are currently migrating our health and safety management process to the new ISO 45001, an enhanced system which includes all levels within the Company and a proactive approach to incorporating a safety culture.

SUPPORTING WELLBEING

Colleague wellbeing remains a key area of focus and this year we held our first ever business-wide Shop Direct Games, offered flu jabs and health checks to all colleagues, and reached 1,000 members at our head office fitness facility.

INVESTING IN OUR PEOPLE

We continue to seek full and open dialogue with our colleagues and their representatives through channels such as consultative committees, joint working parties, briefing groups and our collective bargaining agreements with the USDAW and SATA trade unions. We keep colleagues updated on corporate and individual business unit objectives, trading performance, economic conditions and other relevant matters. They are also represented on our pension trustee boards.

UNITED BY OUR PURPOSE

As we continue our transformation, our purpose remains to make good things easily accessible to more people. We have been working this year with our leadership team to identify the operating model, ways of working and talent requirements needed to deliver our purpose.

Our people strategy brings all of this together and combines the right talent plan for new and existing colleagues and the creation of an organisational change roadmap focused on building outcome-focused teams. We're putting the colleague experience at the heart of everything we do – creating a sense of inclusion and belonging, fuelled by our purpose and values.

Key initiatives launched during the year include:

- Refreshed values: to reflect the business we're becoming as part of our next chapter
- Voice: launching our new colleague engagement survey with more actionable insight for leaders
- Category management: reorganising our buying, merchandising and trading function into a category management structure, giving greater P&L accountability within the teams
- Performance: embedding our values and outcomes-driven performance management approach, focusing on creating a culture of feedback
- Diversity and inclusion: holding a number of internal events to embed and highlight our diversity and inclusion strategy
- SMCR (new FCA regulation): creating a business readiness programme for implementation from December 2019 across our financial services business
- Fulfilment: following the announcement to close our existing Greater Manchester fulfilment centres to create a new automated fulfilment centre in the East Midlands in 2021, we have supported colleagues by setting up a taskforce of representatives from across the Greater Manchester area. The taskforce includes Shop Direct, local councils, government departments and external skills providers as well as representatives from Guidant and USDAW. This group has a strong collective understanding of the local economy and future workforce needs and is committed to supporting colleagues for the future with a strong development offer, which includes apprenticeships, Maths and English functional skills and self-led digital learning.

SUPPORTING OUR COMMUNITIES

We continue to play a positive role in our local communities through our charity programme, and support colleagues with our matched funding portal, payroll giving and online fundraising platforms. As part of this commitment, we ask our colleagues to vote to choose one digitally-focused, local charitable project for us all to get behind as a team.

SUPPORTING OUR CHOSEN CHARITIES

In October 2017, our colleagues voted to support the Booth and Whitechapel Centres, the leading homelessness charities in Greater Manchester and Liverpool respectively. Each helps thousands of families every year, preventing and resolving homelessness and social exclusion. We committed to raising £600,000 across a two-year period, to support the charities to deliver a multi-faceted approach to improve digital inclusion and employment for some of the North West's most excluded and impoverished people. We're also providing industry-leading knowledge to help drive the project.

Over the past 12 months, our colleagues have been taking part in various fundraising challenges which will continue until the conclusion of the partnership. We also held a charity ball in November 2018 with proceeds contributing towards the charity challenge.

Approved by the Board 28 October 2019 and signed on its behalf by:

D W KERSHAW
Director

DIRECTORS' REPORT
for the year ended 30 June 2019

The Directors present their Annual Report and the consolidated financial statements of Shop Direct Limited ("the Company") and its subsidiaries ("the Group") for the year ended 30 June 2019.

DIRECTORS OF THE GROUP
The Directors, who held office during the year, were as follows:

A S Barclay
H M Barclay
D W Kershaw
P L Peters
M Seal (resigned 7 June 2019)
S A Winton
H B Birch (appointed 8 April 2019)
J T Humphries (appointed 8 April 2019)
M McMenemy (appointed 8 April 2019).

DIVIDENDS
The Directors do not recommend the payment of a final dividend (2018: £nil).

EMPLOYMENT OF DISABLED PERSONS
Applications for employment by disabled persons are always fully considered, considering the application on its merit and the knowledge, experiences and skills of the applicant concerned. In the event that a colleague's ability to complete day to day activities is impaired by a disability every effort is made to ensure that their employment with the Company continues through reasonable adjustments and appropriate training. It is the policy of the Company that the training, career development and promotion of a person with a disability should, as far as is practically possible, be identical to that of other employees.

EMPLOYEE INVOLVEMENT
There is a commitment to employee engagement geared towards business improvement and which incorporates a full and open dialogue with employees and their representatives. This encourages an active contribution from employees to achieving stated business objectives. The Company has well established negotiation and consultation mechanisms with employees and their representatives including consultative committees, joint working parties and briefing groups. The Company recognises and has collective bargaining agreements with USDAW and SATA trade unions. Employees and their representatives are regularly informed of corporate and individual business unit objectives, trading performance, economic conditions and other relevant matters. Employees are also represented on the various trustee boards relating to pension arrangements.

BUSINESS REVIEW
The Directors are required by company law to set out a fair review of the business, its position at the year end, future developments and a description of the principal risks and uncertainties facing the Group. The Strategic Report is on pages 1 to 23 and includes the Group Chief Executive's Review on pages 6 and 7. The principal risks are considered on pages 20 and 21.

GOING CONCERN
In determining whether the Group's accounts can be prepared on a going concern basis, the Directors considered the Group's business activities together with factors likely to affect its future development, performance and its financial position including cash flows, liquidity position and borrowing facilities.

Whilst the accounts are prepared on a going concern basis, the Group has not secured funding of £150.0m for the exceptional level of customer redress payments prior to the signing of these financial statements. Since the Group has not secured the required £150.0m of additional committed funding prior to the signing of these financial statements the Directors recognise that there is a material uncertainty which may cast significant doubt as to the Group's and Company's ability to continue as a going concern. Further detail is set out on page 19.

ELECTIVE RESOLUTIONS
The Group has passed elective resolutions to dispense with the holding of annual general meetings and for the laying of the Annual Report and financial statements before the Company in general meetings, until such time as the elections are revoked.

DISCLOSURE OF INFORMATION TO THE AUDITOR
Each Director has taken steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. The Directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware. This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

REAPPOINTMENT OF AUDITOR
Deloitte LLP have indicated their willingness to continue in office.

Approved by the Board 28 October 2019 and signed on its behalf by:

D W KERSHAW
Director

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the 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 elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". 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 Company and of the profit or loss of the Company for that period.

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

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

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHOP DIRECT LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

In our opinion:

- the financial statements of Shop Direct Limited (the "parent company") and its subsidiaries (the "group") give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2019 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company statements of financial position;
- the consolidated and parent company statements of changes in equity;
- the consolidated statements of cash flow; and
- the related Notes 1 to 40.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the "FRC's") Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to Note 2 to the financial statements concerning the group and parent company's ability to continue as a going concern. The group incurred a net loss of £170.0m during the year ended 30 June 2019 and, at that date, the group had a regulatory provision of £174.6m which is expected to be paid over the next 12 months. The directors are evaluating a number of options to raise additional funding of £150.0m, but have not secured the additional £150.0m funding before the date of signing these financial statements. The directors have chosen to sign these financial statements at this time, without the committed funding, in order to meet the covenant on the senior secured notes of delivering audited accounts within 120 days of the balance sheet date. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2 indicate the existence of a material uncertainty which may cast significant doubt about the group and parent company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

USE OF OUR REPORT

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RACHEL ARGYLE
(SENIOR STATUTORY AUDITOR)

For and on behalf of Deloitte LLP

Statutory Auditor
Manchester, United Kingdom

28 October 2019

CONSOLIDATED INCOME STATEMENT

for the Year Ended 30 June 2019

	Note	Year ended 30 June 2019 Pre-exceptional items £ m	Year ended 30 June 2019 Exceptional items(7) £ m	Year ended 30 June 2019 Total £ m	Year ended 30 June 2018 Pre-exceptional items £ m	Year ended 30 June 2018 Exceptional items(7) £ m	Year ended 30 June 2018 Total £ m
Continuing operations							
Sale of goods		**1,562.2**	**–**	**1,562.2**	1,531.7	–	1,531.7
Rendering of services		**431.2**	**–**	**431.2**	427.1	–	427.1
Total revenue	5,6	**1,993.4**	**–**	**1,993.4**	1,958.8	–	1,958.8
Cost of sales		**(1,204.6)**	**–**	**(1,204.6)**	(1,178.1)	–	(1,178.1)
Gross profit		**788.8**	**–**	**788.8**	780.7	–	780.7
Distribution costs		**(226.4)**	**–**	**(226.4)**	(215.8)	–	(215.8)
Administrative costs		**(338.9)**	**(310.2)**	**(649.1)**	(342.0)	(159.6)	(501.6)
Other operating income		**2.7**	**–**	**2.7**	1.7	–	1.7
Operating profit/(loss)	8	**226.2**	**(310.2)**	**(84.0)**	224.6	(159.6)	65.0
Finance income	9	**0.6**	**–**	**0.6**	0.1	–	0.1
Finance costs	9	**(102.1)**	**–**	**(102.1)**	(84.6)	(5.2)	(89.8)
Profit/(loss) before tax		**124.7**	**(310.2)**	**(185.5)**	140.1	(164.8)	(24.7)
Tax (charge)/credit	13	**(6.3)**	**21.8**	**15.5**	(6.2)	21.7	15.5
Profit/(loss) for the year		**118.4**	**(288.4)**	**(170.0)**	133.9	(143.1)	(9.2)
Profit/(loss) attributable to equity holders of the Group		**118.4**	**(288.4)**	**(170.0)**	133.9	(143.1)	(9.2)

The above results were derived from continuing and discontinued operations. As the discontinued operations are not material to the Group no further disclosures are required other than those included in Note 7.

The Notes on pages 33 to 77 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the Year Ended 30 June 2019

	Note	2019 £ m	2018 £ m
Loss for the year		**(170.0)**	(9.2)
Items that will not be reclassified subsequently to profit or loss			
Remeasurement on retirement benefit obligations before tax	25	**2.0**	121.8
Impact of pension scheme buy-out/(buy-in)	25	**22.2**	(124.6)
Tax on pension scheme buy-out	25	**(7.8)**	–
Income tax effect	13	**(3.4)**	(2.7)
Other comprehensive income/(expense) for the year		**13.0**	(5.5)
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation (losses)/gains		**(0.6)**	0.1
Other comprehensive income/(expense) for the year		**12.4**	(5.4)
Total comprehensive expense attributable to:			
Owners of the Company		**(157.6)**	(14.6)

The Notes on pages 33 to 77 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2019

	Note	2019 £ m	2018 £ m
Assets			
Non-current assets			
Goodwill	15	**202.5**	252.5
Intangible assets	16	**215.1**	201.5
Property, plant and equipment	14	**10.2**	12.7
Deferred tax assets	13	**149.1**	104.4
		576.9	571.1
Current assets			
Inventories	18	**94.2**	101.9
Trade and other receivables	19	**2,103.6**	2,206.0
Income tax asset		**1.8**	0.8
Cash at bank	20	**14.8**	140.5
Derivative financial instruments	17	**4.8**	2.5
		2,219.2	2,451.7
Total assets		**2,796.1**	3,022.8
Equity			
Share capital	22	**(100.0)**	(100.0)
Retained losses/(earnings)		**188.5**	(85.3)
Deficit/(equity) attributable to owners of the Company		**88.5**	(185.3)
Non-current liabilities			
Loans and borrowings	23	**(550.0)**	(550.0)
Securitisation facility	23	**(1,372.6)**	(1,317.4)
Retirement benefit obligations	25	**(58.0)**	(72.3)
Deferred income	28	**(36.2)**	(35.8)
Obligations under finance leases	24	**(1.6)**	(3.1)
Provisions	26	**(16.8)**	(39.3)
		(2,035.2)	(2,017.9)
Current liabilities			
Trade and other payables	27	**(502.6)**	(557.8)
Loans and borrowings	20, 23	**(102.6)**	(102.8)
Obligations under finance leases	24	**(1.5)**	(1.5)
Deferred income	28	**(61.9)**	(69.0)
Provisions	26	**(180.8)**	(88.5)
		(849.4)	(819.6)
Total liabilities		**(2,884.6)**	(2,837.5)
Total equity and liabilities		**(2,796.1)**	(3,022.8)

The financial statements of Shop Direct Limited, registered number 04730752 have been approved by the Board and authorised for issue on 28 October 2019 and signed on its behalf by:

D W KERSHAW
Director

The Notes on pages 33 to 77 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the Year Ended 30 June 2019

	Share capital £ m	Retained (losses)/ earnings £ m	Total £ m
At 1 July 2017	100.0	99.9	199.9
Loss for the year	–	(9.2)	(9.2)
Other comprehensive expense	–	(5.4)	(5.4)
Total comprehensive expense	–	(14.6)	(14.6)
At 30 June 2018	100.0	85.3	185.3

	Share capital £ m	**Retained (losses)/ earnings £ m**	**Total £ m**
At 1 July 2018	**100.0**	**85.3**	**185.3**
Changes on transition to IFRS 9 (Note 4)	**–**	**(116.2)**	**(116.2)**
Balance as at 1 July 2018 as restated	**100.0**	**(30.9)**	**69.1**
Loss for the year	**–**	**(170.0)**	**(170.0)**
Other comprehensive income	**–**	**12.4**	**12.4**
Total comprehensive expense	**–**	**(157.6)**	**(157.6)**
At 30 June 2019	**100.0**	**(188.5)**	**(88.5)**

The Notes on pages 33 to 77 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the Year Ended 30 June 2019

