REGISTERED NUMBER: 04730752

SHOP DIRECT LIMITED

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

for the 3 months ended 30 September 2018

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For the 3 months ended 30 September 2018

CONTENTS

INTERIM RESULTS STATEMENT

The directors present their interim results statement of Shop Direct Limited and its subsidiaries ("the Group") for the three month period ended 30 September 2018.

Review of the business

The loss for the period of £30.3m (Q1 FY18: Profit of £12.2m) includes regulatory costs of £41.0m (Q1 FY18: nil).

Group revenue

Revenue has been restated for the quarter to 30 September 2017, for further details see Note 3.

On this restated basis, Group revenue, comprising retail and financial services, increased by 3.3% to £439.4m (Q1 FY18[1]: £425.4m) driven by Very which continued to outperform the online retail market[2]. Very revenue grew 9.0% to £320.7m (Q1 FY18: £294.1m), benefitting from its combination of famous brands, mobile-first customer experience and options to spread the cost of purchases using credit. The controlled decline in Littlewoods continued with revenue down 9.6% to £118.7m (Q1 FY18[1]: £131.3m).

Retail revenue

Retail revenue grew by 2.9%. We continued to benefit from our multi-category store range, which provides resilience against adverse movements in individual product categories.

Clothing and Footwear revenue growth of 1.8% was underpinned by strong full price performance, new product launches and marketing campaigns across Very and Littlewoods. Electrical revenue grew 6.9%, generated from strong demand for mobiles, as well as good performances in small domestic appliances, audio visual equipment and gaming. Seasonal revenue grew 2.4%, with garden and outdoor benefitting from hot weather in July. The Furniture and Homeware market continues to be slow and the market continues to have a stronger credit offer in furniture. Revenue trajectory has shown some improvement, resulting from changes in our marketing approach through selective sending of leaflets to customers, albeit still in decline at (6.3)%.

Financial Services revenue

Financial Services revenue increased by 4.6%. This was primarily driven by interest income due to growth in Very, partially offset by lower administration fees reflecting improved customer arrears performance. Interest income as a percentage of the debtor book increased by 0.2%pts to 5.8% (Q1 FY18: 5.6%) mainly driven by brand mix as Very has a higher financial services attachment than Littlewoods.

Notes:
1. Revenue has been restated from 2017 Interim Financial Statements. See Note 3 for further details.
2. BRC online retail market (non-food).
3. Q1 FY19 YTD is the 3 months ended 30 September 2018.
   Q1 FY18 YTD is the 3 months ended 30 September 2017.

INTERIM RESULTS STATEMENT (continued)

Review of the business (continued)

Gross profit and costs

Gross margin rate decreased 1.7%pts to 39.8% (Q1 FY18[1]: 41.5%) as an improvement in underlying retail margins was offset by the continued switch to Very from Littlewoods, the increased contribution from the lower retail margin Electrical division and adverse foreign exchange movement on revaluation of trade creditors.

Bad debt as a percentage of the debtor book was favourable to prior year at 2.0% (Q1 FY18: 2.1%). On 1 July 2018 we adopted IFRS 9 Financial Instruments. As an expected loss model this changes the profile of the bad debt expense line during the course of the year and has resulted in a credit in the quarter of £3.4m. Excluding this credit, bad debt as a percentage of the debtor book was broadly in line with prior year due to continued strong focus on customer quality and customer-centric collections strategies, which maintained the debtor book's risk profile.

Distribution expenses decreased to £51.3m (Q1 FY18: £52.4m) reflecting continued efficiencies. Administrative expenses before exceptional items decreased to £79.7m (Q1 FY18[1]: £86.8m) primarily driven by more efficient marketing spend.

EBITDA

Reported EBITDA increased 17.6% to £44.2m (Q1 FY18: £37.6m). As a percentage of Group revenue, the EBITDA margin increased 1.3%pts to 10.1% compared to the prior year. The higher EBITDA was driven by volume growth and continued cost control, partly offset by a decline in gross margin rate as a result of the continued switch to Very from Littlewoods, increased contribution from the lower retail margin Electrical division and adverse foreign exchange movement on revaluation of trade creditors.

Finance costs

Higher net finance costs of £24.3m (Q1 FY18: £15.5m) driven by £550.0m in senior secured notes issued in November 2017.

Exceptional items

Exceptional items charged to operating profit of £41.9m (Q1 FY18: £0.5m) include an additional provision of £41.0m to cover customer redress payments for historical shopping insurance sales expected to be made before the FCA's claims deadline of August 2019.