	2019 £ m	2018 £ m
Cash flows from operating activities		
Loss for the year	**(170.0)**	(9.2)
Adjustments for:		
Depreciation	**2.0**	2.9
Amortisation	**42.8**	34.8
Financial instrument net gains through profit and loss	**(2.3)**	(4.5)
Impairment of assets	**5.9**	–
Impairment of goodwill	**50.0**	–
Finance income	**(0.6)**	(0.1)
Finance costs	**100.4**	87.8
Income tax expense	**(15.5)**	(15.5)
Increase in provisions	**69.8**	30.0
Adjustments for pensions	**9.6**	(15.4)
Operating cash flows before movements in working capital	**92.1**	110.8
Decrease in inventories	**7.7**	12.4
Increase in trade and other receivables	**(39.9)**	(131.3)
(Decrease)/increase in trade and other payables	**(72.6)**	31.5
Cash (used in)/generated by operations	**(12.7)**	23.4
Income taxes paid	**(17.1)**	(0.5)
Interest paid	**(98.3)**	(88.4)
Net cash flow from operating activities	**(128.1)**	(65.5)
Cash flows from investing activities		
Interest received	**0.6**	0.1
Acquisitions of property, plant and equipment	**(1.9)**	(4.7)
Acquisitions of intangible assets	**(49.8)**	(81.4)
Net cash flows from investing activities	**(51.1)**	(86.0)
Cash flows from financing activities		
Repayments of bank borrowings	**–**	(500.0)
Proceeds from issue of senior secured notes	**–**	550.0
(Repayments of)/proceeds from finance lease draw downs	**(1.5)**	0.1
Proceeds from securitisation facility draw downs	**55.2**	88.6
Net cash flows from financing activities	**53.7**	138.7
Net decrease in cash and cash equivalents	**(125.5)**	(12.8)
Cash and cash equivalents at 1 July	**37.7**	50.5
Cash and cash equivalents at 30 June	**(87.8)**	37.7

The Notes on pages 33 to 77 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
for the Year Ended 30 June 2019

1 GENERAL INFORMATION
Shop Direct Limited is a private company limited by share capital incorporated, registered and domiciled in England and Wales under the Companies Act.

The address of its registered office is:

First Floor, Skyways House
Speke Road
Speke
Liverpool
L70 1AB

The nature of the Group's operations are set out in the Strategic Report on pages 1 to 23.

2 ACCOUNTING POLICIES
STATEMENT OF COMPLIANCE
The Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The Company has elected to prepare its Parent Company financial statements in accordance with FRS 101.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND KEY ACCOUNTING ESTIMATES
The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to the current and prior years.

BASIS OF PREPARATION
The statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and therefore comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis, except for financial instruments that are measured at fair value at the end of each reporting period, as explained in the accounting policies below.

The financial statements are drawn up to the Saturday nearest to 30 June, or to 30 June where this falls on a Saturday.

These financial statements are presented in Pounds Sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out herein.

GOING CONCERN
In line with many comparable businesses, the Group experienced a material increase in the volume of customer redress claims in the weeks leading up to the FCA set deadline of 29 August 2019. The Group saw the volume of submitted claims increase to more than 276,000 in August 2019 versus the average monthly run rate of approximately 40,000 claims and consequently the claims were significantly in excess of the allowance that had been made. Whilst the expiry of the claims deadline concludes the long-running claims process, the late surge in claims has resulted in an additional £150.0m provision being recognised as at 30 June 2019, bringing the total customer redress claims provision at the year end to £174.6m. The full customer redress claims provision is expected to unwind as claims are cash settled over the next 12 months.

Whilst the total customer redress claims provision at the year end is materially higher than had been expected, the Directors do not anticipate making any further provision for customer redress claims following expiry of the claims deadline. Whilst the provision recorded is the Directors' best estimate of the likely outcome, there is naturally a degree of estimation as the claims are validated and processed. Further detail of this matter is provided in Note 26 to the financial statements.

In view of the significantly increased customer redress claims provision, the Directors have carefully considered the Group's cash flows and cash resources and have resolved to seek additional funding of £150.0m. The Directors consider that this additional funding is required in order to meet the final customer redress claims liability and ensure that the Group has sufficient liquidity to continue its business activities as a going concern. The total customer redress claims provision of £174.6m at 30 June 2019 could take up to 12 months to unwind, which allows some of the additional cash requirement to be met through normal trading activities, whilst giving time to secure appropriate financing.

The Directors are actively evaluating a number of options to raise this additional funding, including both debt and equity funding. However, due to the very late emergence and unexpected increase in the amount of the customer redress claims provision, the Directors have not secured the additional £150.0m funding before the date of signing these financial statements. The Directors have chosen to sign the financial statements at this date, without the committed funding, in order to meet the covenant on the senior secured notes of delivering audited accounts within 120 days of the balance sheet date.

The Directors are confident that such funding can be secured within the necessary timeframe and that, but for the increased customer redress cash requirement, the Group has sufficient liquidity headroom for the foreseeable future. In particular, the Directors consider the Group's business activities and operating cash flow performance remain robust. The Group has sufficient liquidity over the coming months to cover all known liabilities which are due for settlement and in addition the Directors have a number of mitigating actions available to them to manage liquidity, on the basis that there is no acceleration or repayment of long-term borrowings or other liabilities.

In determining whether the Group's accounts can be prepared on a going concern basis, the Directors considered the Group's business activities together with factors likely to affect its future development, performance and financial position

NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June 2019
(continued)

2 COUNTING POLICIES (CONTINUED)

GOING CONCERN (CONTINUED)

including cash flows, liquidity and borrowing facilities and the principal risks and uncertainties relating to its business activities, including those outlined above. Given the current uncertain economic climate, realistic assumptions for working capital performance have been used to determine the level of financial resources available to the Group and to assess liquidity risk. The key risk identified for these assumptions is the impact that a deterioration in the economic climate would have on revenues and the debtor book. After sensitivities to take account of reasonably foreseeable changes in trading performance, our forecasts and projections show that the Group, albeit in a net liability position, will have sufficient headroom within its current loan facilities with the aforementioned additional funding. After making appropriate enquiries the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operation for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in the preparation of the financial statements.

However, since the Group has not secured the required £150.0m of additional committed funding, prior to signing of these financial statements, the Directors recognise that there is a material uncertainty which may cast significant doubt as to the Group's and Company's ability to continue as a going concern and therefore the Group and Company may be unable to realise their assets and discharge their liabilities in the normal course of business.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries).

The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

NEW AND REVISED STANDARDS

IFRS 9 FINANCIAL INSTRUMENTS

From 1 July 2018, the Group has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition for periods beginning from or after 1 January 2018. IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The new standard is split into three parts: classification and measurement, impairment and hedge accounting, and has resulted in changes in accounting policies and adjustments to the amounts previously recognised in the Group financial statements. The adoption of IFRS 9 has mainly impacted financial assets and has not had a significant effect on the Group's accounting policies related to financial liabilities and derivative financial instruments. The Group did not early adopt any of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period. (See Note 4).

The consequential amendments to IFRS 7 'Financial Instruments: Disclosures' have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

As a result of the adoption of IFRS 9, the Group has adopted consequential amendments to IAS 1 'Presentation of Financial Statements', which require separate presentation in the Consolidated Income Statement of revenue derived from the rendering of services. This was previously disclosed in the Notes to the financial statements.

CLASSIFICATION

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income and fair value through profit and loss. IFRS 9 largely retains the previous requirements in IAS 39 for the classification and measurement of financial liabilities.

Financial assets are classified at amortised cost if held within a business model where the objective is to hold the asset to collect its contractual cash flows, and the contractual terms of the financial asset give rise to cash flows on specified dates that represent payments of solely principal and interest on the outstanding principal amount, provided it has not been designated as fair value through profit and loss.

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

2 ACCOUNTING POLICIES (CONTINUED)

NEW AND REVISED STANDARDS (CONTINUED)

CLASSIFICATION (CONTINUED)

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

RECOGNITION AND MEASUREMENT

The measurement at initial recognition did not change on adoption of IFRS 9. All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs.

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'trade/other receivables'. Trade/other receivables are measured at amortised cost using the effective interest method, less any impairment.

Financial liabilities, including borrowings, are initially measured at fair value. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest rate method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

IMPAIRMENT

Financial assets are assessed throughout the year for significant increase in credit risk and impairment. IFRS 9 replaces the "incurred loss" basis for assessing impairment under IAS 39 with an "expected credit loss" (ECL) approach. ECLs are a probability weighted estimate of the present value of credit losses discounted over the expected life of an instrument at its original effective interest rate (EIR). Credit losses for financial assets are the difference between the contractual cash flows, and the cash flows expected to be received. The Group considers whether financial assets are credit impaired at each reporting date.

The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at fair value through other comprehensive income (FVOCI), but not to investments in equity instruments. (See Note 19).

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets except for trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

The Group has two types of financial assets subject to the IFRS 9 expected credit loss model:

(i) Debt investments:

Debt investments at fair value through profit and loss are considered to be low risk, and thus the impairment provision is determined as 12 months expected credit losses.

(i) Trade receivables and contract assets under IFRS 15:

Customer balances are assessed within 3 stages for calculation of expected credit loss:

- Stage 1 – customer balances not demonstrating a significant increase in credit risk since origination;
- Stage 2 – customer balances demonstrating a significant increase in credit risk since origination; and
- Stage 3 – customer balances identified as impaired.

During the year the Group implemented new underwriting processes which enable it to assess each transaction for approval at the time of sale based on the customer's perceived spending capacity. These processes use statistical models and inputs including spending patterns and payment behaviour. The Group has the right to refuse each transaction at its discretion. Therefore, undrawn components will not be classified as loan commitments and future spending is not in scope.

DEFINITION OF SIGNIFICANT INCREASE IN CREDIT RISK

A significant increase in credit risk is defined as the probability of default of a customer balance having increased by at least 100% against the probability of default calculated at origination; other determining factors are also considered including whether the probability of default exceeds the average probability of default of an up-to-date customer balance.

A final rule is applied to ensure that a significant increase in credit risk is assessed as having occurred no later than when a customer balance is two scheduled payments past due or greater.

DEFINITION OF IMPAIRMENT

Evidence of impairment includes where a customer balance meets forbearance criteria or reaches three scheduled payments past due or greater.

Probation periods are retained for accounts moving from Stage 2 to Stage 1, and from Stage 3 to Stage 2.

These periods temporarily prevent an account moving to a lower provision stage to allow further observation and to ensure a short-term improvement in customer arrears status does not lead to an inaccurate view of underlying credit risk.

Customer balances are selected to be written off, and/or potentially sold under third party debt sale agreements, based on consideration of both customer outcomes and commercial criteria. Recoveries are recognised as impairment gains in the income statement.

2 ACCOUNTING POLICIES (CONTINUED)

NEW AND REVISED STANDARDS (CONTINUED)

DEFINITION OF IMPAIRMENT (CONTINUED)

The provision is calculated on one of the following bases:

- For balances in stage 1, the provision is based on lifetime expected credit losses anticipated from potential default events within the 12 months following the reporting date (discounted exposure at default multiplied by probability of default multiplied by loss given default); and
- For balances in stage 2 and 3, the provision is based on lifetime expected credit losses anticipated from all potential default events over the expected life of a financial instrument.

The Group calculates its ECL using a statistical model based on probability of default (PD), loss given default (LGD) and exposure at default (EAD):

- PD is an estimate of the likelihood of default over a given time horizon, estimated at a point in time. The calculation is based on statistical models that utilise both market and internal data, based on current conditions adjusted to take into account estimates of future conditions that will impact PD.
- LGD is an estimate of the likely loss in the event of a default. The estimates are based on the Group's history of recovery rates.
- EAD is an estimate of the expected gross carrying amount at a future default date. EAD is based on the current loan amount adjusted for expected repayments of principal, and the impact of missed payments which would be expected for an account in default. At 30 June 2019, the maximum exposure at default is considered by the Group to be the current outstanding balance.

ECL is calculated at an individual loan level as the product of PD, LGD and EAD, discounted at the original effective rate to the reporting date.

A macroeconomic element is included in the overall calculation of expected credit loss.

THE FOLLOWING ACCOUNTING POLICIES ARE IN RELATION TO THE COMPARATIVE FIGURES IN THE ACCOUNTS REPORTED UNDER IAS 39 RATHER THAN IFRS 9.

SECURITISED TRADE RECEIVABLES

Securitised trade receivables are measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

FINANCIAL INSTRUMENTS

CLASSIFICATION

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

RECOGNITION AND MEASUREMENT

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs.

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'trade/other receivables'. Trade/other receivables are measured at amortised cost using the effective interest method, less any impairment.

Financial liabilities, including borrowings, are initially measured at fair value.

Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest rate method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

2 ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS (CONTINUED)

IMPAIRMENT

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

FRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

The Group does not consider that IFRS 15 has a material impact on the financial statements.

NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS NOT YET EFFECTIVE

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

- **IFRS 16** – Leases
- **IFRS 17** – Insurance Contracts
- **IAS 16 and IAS 38 (amendments)** – Clarification of Acceptable Methods of Depreciation and Amortisation
- **IAS 27 (amendments)** – Equity Method in Separate Financial Statements
- **Annual Improvements to IFRSs: 2012-2014 Cycle** – Amendments to: IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, IFRS 7 Financial Instruments: Disclosures, IAS 19 Employee Benefits and IAS 34 Interim Financial Reporting.

The Directors expect that the adoption of IFRS 16 will be material to the Group as explained below.

IFRS 16 LEASES

IFRS 16 replaces the provisions of IAS 17 that relate to the recognition, classification and measurement of lease transactions.

IFRS 16 is effective for accounting periods beginning on or after 1 January 2019. The Group will therefore apply IFRS 16 from 1 July 2019 and anticipates the impact of IFRS 16 on the financial statements will be significant.

The Group has a portfolio of leased properties and other equipment, including office space and distribution centres, the minimum lease commitment on these at the financial year end is disclosed in Note 24.

The Group has taken the election not to apply IFRS 16 to leases with a lease term of 12 months or less or for those leases for which the underlying asset is less than £5,000.

On the adoption of IFRS 16, the Group will recognise a right of use asset representing its right to use the underlying leased asset based on the present value of future lease payments and a lease liability representing its obligation to make lease payments. The right of use asset will be depreciated on a straight-line basis over the term of the lease. Interest will be recognised on the lease liability resulting in a higher interest charge in the earlier periods of the lease and reducing over the lease term. There will be no change to the total expense recognised over the period of the lease, but under IFRS 16 the expense will be recognised as depreciation and interest payable rather than as an operating expense as is the case under IAS 17. There will be therefore a favourable impact on EBITDA.

There will be no impact on the cash flows relating to the lease, but the presentation of cash flows in the Cash Flow Statement will change. An increase in cash flows from operating activities will be offset by an increase in cash flows from financing activities.

The Group intends to adopt the modified retrospective treatment. The modified retrospective approach does not require restatement of comparative periods. Instead the cumulative impact of applying IFRS 16 is accounted for as an adjustment to equity at the start of the current accounting period in which it is first applied. The right of use asset and lease liability will be recognised at an amount equal to the future lease payments, adjusted for accruals and prepayments, using the borrowing rate at the date of transition, 1 July 2019. Comparatives will not be restated.

The estimated impact at 1 July 2019 is to increase tangible assets within a range of £75m to £85m with the recognition of an opposing lease liability. There is no impact on the brought forward reserve position.

REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June 2019
(continued)

2 ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION (CONTINUED)

Retail turnover represents the sale of goods, less an appropriate deduction for returns and sales tax, and is recognised at the point of despatch from the distribution centre when the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Financial services turnover principally comprises interest on customers' outstanding balances, commission earned on sales of warranty products and administration fees following instances such as late or partial payment by customers.

Interest is recognised by reference to the principal outstanding and the applicable effective interest rate which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial assets to the assets' net carrying amount. Interest is presented net of amounts expected to be settled within the interest free period. Interest income is accrued on all receivables using the earned interest rate applied to the loan's carrying value. Revenue is calculated using the earning interest on the gross receivables balance for loans in stages 1 and 2.

For loans in stage 3, where interest is still being contractually charged, the calculation is applied to the receivable, net of the allowance for impairment losses, from the start of the next reporting date after the loan entered stage 3.

Commission earned on sale of insurance products is recognised on sale of the products and is disclosed on a net basis in accordance with the Group's role as agent.

Insurance premiums are accounted for on an accruals basis and earned evenly over the period of the policy.

Administration fees are recognised as revenue as the service is performed.

OPERATING PROFIT/(LOSS)

Operating profit/(loss) is stated after charging exceptional costs but before investment income and finance costs.

FOREIGN CURRENCY TRANSACTIONS AND BALANCES

The Group does not trade speculatively in foreign currency; foreign currency is held purely to satisfy payments to suppliers, primarily for goods for resale.

Foreign currency purchases are expressed in Pounds Sterling at the exchange rate fixed at the point of purchase (the "contract rate"). A standard exchange rate, fixed at the beginning of each season, is used in calculating the merchandise margin of goods sold with any resulting profits or losses between standard and contract (actual) rates taken through the income statement over the year to which the usage relates (the "season"). Monetary assets and liabilities, which are to be settled in foreign currencies and are not covered by forward contracts, are translated into Pounds Sterling at the rate of exchange prevailing at the balance sheet date. All exchange differences are dealt with in the income statement.

Exchange gains and losses arising on the retranslation of overseas net assets and results are taken to reserves.

TAX

CURRENT TAX

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

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

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

DEFERRED TAX

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of

2 ACCOUNTING POLICIES (CONTINUED)

TAX (CONTINUED)

DEFERRED TAX (CONTINUED)

goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

CURRENT AND DEFERRED TAX FOR THE YEAR

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

PROPERTY, PLANT AND EQUIPMENT

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at their cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or scrappage of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

DEPRECIATION

Depreciation on buildings is charged to the income statement. On the subsequent sale or scrappage of a property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Freehold land is not depreciated.

Fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land) less their residual values over their useful lives, using the straight-line method.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

Asset class	Depreciation method and rate
Leasehold improvement	2%-10% per annum
Furniture, fixtures and fittings	10%-33% per annum

GOODWILL

Goodwill arises on acquisition where the fair value of the consideration given exceeds the fair value of the Group's interest in the identifiable assets and liabilities acquired. Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing goodwill is allocated to each of the Group's cash-generating units ("CGUs") expected to benefit from the synergies of the combination. CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently where there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss for goodwill is not reversed in a subsequent period.

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

INTANGIBLE ASSETS ACQUIRED SEPARATELY

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses.

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following conditions have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June 2019
(continued)

2 ACCOUNTING POLICIES (CONTINUED)

INTANGIBLE ASSETS ACQUIRED SEPARATELY (CONTINUED)

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

AMORTISATION

Amortisation is recognised on a straight-line basis over the asset's estimated useful life. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses. Useful economic lives are as follows:

Asset class	Amortisation method and rate
Internally generated software costs	3-7 years
Acquired brands	5-20 years

IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS EXCLUDING GOODWILL

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

SECURITISATION

Where the Group securitises its own financial assets, this is achieved through the sale of these assets to a securitisation trust (the "Trust"), which is financed through the issuance of loan notes to a number of funders. The Trust used to hold the securitised receivables and funds raised by the issued loan notes is not controlled by Shop Direct; as such it is not consolidated under IFRS 10 Consolidated Financial Statements. As the Group retains substantially all the risks and rewards of ownership of the trade receivables, the Group continues to recognise the trade receivables and also recognises non-recourse borrowings for the proceeds received.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value and consist of finished goods purchased for resale and consumable stocks for use. Cost is determined using a standard costs method. Where necessary provision is made for obsolete, slow-moving and defective stocks.

SUPPLIER REBATES

The Group enters into marketing and advertising and volume based rebate arrangements with suppliers. Rebate income is recognised based on the expected entitlement that has been earned up to the balance sheet date. The Group only recognises rebates where there is documented evidence of an agreement with a supplier. Rebates related to inventory held on the balance sheet are deferred within inventory as a cost price reduction. Rebates earned but not collected at the balance sheet date are recognised within trade and other receivables.

2 ACCOUNTING POLICIES (CONTINUED)

BANK BORROWINGS

Financial liabilities, including borrowings, are initially measured at fair value.

Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest rate method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

PROVISIONS

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

Future regulatory obligations are recognised based upon the best estimate of amounts required to settle obligations at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

LEASES

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

Assets held under finance lease are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

EXCEPTIONAL ITEMS

Exceptional items are those significant items which are separately disclosed on the face of the income statement by virtue of their size and incidence to enable a full understanding of the Group's financial performance.

SHARE CAPITAL

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

DIVIDENDS

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

INVESTMENTS

Investments in subsidiary undertakings are included in the Company's balance sheet at cost on acquisition. Where appropriate, provision is made for any impairments.

DEFINED CONTRIBUTION PENSION OBLIGATION

Payments to defined contribution retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to contributions.

DEFINED BENEFIT PENSION OBLIGATION

For defined benefit retirement benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. Remeasurement comprising actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on scheme assets (excluding interest) are recognised immediately in the balance sheet with a charge or credit to the statement of comprehensive income in the period in which they occur.

Past service cost is recognised in profit or loss in the period of scheme amendment. Net interest is calculated by applying a discount rate to the net defined benefit liability or asset.

Defined benefit costs are split into three categories:

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

The Group presents the first component of defined benefit costs within administrative expenses (see Note 25) in its consolidated income statement. Curtailments gains and losses are accounted for as past-service cost. Net interest expense or income is recognised within finance costs. (See Note 9).

The retirement benefit obligation recognised in the consolidated balance sheet represents the deficit or surplus in the Group's defined benefit schemes. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the schemes or reductions in future contributions to the schemes.

2 ACCOUNTING POLICIES (CONTINUED)

DEFINED BENEFIT PENSION OBLIGATION (CONTINUED)

A liability for a termination benefit is recognised at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

In the prior year the Group completed buy-in agreements for both the Shop Direct Group Limited Pension Plan ("Plan") and the Littlewoods Pension Scheme ("Scheme"). The buy-ins were completed on 30 November 2017 and 31 May 2018 respectively and were reflected in the financial statements for the year ended June 2018 as detailed in Note 25.

On 9 November 2018 the Group completed the buy-out of the Plan, fully extinguishing the liability and on 20 February 2019 a surplus of £22.2m crystallised. A subsequent tax charge of £7.8m was charged against this gain giving a net surplus of £14.4m. This has been recognised as other comprehensive income in the Statement of Changes in Equity and included in adjustments for pensions in the Consolidated Statement of Cash Flows to Net Cash from Operating Activities.

SUPPLIER FINANCING ARRANGEMENTS

The Group has supplier financing schemes as part of its normal course of business. These schemes are based around the principle of reverse factoring whereby the banks purchase from the suppliers approved trade debts owed by the Group. Access to the supplier finance schemes is by mutual agreement between the bank and supplier; the Group is not party to this contract. The schemes have no cost to the Group as the fees are paid by the supplier directly to the banks. The banks have no special seniority of claim to the Group upon liquidation and would be treated the same as any other trade payable. As the schemes do not change the characteristics of the trade payable, and the Group's obligation is not legally extinguished until the bank is repaid, the Group continues to recognise these liabilities as trade payables.

DERIVATIVES

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risk, including foreign exchange forward contracts. Further details of derivative financial instruments are disclosed in Note 17.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

DEFERRED INCOME

The Group recognises interest income over the sales term. Therefore any interest income received but not yet earned is classified as deferred income and held on the balance sheet as disclosed in Note 28.

3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 2, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

CRITICAL JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES

The key judgements concerning the future and the reporting period that may have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

TAX

The Group recognises deferred tax assets to the extent that it is probable (defined as more likely than not) that there will be future taxable income against which the deferred tax asset can be utilised. A judgement as to the future taxable income is inherent in this process. The Group has considered the carrying value of its deferred tax asset at each balance sheet date and concluded that based on management's estimates, sufficient taxable profits will be generated in future years to recover such recognised deferred tax assets. The carrying amount of the deferred tax asset at the balance sheet date was £149.1m (2018: £104.4m) are included in Note 13.

UNDRAWN CREDIT LIMITS

During the year the Group implemented new underwriting processes which enable it to assess each transaction for approval at the time of sale based on the customer's perceived spending capacity. The Group judges undrawn components not to be classified as loan commitments and future spending is therefore not in scope of expected credit loss calculations. (See Note 19)

3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

LOAN LOSS PROVISIONING

The Group considers the determination criteria for significant increase in credit risk to be a key judgement within the expected credit loss model that may have a significant risk of causing material adjustment.

The determination criteria are: a 100% increase in a customer's probability of default (PD) versus the customer's PD at origination, where that customer's current PD is also greater than the average PD of an up-to-date balance. A final rule is also applied to ensure that a significant increase in credit risk is assessed as having occurred no later than when a customer balance is two scheduled payments past due or greater.

KEY SOURCES OF ESTIMATION UNCERTAINTY

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

IMPAIRMENT OF GOODWILL

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. An impairment has been made during the year to the goodwill resulting from the acquisition of Douglas Insurance Limited. The carrying amount of goodwill at the balance sheet date was £202.5m (2018: £252.5m). Details of the impairment review carried out are included in Note 15.

LOAN LOSS PROVISIONING

An allowance for estimated irrecoverable customer receivables is made based on the Group's expected credit loss model in line with IFRS 9. This is an area that requires the use of complex models and significant assumptions about credit behaviour and macroeconomic conditions.

The model is derived from estimates and underlying assumptions, of which the number and relative weighting of forward-looking scenarios and the associated expected credit losses is considered a key estimate by the Group.

A macroeconomic element is included in the overall calculation of expected credit loss. Multiple economic scenarios are purchased. The scenarios provide macroeconomic forecast data for key indicator variables, GDP and CPI. Key indicator variables have been established as having the closest correlation to Group default performance. The scenarios consider, with different probable outcomes, a range of as follows: (i) Base Case, (ii) Upside, (iii) Mild Upside, (iv) Stagnation, (v) Downside, and (vi) Severe Downside economic performance. The Group's macroeconomic calculation applies a weighting of base case 40%, mild upside 30% and downside 30%.

If 100% downside scenario were applied, the provision would increase by £4.9m. The application of 100% upside scenario would indicate a provision decrease of £4.3m.

REGULATORY

The Group operates within a changing regulatory environment, regularly reviewing the requirements, guidance notes and scanning the horizon for future developments. The balance sheet position, including the provision for future customer redress payments in respect of historic shopping insurance sales, represents the best estimate of the future regulatory obligations based on information available at signing date, taking into account factors including risk and uncertainty.

The Group continues to work through these claims. The year-end provision is based on Directors' best estimate following the sampling of approximately 50% of claims outstanding at 29 August 2019 to derive an estimated attachment rate.

If the claims in the remaining sample were to have a higher or lower attachment rate or size of claim, this would have a material impact on the provision required. A 1% change in attachment rate would require a £4.0m change in provision. A 1% change in the average size of claim would require a £1.3m change in the provision.

In the aforementioned claims increase, the Official Receiver requested the Group to investigate whether approximately 165,000 bankrupts and former bankrupts may have claims. The Group has analysed the data provided and taken legal advice and on the basis of that analysis and advice has concluded that the cost of redress of these claims does not require a material provision.