Taxation

The tax credit in the income statement of £3.0m (Q1 FY18: charge of £0.4m) includes a current tax charge of £0.5m and a credit of £3.5m in relation to an increase in the deferred tax asset.

Notes:
1. Revenue has been restated from 2017 Interim Financial Statements. See Note 3 for further details.
2. BRC online retail market (non-food).

INTERIM RESULTS STATEMENT (continued)

Review of the business (continued)

Statement of cash flows

The cash and cash equivalents balance decreased by £86.2m to £(48.5)m during the quarter (Q1 FY18: cash and cash equivalents decrease of £66.8m to £(16.3)m) driven by higher customer redress payments and timing of trade and operating payments.

Capital investment

Capital additions for the period of £14.0m (Q1 FY18: £24.2m) across business-as-usual and strategic investment. The year-on-year reduction is driven by timing of investment in strategic projects.

Balance sheet

Net assets decreased to £38.2m (FY18: £185.3m) driven by the adoption of IFRS 9 Financial Instruments during the current financial year and the loss for the period.

Inventory increased to £135.3m (FY18: £101.9m) reflecting seasonal uplift in the lead up to peak trading in Quarter 2. Working capital efficiency through inventory management remains a key focus. Trade and other receivables decreased to £2,058.0m (FY18: £2,206.0m) driven by the adoption of IFRS 9 and the seasonal reduction in gross trade debtors with customers managing their accounts prior to peak trading. Trade and other payables increased to £565.4m (FY18: £557.8m) reflecting seasonality and year-on-year sales growth.

Securitisation borrowings reduced to £1,290.0m (FY18: £1,317.4m), broadly in line with gross trade debtors. The securitisation facility expires in December 2020 for 'A' Notes (£1,325.0m) and December 2021 for 'B' and 'C' Notes (£165.0m) with a total maximum value of £1,490.0m.

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

		3 months to 30 Sept 2018			Restated[1] 3 months to 30 Sept 2017			Year to 30 June 2018		
	Notes	Pre-exceptional items £'m	Exceptional items £'m	Total £'m	Pre-exceptional items £'m	Exceptional items £'m	Total £'m	Pre-exceptional items £'m	Exceptional items £'m	Total £'m
Revenue	5	439.4	-	439.4	425.4	-	425.4	1,958.8	-	1,958.8
Operating profit	5	32.9	(41.9)	(9.0)	28.6	(0.5)	28.1	224.6	(159.6)	65.0
Finance income		-	-	-	-	-	-	0.1	-	0.1
Finance costs		(24.3)	-	(24.3)	(15.5)	-	(15.5)	(84.6)	(5.2)	(89.8)
Profit/(loss) before tax		8.6	(41.9)	(33.3)	13.1	(0.5)	12.6	140.1	(164.8)	(24.7)
Tax (charge)/credit	9	3.0	-	3.0	(0.4)	-	(0.4)	(6.2)	21.7	15.5
Profit/(loss) for the period/year		11.6	(41.9)	(30.3)	12.7	(0.5)	12.2	133.9	(143.1)	(9.2)
Profit/(loss) attributable to equity holders of the Group		11.6	(41.9)	(30.3)	12.7	(0.5)	12.2	133.9	(143.1)	(9.2)

1. Revenue has been restated from 2017 Interim Financial Statements. See Note 3 for further details.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	3 months to 30 Sept 2018 £'m	**3 months to 30 Sept 2017 £'m**	**Year to 30 June 2018 £'m**
Profit/(loss) for the period/year	(30.3)	12.2	(9.2)
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement on retirement benefit obligations before tax	-	-	121.8
Impact of pension scheme buy-ins	-	-	(124.6)
Income tax effect	(0.7)	(0.6)	(2.7)
Other comprehensive expense	(0.7)	(0.6)	(5.5)
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation gains	0.1	0.1	0.1
Other comprehensive expense	(0.6)	(0.5)	(5.4)
Total comprehensive income/(expense) attributable to:			
Owners of the company	(30.9)	11.7	(14.6)