PENSION

The Group has defined benefit pension plans; all plans have been accounted for in accordance with IAS 19, and as disclosed in Note 25, a buy-out surplus has crystallised on one of the plans in the year.

For all plans, pension valuations have been performed using specialist advice obtained from independent qualified actuaries. In performing these valuations, significant actuarial assumptions and judgements have been made to determine the defined benefit obligation, in particular, in respect of inflation, mortality and discount rates. Relevant sensitivity analysis is included in Note 25.

VAT

The Group has been in discussion with HMRC in respect of the methodology used for the Group's partial exemption calculation. The Group has received assessments of £3.7m from HMRC covering the 12 months ended 30 March 2016, which with HMRC's agreement, at 30 June 2019 have not been paid. HMRC has confirmed the assessments for this period are subject to revision and are expected to be reduced to £2.3m. Using HMRC's methodology confirmed in the revision, up until the 30 June 2019 the Group has an estimated total liability of £9.3m.

The Directors have continued to accrue in line with professional advice, accruing at 30 June 2019 £4.9m (2018: £3.6m) as discussions are ongoing with HMRC and an outcome has not yet been achieved.

NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June 2019

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4 IFRS 9 TRANSITION

From 1 July 2018 the Group has applied IFRS 9 with an election not to restate comparative information. As a result, the comparative information provided in these financial statements continues to be accounted for in accordance with the Group's previous accounting policy under IAS 39.

The impact of the transition on opening retained earnings is as follows:

	£ m
Opening retained earnings under IAS 39	85.3
Stage 1 provision	(44.0)
Stage 2 and 3 provision	(96.5)
Increase in deferred tax assets relating to impairment provisions (see Note 13)	24.3
Adjustment to retained earnings from adoption of IFRS 9	(116.2)
Opening retained deficit under IFRS 9	(30.9)

On the date of initial application, on 1 July 2018, the financial instruments of the Group were as follows, with any reclassifications noted:

	Measurement category		Carrying amount		
	IAS 39	IFRS 9	IAS 39 £ m	IFRS 9 £ m	Difference £ m
Current financial assets:					
Trade and other receivables	Amortised cost	Amortised cost	2,206.0	2,065.5	(140.5)
Cash and bank balances	Amortised cost	Amortised cost	140.5	140.5	–
Derivatives	Fair value through profit or loss	Fair value through profit or loss	2.5	2.5	–

IFRS 9 provisions for customer balances in stage 1 has a lifetime expected credit losses anticipated from potential default events within the 12 months following the reporting date (discounted exposure at default multiplied by probability of default multiplied by loss given default). IFRS 9 provisions for customer balances in stage 2 and 3 is based on lifetime expected credit losses anticipated from all potential default events over the expected life of a financial instrument. A reconciliation from the closing IAS 39 loss allowance provision to opening IFRS 9 provision is shown below:

	£ m
At 30 June 2018 (IAS 39)	125.7
Stage 1 provision	38.9
Stage 2 and 3 provision	86.6
Macro-economic scenarios	15.0
At 1 July 2018 (IFRS 9)	266.2

The following table reconciles the current period's opening impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 July 2018:

Measurement category	Loan loss allowance under IAS 39/provision under IAS 37 £ m	Reclassification £ m	Remeasurement £ m	Loan loss allowance under IFRS 9 £ m
Trade/other receivables (IAS 39)/financial assets at amortised cost (IFRS 9)				
Cash and bank balances	–	–	–	–
Trade and other receivables	(125.7)	–	(140.5)	(266.2)
Loan commitments and financial guarantee contracts				
Trade/other receivables (loan commitments)	–	–	–	–
Provisions (financial guarantees)	–	–	–	–
Total	(125.7)	–	(140.5)	(266.2)

5 REVENUE

The analysis of the Group's revenue for the year from continuing operations is as follows:

	2019 **£ m**	2018 £ m
Sale of goods[1]	**1,562.2**	1,531.7
Rendering of services	**431.2**	427.1
	1,993.4	1,958.8
Other operating income	**2.7**	1.7
Finance income	**0.6**	0.1
Total revenue as defined in IFRS 15	**1,996.7**	1,960.6

1 Revenue from the sales of goods differs to retail sales presented as part of the Key Performance Indicators, which is on a managements accounts basis, excluding statutory adjustments.

6 SEGMENTAL ANALYSIS

Information reported to the Group's Chief Executive for the purposes of resource allocation and assessment of segment performance is focused on the business segmental analysis set out below, showing the principal brands which represent the Group's reportable segments under IFRS 8. The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 2. Segment EBITDA represents the EBITDA earned by each segment without allocation of the share of profits of associates, central administration costs including Directors' salaries, investment revenue and finance costs, and income tax expense. This is the measure reported to the Group's Chief Executive for the purpose of resource allocation and assessment of segment performance.

BY BUSINESS SEGMENT

	2019 **£ m**	2018 £ m
Analysis of revenue:		
Very	**1,488.1**	1,389.1
Littlewoods	**505.3**	569.7
	1,993.4	1,958.8
Gross profit	**788.8**	780.7
Distribution costs (excluding depreciation and amortisation)	**(224.9)**	(215.8)
Administrative costs (excluding depreciation and amortisation)	**(295.6)**	(304.3)
Other operating income	**2.7**	1.7
Pre-exceptional EBITDA*:		
Very	**344.3**	325.0
Littlewoods	**139.9**	142.4
Central costs	**(213.2)**	(205.1)
	271.0	262.3
Exceptional items	**(310.2)**	(159.6)
Depreciation	**(2.0)**	(2.9)
Amortisation	**(42.8)**	(34.8)
Operating (loss)/profit	**(84.0)**	65.0
Finance income	**0.6**	0.1
Finance costs	**(102.1)**	(84.6)
Exceptional finance costs	**–**	(5.2)
Loss before taxation	**(185.5)**	(24.7)

The analysis above is in respect of continuing operations.

Very sales includes Very.co.uk. and Veryexclusive.co.uk. The Veryexclusive.co.uk website was migrated onto the Very.co.uk website during the year.

Littlewoods sales include Littlewoods.com and LittlewoodsIreland.ie.

* Pre-exceptional EBITDA is defined as operating profit from continuing operations before amortisation of intangible assets, depreciation and exceptional items.

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for the Year Ended 30 June 2019

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6 SEGMENTAL ANALYSIS (CONTINUED)

BY GEOGRAPHICAL LOCATION OF DESTINATION

	2019 £ m	2018 £ m
Revenue:		
United Kingdom	**1,916.8**	1,886.3
Rest of World	**76.6**	72.5
	1,993.4	1,958.8

	2019 £ m	2018 £ m
Operating (loss)/profit:		
United Kingdom	**(89.8)**	60.6
Rest of World	**5.8**	4.4
	(84.0)	65.0

The analysis above is in respect of continuing operations.

Revenue by origin is not materially different from revenue by destination.

Non-GAAP measures	Note	2019 £ m	2018 £ m
Reconciliation of pre-exceptional earnings before interest, tax, depreciation and amortisation ("EBITDA") to underlying EBITDA			
Pre-exceptional EBITDA		**271.0**	262.3
Adjusted for:			
Fair value adjustments to financial instruments	17	**(2.3)**	(4.5)
Fair value adjustments to trade creditors		**2.6**	0.4
Pension adjustments		**1.1**	2.0
Underlying EBITDA		**272.4**	260.2

7 EXCEPTIONAL ITEMS

	2019 £ m	2018 £ m
Regulatory costs and associated administrative expenses	**241.0**	128.0
Restructuring costs	**13.0**	7.4
New fulfilment centre	**1.5**	20.5
Impairment of intangible assets	**3.7**	–
Impairment of goodwill	**50.0**	–
Professional fees	**1.0**	3.7
Charged to operating profit	**310.2**	159.6
Accelerated amortisation of loan issue costs	**–**	5.2
	310.2	164.8

During the financial year ended 30 June 2019, the Group recognised regulatory charges of £241.0m (2018: £128.0m) to cover the estimated cost of customer redress claims in respect of historic shopping insurance sales to the claims deadline set by the FCA for 29 August 2019. (See Note 26). The provision is expected to be fully utilised over the next 12 months.

The restructuring costs reflect expenditure on the rationalisation of processes and functions within the Group. On 10 October 2018 the Group announced plans to close its standalone clearance operation, Littlewoods Clearance, which comprises seven

7 EXCEPTIONAL ITEMS (CONTINUED)

UK outlets, websites, a fulfilment centre and head office team. Included within these costs is an impairment of fixed assets totalling £2.2m. (See Note 14).

On 11 April 2018 the Group announced proposals to upgrade its fulfilment capabilities by creating an automated, 850,000 square foot distribution and returns centre in the East Midlands. The Group plans to begin exiting its existing fulfilment sites in Greater Manchester from mid-2020. The provision is expected to be fully utilised by the year ended 30 June 2022. (See Note 26).

Impairment of intangible assets relates to the impairment of brands. (See Note 16).

Impairment of goodwill relates to the impairment of the goodwill that arose on acquisition of Douglas Insurance Limited in 2008. (See Note 15).

The professional fees relate to corporate projects which have all been paid in full during the year.

Accelerated amortisation of loan issue costs in the prior year related to a refinancing completed in November 2017. Existing debt repaid was £560.0m and £5.2m accelerated amortisation of outstanding issue costs associated with this debt were recognised in the income statement as exceptional interest costs.

8 OPERATING PROFIT/(LOSS)

Arrived at after charging/(crediting):

	2019 £ m	2018 £ m
Depreciation	**2.0**	2.9
Amortisation	**42.8**	34.8
Foreign exchange gains	**(2.1)**	(6.9)
Impairment of Brands	**3.7**	–
Impairment of Goodwill	**50.0**	–
Impairment of Tangible Fixed Assets	**2.2**	–
Cost of inventories recognised as an expense	**1,068.1**	1,060.6
Write downs of inventories recognised as an expense	**4.2**	5.5
Staff costs	**142.3**	140.5
Impairment loss recognised on trade receivables	**174.8**	185.0
Operating lease charge	**13.6**	9.6

9 FINANCE INCOME AND COSTS

	Note	**2019 £ m**	2018 £ m
Finance income			
Interest income on bank deposits		**0.6**	0.1
Finance costs			
Interest on bank overdrafts and borrowings		**(51.1)**	(41.1)
Interest on obligations under finance leases and hire purchase contracts		**(0.2)**	(0.2)
Interest on securitisation facility		**(49.1)**	(41.3)
Net interest on defined benefit obligation	25	**(1.7)**	(2.0)
		(102.1)	(84.6)
Accelerated amortisation of loan issue costs		**–**	(5.2)
Total finance costs		**(102.1)**	(89.8)
Net finance costs		**(101.5)**	(89.7)

NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June 2019

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10 STAFF COSTS

The aggregate payroll costs (including Directors' remuneration) were as follows:

	2019 £ m	2018 £ m
Wages and salaries	**115.4**	115.1
Social security costs	**11.6**	12.2
Redundancy costs	**9.1**	6.8
Pension costs, defined contribution scheme	**6.2**	6.1
Pension costs, defined benefit scheme	**–**	0.3
	142.3	140.5

The average number of persons employed by the Group (including Directors) during the year, analysed by category was as follows:

	2019 No.	2018 No.
Stores	**61**	66
Distribution and Customer service centres	**1,128**	1,203
Administration	**2,499**	2,450
	3,688	3,719

11 DIRECTORS' REMUNERATION

The Directors' remuneration for the year was as follows:

	2019 £ m	2018 £ m
Emoluments	**1.9**	2.3
Contributions paid to money purchase schemes	**0.1**	0.1
	2.0	2.4

During the year the number of Directors receiving benefits and share incentives was as follows:

	2019 No.	2018 No.
Accruing benefits under money purchase pension scheme	**1**	2

In respect of the highest paid Director:

	2019 £ m	2018 £ m
Emoluments	**0.9**	1.5
Contributions paid to money purchase schemes	**0.1**	0.1
	1.0	1.6

The Directors are considered to be the key management personnel.

12 AUDITOR'S REMUNERATION

	2019 £ m	2018 £ m
Audit of the Company financial statements	–	–
Audit of the financial statements of subsidiaries of the Company pursuant to legislation	**0.5**	0.5
Total audit fees	**0.5**	0.5
Other fees to auditor		
Audit related assurance services	**0.3**	0.3
Total non-audit fees	**0.3**	0.3

13 INCOME TAX

Tax credited in the income statement

	2019 £ m	2018 £ m
Current taxation		
UK corporation tax	**0.5**	0.7
Prior year adjustment	**6.7**	–
Foreign tax	**1.1**	1.0
Total current income tax	**8.3**	1.7
Deferred taxation		
Arising from origination and reversal of temporary differences	**(23.8)**	(17.2)
Tax credit in the income statement	**(15.5)**	(15.5)

The tax on loss before tax for the year is higher than the standard rate of corporation tax in the UK (2018: lower) of 19.0% (2018: 19.0%).

The prior year adjustment relates to Group relief claimed in the prior year for which the Group has been subsequently charged by a fellow subsidiary of the Group's ultimate parent.

The differences are reconciled below:

	2019 £ m	2018 £ m
Loss before tax	**(185.5)**	(24.7)
Corporation tax at standard rate	**35.2**	4.7
Increase from effect of expenses not deductible in determining taxable profit	**(9.4)**	(0.6)
Increase/(decrease) from tax losses for which no deferred tax asset was recognised	**(7.6)**	11.2
Decrease arising from Group relief tax reconciliation	**0.6**	3.5
Increase from effect of foreign tax rates	**(0.2)**	(0.2)
Transfer pricing adjustment	**(3.6)**	(3.5)
Other tax effects for reconciliation between accounting profit and tax income	**0.5**	0.4
Total tax credit	**15.5**	15.5

The main rate of corporation tax reduced to 19% with effect from 1 April 2017. The Government has announced that it intends to reduce the rate of corporation tax to 17% with effect from 1 April 2020.

NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June 2019

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13 INCOME TAX (CONTINUED)

DEFERRED TAX

Deferred tax movement during the year:

	At 1 July 2018 £ m	Adjustment to opening balance £ m	Recognised in income statement £ m	Recognised in other comprehensive income £ m	At 30 June 2019 £ m
Accelerated tax depreciation	43.6	–	(3.0)	–	40.6
Tax losses carry-forwards	24.2	–	20.5	–	44.7
Pension benefit obligations	13.3	–	–	(3.4)	9.9
Provisions and accruals	23.3	24.3	6.3	–	53.9
Net tax assets	104.4	24.3	23.8	(3.4)	149.1

Opening deferred tax asset has been restated following the adoption of IFRS 9.

Deferred tax movement during the prior year:

	At 1 July 2017 £ m	Recognised in income statement £ m	Recognised in other comprehensive income £ m	At 30 June 2018 £ m
Accelerated tax depreciation	43.3	0.3	–	43.6
Tax losses carry-forwards	29.0	(4.8)	–	24.2
Pension benefit obligations	16.0	–	(2.7)	13.3
Provisions and accruals	1.6	21.7	–	23.3
Net tax assets	89.9	17.2	(2.7)	104.4

Deferred tax asset recognition is based on entity only future taxable profits with deferred tax assets expected to reverse in future periods.

At the balance sheet date, the Group has unused tax losses of £59.4m (2018: £56.6m) and capital losses of £9.5m (2018: £11.2m) available for offset against future profits. The unused tax losses do not expire.

The Group has recognised deferred tax assets in respect of losses and other temporary differences to the extent that it is probable that there will be future taxable profits against which the losses and other temporary differences can be utilised. The Group has considered their carrying value at each balance sheet date and concluded that, based on management's estimates, sufficient taxable profits will be generated in future years to recover such recognised deferred tax assets. These estimates are based on forecast future taxable profits, feasible tax-planning strategies and the reversal of any deferred tax liabilities, as applicable. The Group regards the deferred tax asset in relation to tax losses and other temporary differences as recoverable, despite the loss making situation that currently exists in certain subsidiaries, based on its best estimate of future sources of taxable income.

14 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements £ m	Furniture, fittings and equipment £ m	Total £ m
Cost or valuation			
At 1 July 2017	10.5	71.4	81.9
Additions	1.3	3.4	4.7
Disposals	–	(41.0)	(41.0)
At 30 June 2018	11.8	33.8	45.6
At 1 July 2018	11.8	33.8	45.6
Additions	–	1.9	1.9
Impairment	–	(2.2)	(2.2)
Disposals	–	(5.1)	(16.5)
At 30 June 2019	11.8	28.4	28.8
Depreciation			
At 1 July 2017	7.0	64.0	71.0
Charge for the year	0.4	2.5	2.9
Eliminated on disposal	–	(41.0)	(41.0)
At 30 June 2018	7.4	25.5	32.9
At 1 July 2018	7.4	25.5	32.9
Charge for the year	0.3	1.7	2.0
Eliminated on disposal	–	(4.9)	(16.3)
At 30 June 2019	7.7	22.3	18.6
Carrying amount			
At 30 June 2019	4.1	6.1	10.2
At 30 June 2018	4.4	8.3	12.7
At 1 July 2017	3.5	7.4	10.9

ASSETS HELD UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS

The net carrying amount of property, plant and equipment includes the following amounts in respect of assets held under finance leases and hire purchase contracts:

	2019 £ m	2018 £ m
Fixtures and Fittings	**0.6**	0.6

NOTES TO THE FINANCIAL STATEMENTS

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15 GOODWILL

	Goodwill £ m
Carrying amount	
At 1 July 2017 and 30 June 2018	252.5
Impairment	(50.0)
At 30 June 2019	202.5

Goodwill is allocated to two cash-generating units (CGUs) being £105.5m (2018: £105.5m) relating to the acquisition of the Littlewoods business in 2005 and £97.0m (2018: £147.0m) resulting from the acquisition of Douglas Insurance Limited in 2008.

The Group tests goodwill annually for impairment or more frequently if there are indications that the goodwill might be impaired.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for value in use calculations are those regarding discount rates, growth rates and forecast cash flows. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the specific risks to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management and extrapolates cash flows in perpetuity based on an estimated growth rate of 2.4% (2018: 2.4%) to reflect that there is no foreseeable limit to the period over which cash flows are expected to be generated. This growth rate does not exceed the average long-term growth rate for the relevant markets.

The rate used to discount the forecast cash flows is 7.4% (2018: 7.4%).

The analysis performed indicates that no impairment is required to the Goodwill resulting from the acquisition of the Littlewoods business however, for the Goodwill resulting from the acquisition of Douglas Insurance Limited an impairment of £50.0m has been recognised. As such the carrying amount for the goodwill resulting from the acquisition of Douglas Insurance Limited is held at its recoverable amount driven from its value in use calculation.

The following sensitivity analysis has been prepared for the Douglas Insurance Limited CGU. A 1% increase in earned premium growth increases the value in use of the CGU by £2.1m with a 1% decrease reducing the value in use of the CGU by £2.1m. A 1% increase in claims costs decreases the value in use of the CGU by £0.9m with a 1% reduction increasing the value in use of the CGU by £0.9m.

16 INTANGIBLE ASSETS

	Internally generated software costs £ m	Acquired brands £ m	Total £ m
Cost or valuation			
At 1 July 2017	286.8	9.7	296.5
Additions	81.4	–	81.4
Disposals	(22.8)	–	(22.8)
At 30 June 2018	345.4	9.7	355.1
At 1 July 2018	345.4	9.7	355.1
Additions	60.1	–	60.1
Impairment	–	(3.7)	(3.7)
Disposals	(17.1)	(6.0)	(23.1)
At 30 June 2019	388.4	–	388.4
Amortisation			
At 1 July 2017	136.4	5.2	141.6
Amortisation charge	34.4	0.4	34.8
Amortisation eliminated on disposals	(22.8)	–	(22.8)
At 30 June 2018	148.0	5.6	153.6
At 1 July 2018	148.0	5.6	153.6
Amortisation charge	42.4	0.4	42.8
Amortisation eliminated on disposals	(17.1)	(6.0)	(23.1)
At 30 June 2019	173.3	–	173.3
Carrying amount			
At 30 June 2019	215.1	–	215.1
At 30 June 2018	197.4	4.1	201.5
At 1 July 2017	150.4	4.5	154.9

Included within software costs are £108.4m (2018: £79.2m) of investment incurred related to ongoing software development projects on which amortisation has not commenced as the assets have not yet been brought into use.

Acquired brands are expected to generate cash inflows and are therefore subject to annual impairment tests with the recoverable amount being determined from value in use calculations. During the year the Group has discontinued the use of the acquired brands and therefore has impaired them accordingly.

17 DERIVATIVE FINANCIAL INSTRUMENTS

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

	2019 £ m	2018 £ m
Notional amount – sterling contract value	**106.0**	161.7
Fair value of asset recognised	**4.8**	2.5

Changes in the fair value of derivative financial instruments amounted to a gain of £2.3m in the year (2018: gain of £4.5m).

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

The financial instruments that are measured subsequent to initial recognition at fair value are all grouped into Level 2 – directly observable market inputs other than Level 1 inputs. There were no transfers between Level 1 – quoted prices for similar instruments and Level 2 during the year.

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18 INVENTORIES

	2019 £ m	2018 £ m
Finished goods and goods for resale	**94.2**	101.9

There is no material difference between the balance sheet value of stocks and their replacement cost.

19 TRADE AND OTHER RECEIVABLES

	2019 £ m	2018 £ m
Trade receivables	**1,374.4**	1,516.3
Amounts owed by Group undertakings (see Note 32)	**514.5**	500.4
Prepayments	**161.6**	156.6
Other receivables	**53.1**	32.7
Total trade and other receivables	**2,103.6**	2,206.0

Amounts owed by Group undertakings are unsecured, interest free and repayable on demand.

Other receivables include £10.6m (2018: £5.3m) due from the Group's external trade receivables securitisation provider.

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value. A bad debt provision of £235.5m under IFRS 9 (2018 under IAS 39: £125.7m) has been recorded.

The Group offers a range of options which enable its customers to spread the cost of their purchases, some options are interest free and others are interest bearing. The representative APR on Very is 39.9% and 0% on Littlewoods.

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

The contractual amount outstanding on trade and other receivables written off during the reporting period and subject to enforcement activity was £nil (2018: £nil).

The total amount of undiscounted expected credit losses at initial recognition on financial assets initially recognised during the reporting period cannot be calculated due to the revolving nature of a significant proportion of trade and other receivables.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of asset. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts. All customer receivables are unsecured.

	2019 £ m	2018 £ m
Movement in the allowance for bad debts:		
Balance at beginning of the year	**125.7**	136.7
IFRS 9 opening adjustment	**140.5**	–
	266.2	136.7
Amounts charged to the income statement	**174.8**	185.0
Amounts written off	**(205.5)**	(196.0)
Balance at end of the year	**235.5**	125.7

19 TRADE AND OTHER RECEIVABLES (CONTINUED)

The ageing of trade receivables is as follows:

	2019 £ m	2018 £ m
Current – not past due	**1,311.9**	1,341.4
1 scheduled payment past due	**94.2**	94.1
2 scheduled payments past due	**34.9**	35.5
3 scheduled payments past due or greater	**168.9**	171.0
Gross trade receivables	**1,609.9**	1,642.0
Allowance for doubtful debts	**(235.5)**	(125.7)
Net trade receivables	**1,374.4**	1,516.3

The bad debt provision is derived based on the ECL model discussed in the Group's accounting policies. The following tables analyse the movement of the loss allowance by stage.

	Stage 1 £ m	Stage 2 £ m	Stage 3 £ m	Total £ m
Allowance for bad debts as at 1 July 2018	76.7	72.1	117.4	266.2
Transfer stage 1	–	(10.7)	2.3	(8.4)
Transfer stage 2	10.7	–	8.6	19.3
Transfer stage 3	(2.4)	(8.6)	–	(11.0)
Remeasurement of balances	(20.2)	24.8	52.5	57.1
New financial assets recognised	6.9	13.2	10.6	30.7
Financial assets derecognised	(3.5)	(3.4)	(3.5)	(10.4)
Assets written off	(3.7)	(18.1)	(70.1)	(91.9)
Movement on undrawn components	(8.8)	(7.3)	–	(16.1)
Allowance for bad debts as at 30 June 2019	55.7	62.0	117.8	235.5

The following table sets out changes in the carrying amount of trade receivables that contributed to the changes in the loss allowance:

	Stage 1 £ m	Stage 2 £ m	Stage 3 £ m	Total £ m
Balance at 1 July 2018	1,082.2	348.3	211.5	1,642.0
Transfer stage 1	–	(5.3)	54.9	49.6
Transfer stage 2	5.3	–	42.6	47.9
Transfer stage 3	(55.0)	(42.6)	–	(97.6)
Growth in trade receivables	41.4	61.6	9.5	112.5
New financial assets recognised	101.5	54.2	16.9	172.6
Financial assets derecognised	(80.6)	(19.4)	(8.6)	(108.6)
Amounts written off	(40.9)	(54.1)	(113.5)	(208.5)
Balance at 30 June 2019	1053.9	342.7	213.3	1,609.9

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for the Year Ended 30 June 2019

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20 CASH AND CASH EQUIVALENTS

	2019 £ m	2018 £ m
Cash at bank	**14.8**	140.5
Secured revolving credit facility	**(95.0)**	(95.0)
Bank overdrafts	**(7.6)**	(7.8)
Cash and cash equivalents in statement of cash flows	**(87.8)**	37.7

Cash and cash equivalents comprise cash net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to fair value. The secured revolving credit facility was put in place during the prior year and expires in May 2022. The facility rolls over on a monthly basis and is classified within cash and cash equivalents and repayable within one year. (See Note 23).

21 CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

	At 1 July 2018 £ m	Financing cash flows £ m	Non-cash changes £ m	At 30 June 2019 £ m
Securitisation facility	1,317.4	55.2	–	1,372.6
Senior secured notes	550.0	–	–	550.0
Finance lease liabilities	4.6	(1.5)	–	3.1
Total liabilities from financing activities	**1,872.0**	**53.7**	**–**	**1,925.7**

22 SHARE CAPITAL

Allotted, called up and fully paid shares

	2019		2018	
	No. m	**£ m**	No. m	£ m
Ordinary shares of £1 each	**100**	**100**	100	100

23 LOANS AND BORROWINGS

	2019 £ m	2018 £ m
Secured non-current loans and borrowings at amortised cost		
Securitisation facility	**1,372.6**	1,317.4
Senior secured notes	**550.0**	550.0
	1,922.6	1,867.4

	2019 £ m	2018 £ m
Current loans and borrowings at amortised cost		
Secured revolving credit facility	**95.0**	95.0
Unsecured bank overdrafts	**7.6**	7.8
	102.6	102.8

The underlying currency of the unsecured bank overdrafts of £7.6m (2018: £7.8m) is Euros and within the securitisation facility £24.5m is Euros (2018: £nil).