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30 Sept 2018 £'m	30 Sept 2017 £'m	30 June 2018 £'m
Assets				
Non-current assets				
Goodwill		252.5	252.5	252.5
Other intangible assets		204.4	168.8	201.5
Property, plant and equipment		12.5	12.2	12.7
Deferred tax asset		131.5	89.2	104.4
		600.9	522.7	571.1
Current assets				
Inventories		135.3	144.5	101.9
Trade and other receivables	8	2,058.0	2,093.4	2,206.0
Income tax asset		0.4	-	0.8
Cash and bank balances		79.3	51.5	140.5
Derivative financial instruments	7	3.5	-	2.5
		2,276.5	2,289.4	2,451.7
Total assets		2,877.4	2,812.1	3,022.8
Equity and liabilities				
Equity				
Share capital		(100.0)	(100.0)	(100.0)
Accumulated deficit/(retained earnings)		61.8	(111.6)	(85.3)
Total equity		(38.2)	(211.6)	(185.3)
Non-current liabilities				
Loans and borrowings	11	(550.0)	(500.0)	(550.0)
Securitisation facility	11	(1,290.0)	(1,203.3)	(1,317.4)
Retirement benefit obligations		(67.7)	(80.1)	(72.3)
Deferred income		(36.8)	(41.6)	(35.8)
Obligations under finance leases		(2.6)	(3.5)	(3.1)
Provisions	10	(22.5)	(16.0)	(39.3)
		(1,969.6)	(1,844.5)	(2,017.9)
Current liabilities				
Trade and other payables		(565.4)	(553.8)	(557.8)
Loans and borrowings	11	(127.8)	(67.8)	(102.8)
Income tax liability		-	(0.2)	-
Obligations under finance leases		(1.6)	(1.5)	(1.5)
Deferred income		(65.3)	(66.3)	(69.0)
Provisions	10	(109.5)	(60.6)	(88.5)
Derivative financial instruments	7	-	(5.8)	-
		(869.6)	(756.0)	(819.6)
Total liabilities		(2,839.2)	(2,600.5)	(2,837.5)
Total equity and liabilities		(2,877.4)	(2,812.1)	(3,022.8)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £'m	Retained earnings £'m	Total £'m
Changes in equity for the 3 months to 30 September 2018			
Balance as at 1 July 2018 as previously reported	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
Profit for the period	-	(30.3)	(30.3)
Other comprehensive expense	-	(0.6)	(0.6)
Total comprehensive income	-	(30.9)	(30.9)
Balance at 30 September 2018	100.0	(61.8)	38.2
Changes in equity for the 3 months to 30 September 2017			
Balance as at 1 July 2017	100.0	99.9	199.9
Profit for the period	-	12.2	12.2
Other comprehensive expense	-	(0.5)	(0.5)
Total comprehensive income	-	11.7	11.7
Balance at 30 September 2017	100.0	111.6	211.6
Changes in equity for the year to 30 June 2018			
Balance as 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)
Balance at 30 June 2018	100.0	85.3	185.3

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	3 months to 30 Sept 2018 £'m	**3 months to 30 Sept 2017 £'m**	**Year to 30 June 2018 £'m**
Net cash flows from operating activities	(44.4)	(17.6)	(65.5)
Investing activities			
Interest received	-	-	0.1
Acquisitions of property, plant and equipment	(0.8)	(2.0)	(4.7)
Acquisitions of intangible assets	(13.2)	(22.2)	(81.4)
Net cash used in investing activities	(14.0)	(24.2)	(86.0)
Financing activities			
Repayments of bank borrowings	-	-	(500.0)
Proceeds from issue of senior secured notes	-	-	550.0
(Repayments of)/draw downs from finance leases	(0.4)	0.6	0.1
(Repayments of)/draw downs from securitisation facility	(27.4)	(25.6)	88.6
Net cash flows from financing activities	(27.8)	(25.0)	138.7
Net decrease in cash and cash equivalents	(86.2)	(66.8)	(12.8)
Opening cash and cash equivalents	37.7	50.5	50.5
Closing cash and cash equivalents	(48.5)	(16.3)	37.7