23 LOANS AND BORROWINGS (CONTINUED)

	2019 £ m	2018 £ m
The borrowings are repayable as follows:		
Within one year	**102.6**	102.8
In the second year	**–**	–
In the third to fifth year	**1,922.6**	1,867.4
Over five years	**–**	–
Amount due for settlement after 12 months	**1,922.6**	1,867.4

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

(a) The Group has a UK securitisation facility of £1,348.1m (2018: £1,317.4m) secured by a charge over certain eligible trade debtors of the Group and is without recourse to any of the other Group assets. The securitisation facility expires in December 2021 for "AS" Notes (£1,143.3m), "AJ" Notes (£181.7m) and "B" and "C" Notes (£210.0m) with a total maximum value of £1,535.0m.

(b) The Group has senior secured notes of £550.0m, at 7.75%, due November 2022 with a secured revolving credit facility of £150.0m of which £95.0m was drawn down at 30 June 2019 (2018: £95.0m). Transaction costs associated with the senior secured notes of £8.9m were prepaid on the balance sheet and amortised over the debt term. As at balance sheet date these total £6.2m (2018: £7.9m).

(c) The Group has an Irish securitisation facility opened in the year against which it has drawn £24.5m (30 June 2018: £nil), secured by a charge over certain eligible trade debtors of the Group. The facility has a total maximum commitment of €35.0m which expires in December 2021.

	2019 %	2018 %
The weighted average interest rates paid were as follows:		
Unsecured bank overdrafts	**2.41**	2.54
Secured revolving credit facility	**3.74**	3.81
Securitisation facility – UK	**3.09**	2.72
Securitisation facility – Ireland	**2.50**	–
Senior secured notes	**7.75**	7.75

The loans and borrowings classified as financial instruments are disclosed in the financial instruments. (See Note 30).

The Group's exposure to market and liquidity risk; including maturity analysis, in respect of loans and borrowings is disclosed in the financial risk management and impairment note.

NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June 2019

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24 OBLIGATIONS UNDER OPERATING LEASES AND HIRE PURCHASE CONTRACTS

FINANCE LEASES

2019	Minimum lease payments £ m	Interest £ m	Present value £ m
Within one year	**1.6**	**(0.1)**	**1.5**
In two to five years	**1.7**	**(0.1)**	**1.6**
	3.3	**(0.2)**	**3.1**

2018	Minimum lease payments £ m	Interest £ m	Present value £ m
Within one year	1.6	(0.1)	1.5
In two to five years	3.3	(0.2)	3.1
	4.9	(0.3)	4.6

The present values of future finance lease payments are analysed as follows:

	2019 £ m	2018 £ m
Current liabilities	**1.5**	1.5
Non-current liabilities	**1.6**	3.1
	3.1	4.6

OPERATING LEASES

The total future value of minimum lease payments is as follows:

	2019 £ m	2018 £ m
Within one year	**12.2**	8.6
In two to five years	**25.5**	21.6
In over five years	**99.6**	35.9
	137.3	66.1

It is the Group's policy to lease certain of its fixtures and equipment under finance leases. The average lease term is 4 years. For the period ended 30 June 2019, the average effective borrowing rate was 7.75% (2018: 6.39%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The future value of minimum lease payments on operating leases has increased year-on-year due to the new fulfilment centre as discussed in Note 7.

All lease obligations are denominated in Pounds Sterling.

The fair value of the Group's lease obligations is approximately equal to their carrying amount.

The Group's obligations under finance leases are secured by the lessors' rights over the leased assets disclosed in Note 14.

25 PENSION AND OTHER SCHEMES

DEFINED CONTRIBUTION PENSION SCHEME

The Group operates a defined contribution pension scheme for all employees; the Shop Direct Group Personal Pension Plan. The pension cost charge for the year represents contributions payable by the Group to the scheme and amounted to £6.2m (2018: £6.1m). The defined contribution scheme is in compliance with employer pension duties in accordance with part 1 of the Pensions Act 2008, including auto enrolment requirements. Contributions to the defined contribution schemes are charged to the income statement.

Contributions totalling £0.7m (2018: £0.7m) were payable to the scheme at the end of the year and are included in creditors.

DEFINED BENEFIT PENSION SCHEMES

There are four main elements of the defined benefit pension schemes, namely the Scheme, the Plan, UURBS and Ex-gratia, which are set out and defined below. A combined summary of these elements is shown below.

	2019 £ m	2018 £ m
Scheme – defined benefit pension scheme deficit	**(56.2)**	(70.3)
UURBS and Ex-gratia – present value of scheme liabilities	**(1.8)**	(2.0)
Retirement benefit obligations	**(58.0)**	(72.3)
Scheme – amounts taken to the Statement of Comprehensive Income	**2.2**	(3.8)
Plan – amounts taken to the Statement of Comprehensive Income	**22.3**	0.8
UURBS and Ex-gratia – amounts taken to the Statement of Comprehensive Income	**(0.3)**	0.2
Gain/(loss) recognised in the Statement of Comprehensive Income	**24.2**	(2.8)

THE LITTLEWOODS PENSIONS SCHEME ("SCHEME")

The Littlewoods Pensions Scheme ("Scheme"), which is a defined benefit arrangement based on final pensionable salaries, is set up under trust and the assets of the scheme are held separately from those of the Company. The fund is valued at intervals not exceeding three years by a professionally qualified independent actuary, the rates of contribution payable being determined by the actuary and agreed by the parent undertaking (principle employer) and the Scheme Trustee. The Scheme was closed to new entrants with effect from 1 October 2001 and is closed to future accrual.

From 1 October 2001 certain employees of the Company were eligible for membership of funded defined contribution stakeholder pension schemes to which employees and the Company contribute.

In the prior year the Group completed buy-in agreements for the Scheme. The buy-in was completed on 31 May 2018 and is reflected in the comparative numbers in these financial statements.

RECONCILIATION OF SCHEME ASSETS AND LIABILITIES TO ASSETS AND LIABILITIES RECOGNISED

The amounts recognised in the statement of financial position are as follows:

	2019 £ m	2018 £ m
Fair value of scheme assets	**1,560.0**	1,442.5
Present value of scheme liabilities	**(1,373.1)**	(1,204.3)
	186.9	238.2
Restrictions on asset recognised	**(186.9)**	(238.2)
IFRIC 14 liability	**(56.2)**	(70.3)
Defined benefit pension scheme deficit	**(56.2)**	(70.3)

25 PENSION AND OTHER SCHEMES (CONTINUED)

SCHEME ASSETS

Changes in the fair value of scheme assets are as follows:

	2019 £ m	2018 £ m
Fair value at start of year	**1,442.4**	1,560.6
Interest income	**39.8**	39.8
Return on plan assets, excluding amounts included in interest income/(expense)	**129.7**	(98.9)
Employer contributions	**13.9**	17.5
Benefits paid	**(65.8)**	(76.6)
Fair value at end of year	**1,560.0**	1,442.4

ANALYSIS OF ASSETS

The major categories of scheme assets are as follows:

	2019 £ m	2018 £ m
Cash and cash equivalents	**78.3**	47.9
Equity instruments	**–**	36.5
Debt instruments	**513.8**	327.1
Real estate	**–**	98.8
Derivatives	**53.0**	21.3
Investment funds	**140.7**	178.9
Assets held by insurance company	**774.2**	731.9
	1,560.0	1,442.4

The assets held by the insurance company are in respect of the Scheme buy-in that completed during the prior year. The assets are equal to the value of the insured pensioner liabilities on an IAS19 basis as at 30 June 2019.

ACTUAL RETURN ON SCHEME ASSETS

	2019 £ m	2018 £ m
Actual return on scheme assets	**169.4**	(55.0)

The pension scheme has not invested in any of the Group's own financial instruments or in properties or other assets used by the Company.

25 PENSION AND OTHER SCHEMES (CONTINUED)

SCHEME LIABILITIES

Changes in the present value of scheme liabilities are as follows:

	2019 £ m	2018 £ m
Present value at start of year	**1,204.3**	1,308.4
Current service cost	**0.1**	0.1
Past service credit	**–**	(0.7)
Interest cost	**32.8**	33.0
Benefits paid	**(65.7)**	(76.6)
Actuarial gains/(losses)	**201.6**	(59.9)
Present value at end of year	**1,373.1**	1,204.3

PRINCIPAL ACTUARIAL ASSUMPTIONS

The significant actuarial assumptions used to determine the present value of the defined benefit obligation at the statement of financial position date are as follows:

	2019 %	2018 %
Rate of increase in pensionable salaries	**2.6**	2.0
Rate of increase in pensions in payment if RPI 5%	**3.2**	2.9
Rate of increase in pensions in payment if RPI 2.5%	**2.2**	2.0
Discount rate	**2.3**	2.8
Rate of increases in pensions in deferment	**2.6**	2.0
RPI inflation assumption	**3.4**	3.0
CPI inflation assumption	**2.6**	2.0

POST RETIREMENT MORTALITY ASSUMPTIONS

	2019 Years	2018 Years
Current UK pensioners at retirement age – male	**22.3**	22.1
Current UK pensioners at retirement age – female	**23.8**	23.5
Future UK pensioners at retirement age – male	**23.9**	23.3
Future UK pensioners at retirement age – female	**25.4**	24.8

AMOUNTS RECOGNISED IN THE INCOME STATEMENT

	2019 £ m	2018 £ m
Amounts recognised in operating profit/(loss)		
Current service cost	**(0.1)**	(0.1)
Past service income	**–**	0.7
Amounts recognised in finance income or costs		
Net interest	**(1.6)**	(1.9)
Total recognised in the income statement	**(1.7)**	(1.3)

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25 PENSION AND OTHER SCHEMES (CONTINUED)

AMOUNTS TAKEN TO THE STATEMENT OF COMPREHENSIVE INCOME

	2019 £ m	2018 £ m
Return on plan assets, excluding amounts included in interest income/(expense)	**129.7**	(1.7)
Impact of buy-in of Scheme	**–**	(97.2)
Actuarial (losses)/gains from changes in demographic assumptions	**(37.5)**	4.6
Actuarial (losses)/gains from changes in financial assumptions	**(167.5)**	48.3
Actuarial gains from experience adjustments	**3.4**	7.0
Adjustments for restrictions on the defined benefit asset	**74.1**	35.2
Amounts recognised in the Statement of Comprehensive Income	**2.2**	(3.8)

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate, expected salary increase and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

If the discount rate is 25 basis points higher, the defined benefit obligation would decrease by £1.4m (2018: £1.2m).

If the discount rate is 25 basis points lower, the defined benefit obligation would increase by £1.5m (2018: £1.3m).

If the price inflation rate is 25 basis points higher, the defined benefit obligation would increase by £1.5m (2018: £1.3m).

If the post retirement mortality assumption reduces by one year for both men and women, the defined benefit obligation would reduce by £1.5m (2018: £1.3m).

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the changes in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

There has been no change in the processes used by the Group to manage its risks from prior years.

The Group do not expect to contribute to the defined benefit schemes during the next financial year as agreed with the trustees given the Scheme's surplus (2018: expected contributions of £14.5m).

SHOP DIRECT GROUP LIMITED PENSION PLAN ("PLAN")

From 1 December 2003 certain employees of the Company were eligible for membership of the Shop Direct Group Limited Pension Plan ("Plan"). The Plan was set up following the acquisition by Shop Direct Holdings Limited of the UK home shopping businesses from GUS plc. The Plan is a defined benefit arrangement based on final pensionable salaries, the assets of which are held in a separate trustee administered fund. The fund is valued at intervals not exceeding three years by a professionally qualified independent actuary, the rates of contribution payable being determined by the actuary and agreed between the company and the Plan Trustee. The Plan was closed to new entrants with effect from 28 February 2011 and was closed to future accrual.

From 1 October 2001 certain employees of the Company were eligible for membership of funded defined contribution stakeholder pension schemes to which employees and the Company contribute.

In the prior year the Group completed buy-in agreements for the Plan. The buy-in was completed on 30 November 2017 and has been reflected in these financial statements.

On 9 November 2018 the Group completed the buy-out of the Plan, as such, the liability has been fully extinguished and on 20 February 2019 a surplus of £22.2m crystallised which has been recognised as other comprehensive income in the Statement of Changes in Equity and included in adjustments for pensions in the Consolidated Statement of Cash Flows. Tax associated with the surplus of £7.8m was charged at 35% giving a net gain of £14.4m.

25 PENSION AND OTHER SCHEMES (CONTINUED)

RECONCILIATION OF PLAN ASSETS AND LIABILITIES TO ASSETS AND LIABILITIES RECOGNISED

The amounts recognised in the Statement of Financial Position are as follows:

	2019 £m	2018 £m
Fair value of plan assets	–	81.0
Present value of plan liabilities	–	(58.5)
	–	22.5
Restrictions on asset recognised	–	(22.5)
Defined benefit pension plan deficit	–	–

PLAN ASSETS

Changes in the fair value of scheme assets are as follows:

	2019 £m	2018 £m
Fair value at start of year	81.0	126.6
Interest income	1.0	3.0
Return on plan assets, excluding amounts included in interest expense	(58.8)	(27.2)
Employer contributions	(22.3)	0.2
Benefits paid	(0.6)	(20.6)
Current service cost	(0.3)	(1.0)
Fair value at end of year	–	81.0

ANALYSIS OF ASSETS

The major categories of scheme assets are as follows:

	2019 £m	2018 £m
Cash and cash equivalents	–	23.4
Debt instruments	–	57.6
	–	81.0

ACTUAL RETURN ON PLAN ASSETS

	2019 £m	2018 £m
Actual return on plan assets	0.9	(24.2)

PLAN LIABILITIES

Changes in the present value of plan liabilities are as follows:

	2019 £m	2018 £m
Present value at start of year	58.5	73.2
Interest cost	0.6	1.7
Benefits paid	(0.5)	(20.6)
Settlements from plan assets	(58.9)	–
Actuarial gains	0.3	4.2
Present value at end of year	–	58.5

25 PENSION AND OTHER SCHEMES (CONTINUED)

PRINCIPAL ACTUARIAL ASSUMPTIONS

The significant actuarial assumptions used to determine the present value of the defined benefit obligation at the statement of financial position date are as follows:

	2019 %	2018 %
Rate of increase in pensionable salaries	n/a	2.0
Rate of increase in pensions in payment if RPI 5%	n/a	2.9
Rate of increase in pensions in payment if RPI 2.5%	n/a	2.0
Discount rate	n/a	2.8
Rate of increases in pensions in deferment	n/a	2.0
RPI inflation assumption	n/a	3.0
CPI inflation assumption	n/a	2.0

POST RETIREMENT MORTALITY ASSUMPTIONS

	2019 Years	2018 Years
Current UK pensioners at retirement age – male	n/a	23.6
Current UK pensioners at retirement age – female	n/a	25.6
Future UK pensioners at retirement age – male	n/a	25.5
Future UK pensioners at retirement age – female	n/a	27.5

AMOUNTS RECOGNISED IN THE INCOME STATEMENT

	2019 £ m	2018 £ m
Amounts recognised in operating profit/(loss)		
Current service cost	(0.3)	(1.0)
Amounts recognised in finance income or costs		
Net interest	–	–
Total recognised in the income statement	(0.3)	(1.0)

AMOUNTS TAKEN TO THE STATEMENT OF COMPREHENSIVE INCOME

	2019 £ m	2018 £ m
Return on plan assets, excluding amounts included in interest income/(expense)	(0.1)	0.2
Impact of buy-in of Plan	–	(27.4)
Impact of buy-out of Plan	22.2	–
Actuarial losses from changes in demographic assumptions	–	(1.0)
Actuarial (losses)/gains from changes in financial assumptions	(0.3)	3.3
Actuarial losses from experience adjustments	–	(6.6)
Adjustments for restrictions on the defined benefit asset	0.5	32.3
Amounts recognised in the Statement of Comprehensive Income	22.3	0.8

25 PENSION AND OTHER SCHEMES (CONTINUED)

UURBS AND EX-GRATIA

There is an unfunded unapproved retirement benefit arrangement ("UURBS") which provides a benefit on retirement equal to the additional pension the member would have accrued had he not been subject to the Earnings Cap in the Littlewoods Pensions Scheme and the Shop Direct Group Limited Pension Plan. The Group makes benefit payments directly as they fall due.

An ex-gratia arrangement was originally set up to provide a benefit at retirement to employees who were not members of the GUS Pension Scheme. During 1998, GUS introduced a new money purchase scheme. All employees not already members of the final salary scheme were invited to join and those who did ceased accrual within the ex-gratia arrangement; the remainder continue to accrue benefits. No new employees have been granted membership of the ex-gratia arrangement since the introduction of the GUS Money Purchase Scheme in 1998. The arrangement is unfunded and provides a lump sum on retirement for employees in service at that time. The Group makes benefit payments directly as they fall due.

RECONCILIATION OF SCHEME ASSETS AND LIABILITIES TO ASSETS AND LIABILITIES RECOGNISED

The amounts recognised in the Statement of Financial Position are as follows:

	2019 £ m	2018 £ m
Present value of scheme liabilities	**(1.8)**	(2.0)

SCHEME LIABILITIES

Changes in the present value of scheme liabilities are as follows:

	2019 £ m	2018 £ m
Present value at start of year	**2.0**	2.4
Interest cost	**0.1**	0.1
Liabilities extinguished on settlements	**(0.4)**	(0.2)
Actuarial gains/(losses)	**0.1**	(0.3)
Present value at end of year	**1.8**	2.0

PRINCIPAL ACTUARIAL ASSUMPTIONS

The significant actuarial assumptions used to determine the present value of the defined benefit obligation at the statement of financial position date are materially the same as disclosed above for the Scheme.

AMOUNTS RECOGNISED IN THE INCOME STATEMENT

	2019 £ m	2018 £ m
Amounts recognised in operating profit/(loss)		
Recognised in arriving at operating profit	**–**	–
Amounts recognised in finance income or costs		
Net interest	**(0.1)**	(0.1)
Total recognised in the income statement	**(0.1)**	(0.1)

AMOUNTS TAKEN TO THE STATEMENT OF COMPREHENSIVE INCOME

	2019 £ m	2018 £ m
Actuarial (losses)/gains from experience adjustments	**(0.3)**	0.2

26 PROVISIONS

	Warranties £ m	Restructuring £ m	Regulatory £ m	Total £ m
At 1 July 2018	0.8	26.6	100.4	127.8
Increase in provisions	–	6.8	241.0	247.8
Provisions used	–	(11.2)	(166.8)	(178.0)
At 30 June 2019	**0.8**	**22.2**	**174.6**	**197.6**
Non-current	**–**	**16.8**	**–**	**16.8**
Current	**0.8**	**5.4**	**174.6**	**180.8**
	0.8	**22.2**	**174.6**	**197.6**

The restructuring provision is expected to be fully utilised by the year ended 30 June 2022.

The regulatory provision reflects the estimated cost of all historic shopping insurance claims and associated processing costs up and until the claims deadline of 29 August 2019. During the year ended 30 June 2019 a charge of £241.0m has been recognised to reflect an updated estimate following an increase in the volume of claims experienced and the latest assessment of the expected attachment rate and average redress per claim. The regulatory provision is expected to be fully utilised over the next 12 months.

27 TRADE AND OTHER PAYABLES

	2019 £ m	2018 £ m
Trade payables	**352.9**	413.8
Accrued expenses	**107.1**	78.4
Amounts due to group undertakings (see Note 32)	**–**	3.6
Social security and other taxes	**21.0**	39.7
Other payables	**21.6**	22.3
	502.6	557.8

The Directors consider that the carrying amount of trade payables approximates to their fair value.

No interest is charged on the trade payables. The Group has financial risk management policies in place to ensure that payables are paid within agreed credit terms.

Amounts owed under supplier financing arrangements included within trade payables above amounted to £148.7m (2018: £163.9m). The cash flows associated with these supplier financing arrangements are included within “movements in trade and other payables” in the Cash Flow Statement.

28 DEFERRED INCOME

	2019 £ m	2018 £ m
Non-current liabilities		
Deferred Income	**36.2**	35.8
Current liabilities		
Deferred Income	**61.9**	69.0
	98.1	104.8

Deferred income relates to deferred interest income on sales where interest is recognised over the sales term.

29 COMMITMENTS

CAPITAL COMMITMENTS

Capital commitments include expenditure on tangible and intangible assets.

The total amount contracted for but not provided in the financial statements was £11.5m (2018: £7.2m).

OTHER FINANCIAL COMMITMENTS

At 30 June 2019 commitments to purchase stock totalled £184.1m (2018: £170.1m) which is considered to be the fair value. The commitments cover a period of 12 months (2018: same).

The Group has in place contracts for the provision of outsourced service functions. At 30 June 2019 the annual committed cost under these contracts is £59.6m (2018: £68.0m). These contracts expire in 2025 and 2030.

30 FINANCIAL INSTRUMENTS

FINANCIAL ASSETS

The Group uses fair values to measure its financial instruments using the following classifications:

Level 1 – Quote prices on active markets for identical financial instruments.
Level 2 – Fair value derived from observable data such as market prices.
Level 3 – Measurement rely on significant inputs not based on observable market data.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS DERIVATIVE HELD FOR TRADE

	Carrying value		Fair value	
	2019 £ m	2018 £ m	**2019 £ m**	2018 £ m
Forward contract	**106.0**	161.7	**4.8**	2.5

See Note 17 for details of the valuation methods and assumptions of these derivatives. The maturity dates for these derivatives range from July 2019 to June 2020. Forward contracts are level 2 financial instruments as defined above.

TRADE/OTHER RECEIVABLES AT AMORTISED COST

	Carrying value		Fair value	
	2019 £ m	2018 £ m	**2019 £ m**	2018 £ m
Cash and cash equivalents	**14.8**	140.5	**14.8**	140.5
Trade receivables	**1,374.4**	1,516.3	**1,374.4**	1,516.3

VALUATION METHODS AND ASSUMPTIONS

The carrying amounts of financial assets are recorded at amortised cost in the financial statements approximate to their fair values. Trade receivables are measured at amortised cost using the effective interest method, less any impairment. The financial instruments that are measured subsequent to initial recognition at fair value are all grouped into Level 3.

The average credit period given to customers for the sale of goods is 255 days (2018: 276 days).

FINANCIAL LIABILITIES AT AMORTISED COST

	Carrying value		Fair value	
	2019 £ m	2018 £ m	**2019 £ m**	2018 £ m
Trade payables	**352.9**	413.8	**352.9**	413.8
Borrowings	**2,025.2**	1,970.2	**2,025.2**	1,970.2

VALUATION METHODS AND ASSUMPTIONS

The carrying amounts of financial liabilities are recorded at amortised cost in the financial statements approximate to their fair values. The financial instruments that are measured subsequent to initial recognition at fair value are all grouped into Level 3.

The average credit period taken for trade payables is 69 days (2018: 70 days).

NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June 2019

(continued)

31 FINANCIAL RISK MANAGEMENT AND IMPAIRMENT OF FINANCIAL ASSETS

FINANCIAL RISK MANAGEMENT OBJECTIVES

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

CREDIT RISK AND IMPAIRMENT

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

Before accepting any new customer, the Group uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Customer debtor balances are monitored on an ongoing basis and provision is made for estimated irrecoverable amounts. The concentration of credit risk is limited due to the customer base being large and unrelated. No individual customer balance exceeded one percent of gross trade receivables at any one time during the period.

LIQUIDITY RISK

The Group manages liquidity risk by maintaining adequate banking and borrowing facilities and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in Note 23 is a description of the facilities that the Group has at its disposal and details of the Group's remaining contractual maturity for its non-derivative financial liabilities.

The following are the contractual maturities of the Group's financial liabilities:

	2019 £ m Carrying Amount	**2019 £ m Contractual Cash Flows**	**2019 £ m 1 Year or Less**	**2019 £ m 1 to 2 years**	**2019 £ m 2 to 5 years**
Trade Payables	**352.9**	**352.9**	**352.9**	**–**	**–**
Borrowings	**2,025.2**	**2,025.2**	**102.6**	**–**	**1,922.6**

	2018 £ m Carrying Amount	2018 £ m Contractual Cash Flows	2018 £ m 1 Year or Less	2018 £ m 1 to 2 years	2018 £ m 2 to 5 years
Trade Payables	413.8	413.8	413.8	–	–
Borrowings	1,970.2	1,970.2	102.8	–	1,867.4

31 FINANCIAL RISK MANAGEMENT AND IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

FOREIGN CURRENCY RISK MANAGEMENT

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. It is the policy of the Group to enter into forward foreign exchange contracts to cover specific foreign currency payments for the purchase of overseas sourced products on a rolling 18 month basis. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

FOREIGN CURRENCY SENSITIVITY ANALYSIS

The Group's principal foreign currency exposures are to US Dollars which it uses to purchase inventory. The table below illustrates the hypothetical sensitivity of the Group's reported loss and closing equity to a 10% increase and decrease in the US Dollar/Sterling exchange rates at the reporting date, assuming all other variables remain unchanged. The sensitivity rate of 10% represents the directors' assessment of a reasonably possible change, based on historic volatility.

	Income Statement		Equity	
	2019 £ m	2018 £ m	**2019 £ m**	2018 £ m
Sterling strengthens by 10%	**0.4**	0.2	**0.4**	0.2
Sterling weakens by 10%	**(0.5)**	(0.2)	**(0.5)**	(0.2)

INTEREST RATE RISK MANAGEMENT

The Group is exposed to interest rate risk, as entities in the Group borrow funds at floating interest rates. The Group treasury team is responsible for monitoring exposure to this risk and securing sufficient liquidity to meet foreseeable needs.

INTEREST RATE SENSITIVITY ANALYSIS

The Group uses securitisation to fund a significant portion of our receivables book and have a rolling three-year funding programme with a fixed margin over LIBOR. The table below illustrates the hypothetical sensitivity of the Group's' reported loss and closing equity to a 0.5% increase or decrease in the LIBOR rate, assuming all other variables were unchanged. The sensitivity rate of 0.5% represents the Directors' assessment of a reasonably possible change based on historical movements.

In preparing the analysis the following assumptions have been made:

- For floating rate assets and liabilities, the amount of the asset or liability outstanding at the balance sheet date is assumed to have been outstanding for the whole year
- Fixed rate financial instruments that are carried at amortised cost are not subject to interest rate risk for the purpose of this analysis.

	Income Statement		Equity	
	2019 £ m	2018 £ m	**2019 £ m**	2018 £ m
LIBOR rate increase 0.5%	**(6.8)**	(6.5)	**(6.8)**	(6.5)
LIBOR rate decrease 0.5%	**6.8**	5.0	**6.8**	5.0

CAPITAL RISK MANAGEMENT

CAPITAL COMPONENTS

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 23, cash and cash equivalents disclosed in Note 20 and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the statement of changes in equity.

31 FINANCIAL RISK MANAGEMENT AND IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

The gearing ratio at the year end is as follows:

	2019 £ m	2018 £ m
Borrowings	**2,025.2**	1,970.2
Cash and bank balances	**(14.8)**	(140.5)
Net debt	**2,010.4**	1,829.7
Equity	**(88.5)**	185.3
Gearing ratio (%)	**N/A**	987%

Debt is defined as long and short-term borrowings. Equity includes all capital and reserves of the Group attributable to equity holders of the parent.

32 RELATED PARTY TRANSACTIONS

SUMMARY OF TRANSACTIONS WITH ENTITIES WITH JOINT CONTROL OR SIGNIFICANT INTEREST

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in the note. Transactions between the Group and its fellow Group companies are disclosed below.