UNAUDITED RECONCILIATION OF OPERATING PROFIT TO NET CASH FROM OPERATING ACTIVITIES

	3 months to 30 Sept 2018 £'m	**3 months to 30 Sept 2017 £'m**	**Year to 30 June 2018 £'m**
Profit/(loss) for the period/year	(30.3)	12.2	(9.2)
Adjustments for:			
Depreciation	1.0	0.7	2.9
Amortisation	10.3	8.3	34.8
Financial instrument net (gains)/losses through profit and loss	(1.0)	3.8	(4.5)
Finance income	-	-	(0.1)
Finance costs	24.3	15.5	87.8
Income tax expense/(credit)	(3.0)	0.4	(15.5)
(Decrease)/increase in provisions	4.2	(21.2)	30.0
Adjustments for pensions	(5.0)	(5.0)	(15.4)
Operating cash flows before movements in working capital	0.5	14.7	110.8
(Increase)/decrease in inventories	(33.4)	(30.2)	12.4
Decrease/(increase) in trade and other receivables	7.5	(20.3)	(131.3)
(Decrease)/increase in trade and other payables	(5.8)	32.0	31.5
Cash (absorbed)/generated by operations	(31.2)	(3.8)	23.4
Income taxes (paid)/received	(0.1)	1.7	(0.5)
Interest paid	(13.1)	(15.5)	(88.4)
Net cash flows from operating activities	(44.4)	(17.6)	(65.5)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. General information

Shop Direct Limited is a private company limited by share capital incorporated 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.

These condensed consolidated interim financial statements were approved for issue on 22 November 2018.

2. Summary of accounting policies

Basis of preparation

This condensed set of financial statements for the three months ended 30 September 2018 should be read in conjunction with the annual financial statements for the year ended 30 June 2018, which have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

The financial information for the year ended 30 June 2018 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of those accounts, prepared under International Financial Reporting Standards (IFRSs) as adopted by the EU, will be delivered to the Registrar of Companies. The audit report on those accounts was unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain any statement under section 498 (2) or (3) of the Companies Act 2006.

The annual financial statements of the Group for the year ended 30 June 2019 will be prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. This condensed set of financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the company's consolidated financial statements for the year ended 30 June 2018, and will be applied in the preparation of the company's consolidated financial statements for the year ended 30 June 2019. The retirement benefit obligation recognised in the consolidated balance sheet as at 30 September 2017 and 30 September 2018 represents the deficit as at 30 June 2017 and 30 June 2018 respectively and has not been adjusted for contributions or actuarial gains or losses in the three months ended 30 September 2017 or 30 September 2018.

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

New and revised standards

With the exception of IFRS 9 – Financial Instruments, which is discussed below, none of the standards, interpretations and amendments effective for the first time from 1 July 2018 have had a material effect on the financial statements.

IFRS 9 Financial Instruments

During the current financial year, 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. The new standard is split into three phases: 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 Group did not early adopt any of IFRS 9 in previous periods.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. Summary of accounting policies (continued)

IFRS 9 Financial Instruments (continued)

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.

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.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'.

Further details of the specific IFRS 9 accounting policies applied in the current period (as well as the previous IAS 39 accounting policies applied in the comparative period) are described in more detail in note 4 below.

New standards, interpretations and amendments not yet effective

At the date of authorisation of these financial statements, the following Standards and Interpretations which have 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	Leasing
IFRS 17	Insurance Contracts
IAS 1 (amendments)	Disclosure Initiative
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 have a material impact on the treatment and recognition of leases in future periods and a detailed review is in progress by the Group. It is not practical to provide a reasonable estimate of the effect of IFRS 16 until the detailed review has been completed. None of the other standards, interpretation or amendments noted above are material.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Prior Period Restatement

A prior period restatement has been made in the quarter to 30 September 2017 of £4.6m due to a reclassification between Littlewoods retail revenue and administration expenses. This was corrected in Q2 of FY18. There is no impact to operating profit.

This has been corrected by restating each of the affected financial statement line items for the first quarter of FY18, as follows;

	Restated 3 months to 30 Sept 2017 £'m	Previously Reported 3 months to 30 Sept 2017 £'m
Revenue	425.4	430.0
Gross Profit	176.6	181.2
Administrative costs excluding depreciation and amortisation	(86.8)	(91.4)
Operating profit	28.1	28.1

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. IFRS 9 transition

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 interim 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
Increase in provision for trade and other receivables (see note 8)	(140.5)
Increase in deferred tax assets relating to impairment provisions	24.3
Adjustment to retained earnings from adoption of IFRS 9	(116.2)
Opening retained earnings under IFRS 9	(30.9)

On 1 July 2018, the Group has assessed which business models apply to the financial assets held by the Group at the date of initial application of IFRS 9 and has classified its financial instruments into the appropriate IFRS 9 categories. There were no reclassifications due to the application of IFRS 9, and all financial assets other than derivative financial instruments continue to be recognised at amortised cost. Derivative financial instruments continue to be recognised at fair value through profit or loss (FVTPL).