During the year, Group companies entered into the following transactions with fellow Group companies and related parties who are not members of the Shop Direct Limited Group:

	2019 £ m	2018 £ m
Recharged costs		
Yodel Delivery Network Limited	**5.2**	4.8
Arrow XL Limited	**0.6**	0.7
	5.8	5.5

32 RELATED PARTY TRANSACTIONS

	2019 £ m	2018 £ m
Purchase of services		
Yodel Delivery Network Limited	**(61.5)**	(58.0)
Drop & Collect Limited	**(24.6)**	(24.9)
Arrow XL Limited	**(42.9)**	(40.3)
Trenport Property Holdings Limited	**(1.6)**	(1.6)
Telegraph Media Group Limited	**(1.7)**	(1.7)
Shop Direct Holdings Limited	**(5.0)**	(5.0)
	(137.3)	(131.5)

32 RELATED PARTY TRANSACTIONS (CONTINUED)

At 30 June, the Group had the following balances outstanding with its fellow Group companies:

	2019 £ m	2018 £ m
Amounts due from fellow Group undertakings		
Shop Direct Holdings Limited	**480.5**	476.5
Yodel Delivery Network Limited	**0.2**	–
Arrow XL Limited	**0.3**	3.7
Drop & Collect Limited	**0.3**	–
Primevere Limited	**22.0**	5.0
Primevere Equipment Limited	**11.2**	15.2
	514.5	500.4

	2019 £ m	2018 £ m
Amounts due to fellow Group undertakings		
Yodel Delivery Network Limited	**–**	(1.5)
Drop & Collect Limited	**–**	(2.1)
	–	(3.6)

The amounts outstanding are unsecured and repayable on demand. No guarantees have been given or received. No provision has been made for doubtful debts in respect of the amounts owed by related parties.

33 PARENT AND ULTIMATE PARENT UNDERTAKING

The Company's immediate parent is Shop Direct Holdings Limited. The smallest consolidated set of accounts which contain Shop Direct Limited results are in this set.

The most senior parent entity producing publicly available financial statements is Shop Direct Holdings Limited. These financial statements are available upon request from 2nd Floor, 14 St George Street, London, W1S 1FE.

The ultimate controlling party is the Sir David Barclay and Sir Frederick Barclay Family Settlements.

STATEMENT OF FINANCIAL POSITION OF THE COMPANY

as at 30 June 2019

	Note	2019 £ m	2018 £ m
Assets			
Non-current assets			
Investments in subsidiaries	36	**991.4**	991.9
Current assets			
Trade and other receivables	37	**1,511.1**	1,344.5
Total assets		**2,502.5**	2,336.4
Equity			
Share capital	40	**(100.0)**	(100.0)
Retained earnings		**(380.6)**	(360.0)
Total equity		**(480.6)**	(460.0)
Current liabilities			
Trade and other payables	39	**(1,925.5)**	(1,780.8)
Loans and borrowings	38	**(95.0)**	(95.0)
Income tax liability		**(1.4)**	(0.6)
		(2,021.9)	(1,876.4)
Total equity and liabilities		**(2,502.5)**	(2,336.4)

The profit after taxation for the year ended 30 June 2019 attributable to the Company amounted to £20.6m (2018: profit of £5.6m). The Company has taken advantage of Section 408 of the Companies Act 2006 and has not published its own income statement.

The financial statements of Shop Direct Limited, registered number 04730752 have been approved by the Board and authorised for issue on 28 October 2019 and signed on its behalf by:

D W KERSHAW
Director

The Notes on pages 33 to 77 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE COMPANY
for the Year Ended 30 June 2019

	Share capital £m	Retained earnings £m	Total £m
At 1 July 2017	100.0	354.4	454.4
Profit for the year and other comprehensive income	–	5.6	5.6
Total comprehensive income	–	5.6	5.6
At 30 June 2018	100.0	360.0	460.0

	Share capital £m	**Retained earnings £m**	**Total £m**
At 1 July 2018	100.0	360.0	460.0
Profit for the year and other comprehensive income	–	20.6	20.6
Total comprehensive income	–	20.6	20.6
At 30 June 2019	**100.0**	**380.6**	**480.6**

The Notes on pages 33 to 77 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June 2019

(continued)

34 SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

Shop Direct Limited ("the Company") is a company incorporated in the United Kingdom under the Companies Act. The Company is the parent undertaking of the Group and also prepares consolidated financial statements. The separate financial statements of the Company are presented as required by the Companies Act 2006. The financial statements have been prepared in accordance with FRS 101 (Financial Reporting Standard 101) "Reduced Disclosure Framework" as issued by the Financial Reporting Council.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to the presentation of a cash flow statement and all related party transactions. Where required, equivalent disclosures are given in the consolidated financial statements.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are the same as those set out in Note 2 to the consolidated financial statements.

The accounts are drawn up to the Saturday nearest to 30 June, or to 30 June where this falls on a Saturday.

There are no critical judgements or estimates.

35 PROFIT OF THE COMPANY

The profit after taxation for the year ended 30 June 2019 attributable to the Company amounted to £20.6m (2018: £5.6m). The Company has taken advantage of Section 408 of the Companies Act 2006 and has not published its own income statement.

The Company has no employees (2018: no employees).

The auditor's remuneration for audit and other services is disclosed in Note 12 to the Consolidated Financial Statements.

36 INVESTMENTS

GROUP SUBSIDIARIES

Details of the Group subsidiaries as at 30 June 2019 are as below.

The full address of Skyways House is Speke Road, Speke, Liverpool, L70 1AB.

Name of subsidiary	Principal activity	Registered office	Proportion of ownership interest and voting rights held 2019	2018
Shop Direct Home Shopping Limited	Retail	Skyways House, L70 1AB	100%	100%
Shop Direct Licensing Limited	Retail	Skyways House, L70 1AB	100%	100%
Littlewoods Clearance Limited*	Retail	Skyways House, L70 1AB	100%	100%
Shop Direct Ireland Limited	Retail	Cape House, Westend Office Park, Dublin	100%	100%
Source Direct International Limited	Merchandise sourcing	One Pacific Place, Hong Kong	100%	100%
SDG Shanghai Limited	Merchandise sourcing	One Pacific Place, Hong Kong	100%	100%
LW Finance Limited*	Intermediate holding company	Skyways House, L70 1AB	100%	100%
LW Investments Limited	Intermediate holding company	Skyways House, L70 1AB	100%	100%
Littlewoods Limited	Intermediate holding company	Skyways House, L70 1AB	100%	100%
Shop Direct Group Financial Services Limited*	Intermediate holding company	Skyways House, L70 1AB	100%	100%
Shop Direct Finance Company Limited	Financial services	Aintree Innovation Centre Park Lane, Liverpool, L30 1SL	100%	100%
Littlewoods Direct Recoveries Limited	Debt recovery	Skyways House, L70 1AB	100%	100%
Douglas Insurance Limited*	Insurance company	Finch House, Isle of Man, IM1 2PS	100%	100%
Shop Direct Funding PLC*	Funding	Skyways House, L70 1AB	100%	100%
Shop Direct Financial Services Limited	Dormant	Aintree Innovation Centre Park Lane, Liverpool, L30 1SL	100%	100%
Shoppers Universe Limited*◊	Dormant	Skyways House, L70 1AB	100%	100%
Shop Direct Contact Centres Limited*	Dormant	Skyways House, L70 1AB	100%	100%
Abound Limited*◊	Dormant	Skyways House, L70 1AB	100%	100%
Brian Mills Limited◊	Dormant	Skyways House, L70 1AB	100%	100%
Burlington Warehouses Limited◊	Dormant	Skyways House, L70 1AB	100%	100%
Business Express Network Limited	Dormant	Skyways House, L70 1AB	100%	100%
Catalogue Bargain Shop Limited	Dormant	Skyways House, L70 1AB	100%	100%
Exind Limited◊	Dormant	Skyways House, L70 1AB	100%	100%
Family Album Limited*◊	Dormant	Skyways House, L70 1AB	100%	100%
GCC Debt Recovery Limited*◊	Dormant	Skyways House, L70 1AB	100%	100%
Innovations Group Limited	Dormant	Skyways House, L70 1AB	100%	100%
Janet Frazer Limited◊	Dormant	Skyways House, L70 1AB	100%	100%
J&C Moores (Direct) Limited◊	Dormant	Skyways House, L70 1AB	100%	100%
John Moores Home Shopping Service Limited◊	Dormant	Skyways House, L70 1AB	100%	100%
Kay & Company Limited*◊	Dormant	Skyways House, L70 1AB	100%	100%
Kays Personal Selection Limited*◊	Dormant	Skyways House, L70 1AB	100%	100%
Lewis UK Limited	Dormant	Skyways House, L70 1AB	100%	100%
Littlewoods Finance Company Limited	Dormant	Skyways House, L70 1AB	100%	100%
Littlewoods Home Shopping Finance Limited	Dormant	Skyways House, L70 1AB	100%	100%
Littlewoods Retail Limited	Dormant	Skyways House, L70 1AB	100%	100%
Littlewoods Warehouses Limited◊	Dormant	Skyways House, L70 1AB	100%	100%
Littlewoods7 Limited	Dormant	Skyways House, L70 1AB	100%	100%
Love Label Limited	Dormant	Skyways House, L70 1AB	100%	100%
Marshall Ward Limited*◊	Dormant	Skyways House, L70 1AB	100%	100%
M C Hitchen & Sons Limited◊	Dormant	Skyways House, L70 1AB	100%	100%
Nationwide Debt Recovery Limited	Dormant	Skyways House, L70 1AB	100%	100%

NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June 2019

(continued)

36 INVESTMENTS (CONTINUED)

GROUP SUBSIDIARIES (CONTINUED)

Name of subsidiary	Principal activity	Registered office	Proportion of ownership interest and voting rights held 2019	2018
Peter Craig Limited◊	Dormant	Skyways House, L70 1AB	100%	100%
Reality Group Limited*	Dormant	Skyways House, L70 1AB	100%	100%
Reality Ventures Limited*	Dormant	Skyways House, L70 1AB	100%	100%
Shop Direct Company Director Limited◊	Dormant	Skyways House, L70 1AB	100%	100%
Shop Direct Secretarial Services Limited◊	Dormant	Skyways House, L70 1AB	100%	100%
Shop Direct Trustees Limited*	Dormant	Skyways House, L70 1AB	100%	100%
St James' Street Properties Limited	Dormant	Skyways House, L70 1AB	100%	100%
Swan Housewares Limited◊	Dormant	Skyways House, L70 1AB	100%	100%
The Royal Welsh Warehouse Limited*◊	Dormant	Skyways House, L70 1AB	100%	100%
White Arrow Express Limited*	Dormant	Skyways House, L70 1AB	100%	100%
White Arrow Leasing Limited*	Dormant	Skyways House, L70 1AB	100%	100%
Woolworths Limited	Dormant	Skyways House, L70 1AB	100%	100%
Woolworths Holdings Limited	Dormant	Skyways House, L70 1AB	100%	100%
Very Group Holdings Limited	Dormant	Skyways House, L70 1AB	100%	–
Very Group International Limited	Dormant	Skyways House, L70 1AB	100%	–
Very Group Finance Limited	Dormant	Skyways House, L70 1AB	100%	–
Very Group Retail Limited	Dormant	Skyways House, L70 1AB	100%	–
Very Group Financial Services Limited	Dormant	Skyways House, L70 1AB	100%	–

* indicates direct investment of Shop Direct Limited
◊ indicates the investment is in the process of being liquidated

The dormant subsidiaries have taken advantage of the exemption from audit under section 479A of the Companies Act 2006.

SUMMARY OF THE COMPANY INVESTMENTS

	2019 £ m	2018 £ m
Investments in subsidiaries	**991.4**	991.9

Subsidiaries	**£ m**
Cost or valuation	
At 1 July 2017	1,432.4
Additions	0.1
At 30 June 2018 and 30 June 2019	1,432.5
Provision	
At 1 July 2017	440.5
Impairment	0.1
At 30 June 2018	440.6
Impairment	0.5
At 30 June 2019	441.1
Carrying amount	
At 30 June 2019	991.4
At 30 June 2018	991.9
At 30 June 2017	991.9

37 TRADE AND OTHER RECEIVABLES

	2019 £ m	2018 £ m
Amounts owed by parent	**480.5**	476.5
Amounts owed by subsidiaries	**996.5**	846.5
Amounts owed by other group companies	**33.2**	20.2
Other receivables	**0.9**	1.3
	1,511.1	1,344.5

38 LOANS AND BORROWINGS

	2019 £ m	2018 £ m
Current loans and borrowings at amortised cost		
Secured revolving credit facility	**95.0**	95.0

The underlying currency of the secured revolving credit facility is Pounds Sterling.

	2019 £ m	2018 £ m
The borrowings are repayable as follows:		
Within one year	**95.0**	95.0

	2019 %	2018 %
The weighted average interest rates paid were as follows:		
Secured revolving credit facility	**3.74**	3.81

39 TRADE AND OTHER PAYABLES

	2019 £ m	2018 £ m
Amounts due to subsidiaries	**1,925.5**	1,780.7
Other payables	**–**	0.1
	1,925.5	1,780.8

40 SHARE CAPITAL

	2019 £ m	2018 £ m
Allotted, called-up and fully paid:		
100,000,000 ordinary shares of £1 each	**100.0**	100.0

COMPANY INFORMATION

DIRECTORS
A S Barclay
H M Barclay
D W Kershaw
P L Peters
M Seal (resigned 7 June 2019)
S A Winton
H B Birch (appointed 8 April 2019)
J T Humphries (appointed 8 April 2019)
M McMenemy (appointed 8 April 2019)

REGISTERED OFFICE
First Floor, Skyways House
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United Kingdom

Company Registration No. 04730752

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