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	FVTPL	FVTPL	2.5	2.5	-

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. IFRS 9 transition (continued)

Impairment of financial assets

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

- trade receivables; and
- debt investments carried at fair value through OCI;

The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets.

(i) Trade receivables and contract assets under IFRS 15:
For trade receivables, the Group has applied the simplified approach to providing for expected credit losses prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all trade receivables and contract assets.

(ii) Debt investments:
Debt investments at FVOCI are considered to be low risk, and thus the impairment provision is determined as 12 months expected credit losses.

The following table reconciles the current period's closing 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	Reclassification	Remeasurement	Loan loss allowance under IFRS 9
	£'m	£'m	£'m	£'m
Loans and 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				
Loans and receivables (loan commitments)			-	-
Provisions (financial guarantees)			-	-
Total	(125.7)	-	(140.5)	(266.2)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Segmental analysis

By business segment

	3 months to 30 Sept 2018 £'m	Restated[1] 3 months to 30 Sept 2017 £'m	Year to 30 June 2018 £'m
Analysis of revenue:			
Very†	320.7	294.1	1,389.1
Littlewoods◊	118.7	131.3	569.7
	439.4	425.4	1,958.8
Gross profit	174.7	176.6	780.7
Distribution costs	(51.3)	(52.4)	(215.8)
Administrative costs excluding depreciation and amortisation	(79.7)	(86.8)	(304.3)
Other operating income	0.5	0.2	1.7
Pre-exceptional EBITDA*:			
Very†	80.5	65.3	325.0
Littlewoods◊	26.9	32.1	142.4
Central costs	(63.2)	(59.8)	(205.1)
	44.2	37.6	262.3
Exceptional items	(41.9)	(0.5)	(159.6)
Depreciation	(1.0)	(0.7)	(2.9)
Amortisation	(10.3)	(8.3)	(34.8)
Operating profit	(9.0)	28.1	65.0
Finance income	-	-	0.1
Finance costs	(24.3)	(15.5)	(84.6)
Exceptional finance costs	-	-	(5.2)
Profit/(loss) before taxation	(33.3)	12.6	(24.7)

The analysis above is in respect of continuing operations.

* Pre-exceptional EBITDA is defined as operating profit from continuing operations before amortisation of intangible assets, depreciation and exceptional items.
[1] See Note 3.
† Very revenue includes Very.co.uk and VeryExclusive.co.uk.
◊ Littlewoods revenue includes Littlewoods.com and LittlewoodsIreland.ie.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Segmental analysis (continued)

By geographical location of destination

	3 months to 30 Sept 2018 £'m	Restated[1] 3 months to 30 Sept 2017 £'m	Year to 30 June 2018 £'m
Revenue:			
United Kingdom	423.8	410.5	1,886.3
Rest of World	15.6	14.9	72.5
	439.4	425.4	1,958.8
Operating profit:			
United Kingdom	(10.0)	27.7	60.6
Rest of World	1.0	0.4	4.4
	(9.0)	28.1	65.0

The analysis above is in respect of continuing operations.

Turnover by origin is not materially different from turnover by destination.

Non-GAAP measures

	3 months to 30 Sept 2018 £'m	3 months to 30 Sept 2017 £'m	Year to 30 June 2018 £'m
Reconciliation of pre-exceptional earnings before interest, tax, depreciation and amortisation ("EBITDA") to underlying EBITDA			
Pre-exceptional EBITDA	44.2	37.6	262.3
Adjusted for:			
Fair value adjustments to financial instruments	(1.0)	3.8	(4.5)
Foreign exchange translation movements on trade creditors	1.7	(2.2)	0.4
IAS19 and IFRIC14 pension adjustments	-	-	2.0
Underlying EBITDA	44.9	39.2	260.2

[1] See Note 3.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Exceptional items

	3 months to 30 Sept 2018 £'m	3 months to 30 Sept 2017 £'m	Year to 30 June 2018 £'m
Regulatory costs and associated administrative expenses	(41.0)	-	(128.0)
Restructuring costs	(0.9)	-	(27.9)
Professional fees	-	(0.5)	(3.7)
Charged to operating profit	(41.9)	(0.5)	(159.6)
Accelerated amortisation of loan issue costs	-	-	(5.2)
	(41.9)	(0.5)	(164.8)

During the financial year ended 30 June 2018, the Group recognised regulatory charges of £128.0m to cover the estimated cost of customer redress claims in the year and of future customer redress payments for historical shopping insurance sales and associated processing costs. A further £41.0m has been recognised in the three months ended 30 September 2018.

The restructuring costs reflect expenditure on the rationalisation of processes and functions within the Shop Direct Group. 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 professional fees relate to corporate projects.

The accelerated amortisation of loan issue costs in the year ended 30 June 2018 relates to the refinancing of the Group in November 2017. The existing debt was repaid and £5.2m accelerated amortisation of outstanding issue costs associated with this debt were recognised in the income statement as exceptional interest costs.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Derivative financial instruments

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

	30 Sept 2018 £'m	30 Sept 2017 £'m	30 June 2018 £'m
Notional amount – sterling contract value	144.0	248.6	161.7
Fair value of asset/(liability) recognised	3.5	(5.8)	2.5

Changes in the fair value of derivative financial instruments amounted to a profit of £1.0m in the period (3 months to 30 September 2017: loss of £3.8m), which is included in administrative expenses.

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

The financial instruments that are measured subsequent to initial recognition at fair value are all grouped into Level 2. There were no transfers between Level 1 and Level 2 during the period.

8. Trade and other receivables

	30 Sept 2018 £'m	30 Sept 2017 £'m	30 June 2018 £'m
Trade receivables	1,345.0	1,439.8	1,516.3
Amounts owed by group undertakings	503.8	497.3	500.4
Prepayments	166.3	118.7	156.6
Other receivables	42.9	37.6	32.7
	2,058.0	2,093.4	2,206.0

Impact of IFRS 9 transition

The impact of transition to IFRS 9 from 1 July 2018 on the trade receivables balance as at 30 June 2018 is as follows:

	£'m
Trade receivables as at 30 June 2018 under IAS 39	1,516.3
Increase in provision for trade and other receivables (see note 4)	(140.5)
Trade receivables as at 1 July 2018 under IFRS 9	1,375.8

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. Taxation

The taxation charge for the 3 months to 30 September 2018 is based on the estimated tax rate for the full year to 30 June 2019 of 19.0% (3 months to 30 September 2017: 19.0%).

	3 months to 30 Sept 2018 £'m	3 months to 30 Sept 2017 £'m	Year to 30 June 2018 £'m
Current taxation			
UK corporation tax	(0.3)	(0.2)	(0.7)
Foreign tax	(0.2)	(0.1)	(1.0)
Total current income tax	(0.5)	(0.3)	(1.7)
Deferred tax			
Arising from origination and reversal of temporary differences	3.5	(0.1)	17.2
Tax credit/(charge) in the income statement	3.0	(0.4)	15.5

10. Provisions

	Warranties £'m	Restructuring £'m	Regulatory £'m	Total £'m
At 1 July 2018	0.8	26.6	100.4	127.8
Increase in provisions	-	-	41.0	41.0
Provisions used	-	(1.4)	(35.4)	(36.8)
At 30 September 2018	0.8	25.2	106.0	132.0
Non-current	-	22.5	-	22.5
Current	0.8	2.7	106.0	109.5
	0.8	25.2	106.0	132.0

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Provisions (continued)

	Warranties £'m	Restructuring £'m	Regulatory £'m	Total £'m
At 1 July 2017	0.8	9.0	88.0	97.8
Provisions used	-	(1.7)	(19.5)	(21.2)
At 30 September 2017	0.8	7.3	68.5	76.6
Non-current	-	-	16.0	16.0
Current	0.8	7.3	52.5	60.6
	0.8	7.3	68.5	76.6

	Warranties £'m	Restructuring £'m	Regulatory £'m	Total £'m
At 1 July 2017	0.8	9.0	88.0	97.8
Increase in provisions	-	27.7	128.0	155.7
Provisions used	-	(10.1)	(115.6)	(125.7)
At 30 June 2018	0.8	26.6	100.4	127.8
Non-current	-	22.5	16.8	39.3
Current	0.8	4.1	83.6	88.5
	0.8	26.6	100.4	127.8

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. Borrowings

	30 Sept 2018 £'m	30 Sept 2017 £'m	30 June 2018 £'m
Secured non-current loans and borrowings at amortised cost			
Bank borrowings	-	500.0	-
Securitisation facility	1,290.0	1,203.3	1,317.4
Senior secured notes	550.0	-	550.0
	1,840.0	1,703.3	1,867.4
Current loans and borrowings at amortised cost			
Secured revolving credit facility	120.0	60.0	95.0
Unsecured bank overdrafts	7.8	7.8	7.8
	127.8	67.8	102.8

The underlying currency of the unsecured bank overdrafts of £7.8m (30 September 2017: £7.8m) is Euros. The underlying currency of the other borrowings and overdrafts set out above is Sterling.

	30 Sept 2018 £'m	30 Sept 2017 £'m	30 June 2018 £'m
The borrowings are repayable as follows:			
Within one year	127.8	67.8	102.8
In the second year	-	1,203.3	-
In the third to fifth year	1,840.0	500.0	1,867.4
Over five years	-	-	-
Amount due for settlement after 12 months	1,840.0	1,703.3	1,867.4

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. Borrowings (continued)

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

(a) The Group has a securitisation facility of £1,290.0m (30 September 2017: £1,203.3m) secured by a charge over certain eligible trade debtors of the Group. The securitisation facility expires in December 2020 for 'A' Notes (£1,325.0m) and December 2021 for 'B' and 'C' Notes (£165.0m) with a total maximum value of £1,490.0m.

(b) As at 30 September 2017 the Group had a three year senior debt facility of £575.0m. The facility was secured by a debenture over the assets of the subsidiary to which it related and had an option to extend for an additional year at the end of its three year term. The facility bore interest at a rate of up to 3.75% over LIBOR.

(c) On 3rd November 2017, the Group completed a refinancing. The £575.0m senior debt facility was repaid and new senior secured notes of £550.0m, at 7.75%, due 2022 were put in place together with a new secured revolving credit facility of £150.0m. Transaction costs associated with the new senior secured notes of £8.9m were prepaid on the balance sheet. The 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.

12. Cash and cash equivalents

	30 Sept 2018 £'m	30 Sept 2017 £'m	30 June 2018 £'m
Cash at bank	79.3	51.5	140.5
Secured revolving credit facility	(120.0)	(60.0)	(95.0)
Bank overdrafts	(7.8)	(7.8)	(7.8)
Cash and cash equivalents in statement of cash flows	(48.5)	(16.3)	37.7

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of 12 months or less, net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to fair value. The revolving credit facility, which expires in May 2022, rolls over on a monthly basis and hence is classified within cash and cash equivalents, and is classified as repayable within one year (see note 11).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. Related party transactions

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:

Recharged costs

	30 Sept 2018 £'m	30 Sept 2017 £'m	30 June 2018 £'m
Yodel Delivery Network Limited	0.9	0.9	4.8
Arrow XL Limited	-	0.1	0.7
	0.9	1.0	5.5

Purchase of services

	30 Sept 2018 £'m	30 Sept 2017 £'m	30 June 2018 £'m
Yodel Delivery Network Limited	(12.9)	(10.2)	(58.0)
Drop & Collect Limited	(5.2)	(1.7)	(24.9)
Arrow XL Limited	(10.3)	(8.5)	(40.3)
Trenport Property Holdings Limited	(0.4)	(0.4)	(1.6)
Shop Direct Holdings Limited	(1.2)	(1.2)	(5.0)
	(30.0)	(22.0)	(129.8)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. Related party transactions (continued)

The Group had the following balances outstanding with its fellow group companies:

Amounts due from fellow Group undertakings

	30 Sept 2018 £'m	30 Sept 2017 £'m	30 June 2018 £'m
Shop Direct Holdings Limited	476.5	491.0	476.5
Yodel Delivery Network Limited	2.5	5.0	-
Drop & Collect Limited	0.2	-	-
Arrow XL Limited	0.1	1.3	3.7
Primevere Limited	10.0	-	5.0
Primevere Equipment Limited	14.5	-	15.2
	503.8	497.3	500.4

Amounts due to fellow Group undertakings

	30 Sept 2018 £'m	30 Sept 2017 £'m	30 June 2018 £'m
Yodel Delivery Network Limited	-	-	(1.5)
Drop & Collect Limited	-	(3.7)	(2.1)
	-	(3.7)	(3.6)

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

14. Events after the balance sheet date

On 10 October 2018 the Group announced plans to close its standalone clearance operation, Littlewoods Clearance, which comprises seven UK stores, websites, and a Bolton-based fulfilment centre and head office team.

15. Seasonality

The retail sales for the Group are subject to seasonal fluctuations. Demand is highest during the months of October to December.